





**War, State and Development.  
Fiscal-Military States  
in the Eighteenth Century**



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Fiscal-Military States  
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Edited by  
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## Foreword

This book forms part of a long-term project that aims to make a comparative study of the military and naval capacities of states throughout the eighteenth century. These capacities are an important explanatory factor for analysing warfare success. By the phrase “military and naval capacities” is to be understood the possibilities of efficiently mobilising resources of all types, human and material. This in turn presupposes a given degree and mode of administrative organisation and an appreciable fiscal capacity. Military and naval needs were on the rise at this time, so the aim will be to paint a dynamic picture of events: not only did states have to mobilise resources and organise themselves to that end, they also had to adapt to the ongoing changes in military and economic life, while also allowing for social changes.

Thus conceived the project is clearly bound up with the concept of the fiscal military state, but we set our sights further than the simple appreciation of whether or not a fiscal military state exists or ascertaining its nature. Existing studies give a full account, as R. Torres points out in his introduction to this book, of the varied ways in which the term fiscal military state has been understood and also the different historical scenarios it has been applied to. There is therefore no need, in my opinion, to continue down this line. It is a question rather of studying each specific case to find out what its real capacities were at any one time and in the long term.

In this sense the term fiscal military state comes across as a methodological concept, i.e., a paradigm, albeit incomplete and certainly no panacea. Strictly speaking, there is no such thing as a fiscal military state – there is no state that is *only* fiscal military – but it is still always part of that reality and serves as a framework for posing questions about the administrative organisation, the fiscal system or the economic life, with war as the ever-present backdrop, goal and test. It will also serve

to bring out all the interrelationships between these factors, for none of them can come up with an answer single-handedly but they are all crucial aspects for explaining the construction of states throughout the eighteenth century.

Our research project arose from an informal collaboration agreement between the Financial History Group (GRHIFI in Spanish initials) of Navarre University (*Universidad de Navarra*), especially professors Torres and González Enciso, and Professor H. Bowen, at that time in Leicester University. This working agreement crystallised in a seminar held in the *Universidad de Navarra* on 16 and 17 September 2004, under the banner “Mobilizing Money and Resources for War: European States at Work, 1689-1815” and with the participation of Spanish and British experts invited by the research promoters. The fruits of this seminar have been published (Bowen and González Enciso, 2006a). This seminar then spawned the idea of enlarging the group and trying to bring researchers from other countries and historical territories into the fold. The “14<sup>th</sup> International Economic History Congress”, held in Helsinki from 21 to 25 August 2006, represented our first chance of collaborating with these new researchers. This came about thanks to the session held in the congress under the title “Mobilizing Money and Resources for War During the Early Modern Period”, organised by Bowen, P. O’Brien and González Enciso. The papers presented there represented a considerable widening of the geographical area of study in comparison with the 2004 meeting. A report on this session has just been published (González Enciso and Bowen, 2007a).

This book, now being brought to light thanks to the endeavours of R. Torres and the efforts of all the authors, publishes nearly all the papers presented in Helsinki, complete and revised, plus other new papers to widen the geographical scope and bring in new research themes.

But the project goes on. In the forthcoming International Economic History Congress, to be held in Utrecht, 2009, there is an approved session, organised by Torres, Bowen and Conway. This session will be preceded by a preliminary conference in Las Palmas, 2008, organised by S. Solbes, plus a follow-up in Greenwich, 2009, in the congress organised by R. Knight. The subject matter of this session has been more finely delimited to facilitate comparative studies, with the focus on expenditure-related questions. All the above will undoubtedly be academic events of the utmost interest, offering further insights into the areas of interest to us all.

I wish to express my acknowledgement and thanks to all the people involved in the project, especially professors R. Torres and H. Bowen. My gratitude likewise goes to the publishing house EUNSA, which has agreed to publish this volume – as it did in 2006 – with the highest technical and professional standards. All this has been made possible largely by the financial support received by the GRHIFI from the Navarre Government, the Spanish Ministry of Education and Science and by the *Universidad de Navarra* in its research support plans (PIUNA).

*Agustín González Enciso*



## **The Triumph of the Fiscal Military State in the Eighteenth Century. War and Mercantilism**

*Rafael Torres Sánchez*

The Castilian country worker paying taxes as the end of the sixteenth century in any town or village of Castile thereby helped to shore up the political system and finance the public debt that safeguarded the heritage of the House of Hapsburgs. These taxes helped to fund the biggest army ever mobilised in Europe and some of the most highly developed administrative institutions of the time, but for Castile war spelled endurance and hardship. The advances made by Spain's economy in the first half of the sixteenth century crumbled away with the empire; revenue was siphoned off to Europe without hardly touching Spain; bankruptcies came hard on the heels of each other and the decline seemed unstoppable. War was wreaking profound changes on the political and social fabric of the Spanish, which made life even tougher for this Castilian taxpayer (Yun, 2004: 576). War was the biggest misfortune and cause of the "ills of Spain".

Two hundred years later, another Castilian country worker paid fewer taxes, especially fewer direct taxes, to fund a war against Great Britain in which the Spanish empire was also at stake, but by now the situation had changed radically. His taxes served to defend an essentially colonial empire, which underpinned Spain's blossoming trade and boosted a dynamic and flourishing national economy that was growing as never before. His tax was collected directly by the state with little being raked off by middlemen; it was used to pay for a state-managed army and navy financed and supplied by the national economy with a technological development to vie with the armed forces of England and France. The military triumph over Great Britain in 1783 was the prelude to a decade of unprecedented economic growth in the Modern Period. The taxes of these country workers helped to fund a war and state that in turn favoured growth (Torres, 2007a).

The two states shown in the above snapshots could both be classified as fiscal military states, i.e., states with the main aim of sustaining warfare by mobilising financial and military resources. In the first case, however, the relation between state, war and development led to slump and decline and fewer opportunities for country workers. In the second case, on the contrary, there was prosperity and better prospects. Such radically different consequences tell us that those factors did not interact in the same manner; there was some type of transformation or evolution in that relation. This is the starting point prompting us to study the fiscal military state. In our view the interest in analysing the fiscal military state lies precisely in explaining how this relationship between state, war and development could evolve. We choose the timeframe of the eighteenth century because it was then that the fiscal military state entered an authentic “Golden Age”. Never before had states been capable of mustering such a quantity and variety of military, economic, technical or administrative resources. But this unprecedented quantitative development implies that qualitatively there was little new; all the components were there before. Nonetheless the fiscal military states did manage to do something new: they waged the dearest and technically most complex wars of the whole Modern Period and did so while clocking up unprecedented levels of economic, social, cultural and political growth.

Most of the papers brought together in this book have already been presented by Agustín González Enciso and Huw Bowen (2007a), so our remit here is quite otherwise. In the first place we wish to furnish some ideas on the use of the term “fiscal-military” state, given that one of the problems that cropped up in the seminar bringing together these papers was precisely the confusion and imprecision of the term. Secondly, we aim to offer a possible overall explanation of what we have dubbed the “triumph of the fiscal military state”, i.e., to come up with a possible explanation of why it was precisely in the eighteenth century that the fiscal military state blossomed and entered an authentic “Golden Age”.

## **1. What does the term “Fiscal-Military State” mean?**

### **The success and confusion of a handy term**

The term “Fiscal-Military State” has suffered a similar fate to the term “Industrial Revolution”: any reader intuitively understands it while spe-

cialists find it harder to pin down its exact historical significance. The exact meaning of the term “Industrial Revolution” has been debated ad nauseam<sup>1</sup>. Likewise, no consensus has ever been reached on the meaning or use of the term “Fiscal-Military State”. The term “fiscal-military state” was coined by John Brewer and applied to the English state between 1688 and 1783. He did so to explain how a bigger and more efficient state administration, underpinned by a wide-ranging fiscal and financial system, allowed Great Britain to maintain bigger armed forces, win wars and, finally, gain world supremacy (Brewer, 1988: xviii). In John Brewer’s opinion Great Britain turned itself into an authentic war machine, which was then employed efficiently and successfully in the international arena. His thesis centres on the strength and efficiency of a state, its war-based growth strategy. Brewer, therefore, left no shadow of a doubt about the meaning of the term “fiscal-military state” or about the political, chronological and geographical setting for which it was coined.

The initial clarity of the term “fiscal-military state” then became somewhat blurred in the hands of subsequent historians. In a few short years the term began to be used for such a motley set of cases that Brewer’s original cut-and-dried definition became diluted and diffuse. States well before the eighteenth century were now blithely classified as “fiscal military”. Michael Mann reckoned that China from 771 BCE to 220 BCE already presented a “high level of fiscal-military state-building” (Mann, 2006: 370). In the opinion of Jan Glete continental Europe of the sixteenth and seventeenth century already had “fiscal military” states perfectly set up and functioning as such, whose existence could not be understood on the basis of unique and peculiar conditions and circumstances such as those that obtained in England in 1688. Glete’s comparison of the Spanish, Dutch and Swedish fiscal military states leads him to the conclusion that there were no pre-established paths or patterns and that these states “despite widely different preconditions, became the earliest fully fledged fiscal-military states in Europe” (Glete, 2002: 66). The list of these pioneer fiscal-military states continued to

<sup>1</sup> The controversial character of the term industrial revolution stems from the fact it was not an overnight, revolutionary event but rather a slow process of accretion during which different economic forms coexisted and fed off each other for quite some time. Neither was it exclusively industrial, as all the economic and even some social sectors were involved from the start (Coleman, 1992; Berg, 1992; Vries 1994).

swell with the incorporation of the seventeenth-century “Danish-Norwegian fiscal-military state” (Gausdal, 2005: 35), England itself before 1688 (Braddick, 2000: 177) and sixteenth-century Russia. The claim was even made on Russia’s behalf that it was one of the first in Europe “our claim that Russia became one of the first fiscal-military states” (Dunning, 2006: 43). Yet more candidates were still forthcoming. Eighteenth- and nineteenth-century Ethiopia was categorically listed by Tsegaye Tegenu as a fiscal military state, which came to maturity in the period 1815-1913 (Tegenu, 1996: 49-56). The term has been widely applied to the nascent United States. Max Edling have gone even further and construed the Constitution of the United States as a firm desire to set up a powerful fiscal military state: “if the American Revolution is regarded as a revolt against the extension of the British “fiscal-military state” to the colonies, it is of course ironic that the Revolution’s very success should create the demand for an American “fiscal-military state” (Edling, 2003: 220).

Along this proliferating path the term has also undergone some interesting mutations. Lawrence Stone, one of the authors who most helped to spread Brewer’s term and thesis, does not hesitate to alter the term. Presumably for some good though unexpressed reason he uses the term “military-fiscal state” instead of “fiscal-military state” (Stone, 1994: 7)<sup>2</sup>. This emphasis on “military” instead of “fiscal” is taken one step further by Patrick Karl O’Brien who moots the superiority of the navy over the army when analysing the characteristics of the English development. O’Brien hence prefers to use the term “fiscal naval state” to underline the catalysing role of the Royal Navy in the process of constructing the English state and in the creation of a different economic development framework (O’Brien, 2005: 37). This strain looks set to continue mutating, judging from the new proposal made by this same author in the form of “fiscal-naval-commercial state” (O’Brien, 2006c: 27). With this term the author wishes to stress that the state’s main objective was not war but rather commercial promotion, carried out either by taxation measures or by naval support. Lastly, in this helter-skelter use and abuse of the term Paul Winther comes up with an interesting proposal.

<sup>2</sup> Julian Hoppit has also inverted the terms and proposes “at the risk of being too subtle, a change from ‘military-fiscal’ to ‘fiscal-military’” on the grounds of the growing importance of the control of public spending in Great Britain, without ever calling into question the military purpose (Hoppit, 2002: 291).



He stresses the role played by the opium trade in the process of constructing England's administration in India, used increasingly from the 1780s to pay for the imports of Chinese tea which were then sent on to Europe. He therefore refers to British India as a "narco-fiscal-military state" (Winther, 2003).

Brewer's term, therefore, albeit relatively recent, has proven to be a rich vein for historians to mine. This very success has brought its own pitfalls, however, resulting in a chaotic application of the term to very different problems and situations bearing little relationship to each other. The reason for this success-chaos paradox is difficult to explain but we believe it may be bound up with the glaring gap between the motives for coining the term and the stimuli behind its use thereafter.

*The Coining of the Term and English Scepticism.*

The main motive behind Brewer's thesis was to shed new light on the state-formation process, a longstanding debating point for historians. His ideas and his input should be understood and valued in the context of a specific problem and discipline. Among the many factors put forward for understanding and explaining the state building process, war had always drawn more the attention of sociologists and social scientists. This is what Philip Gorski calls the twentieth-century success of the "bellicist" approach, i.e., that the formation of states can best be understood in terms of war and war needs (Gorski, 2001). This line of thought tended to saddle Great Britain with a stock profile: a weak state with little bureaucracy and low military presence that found it relatively easy to raise military and economic resources. Michael Mann considered that constitutional states are more efficient at mobilising war resources than absolutist states because "a rich trading country like England could maintain great power status without reaching a high level of tax extraction and therefore without a standing army" (Mann, 1980: 196). It was precisely to dismantle this idea that Brewer addressed this problem, offering a very different view. Brewer presented Great Britain as a strong, centralised state whose political structures were fully involved in the construction of the state and the pursuit of an aggressive military policy. Its administration and bureaucracy were professional and highly groomed, run by administrative organisations that intervened at all levels of power and were capable of developing and managing a complex

fiscal system and maintaining powerful armed forces. All this, moreover, was backed up by the elites and a well developed and active financial market. In other words Brewer's theories grew from the longstanding historical debate about the construction of the state and managed to offer a different and thought-provoking point of view fuelling further work on state formation. In Ertman's opinion Brewer's main input was precisely that he "has finally destroyed the tenaciously held belief that late Stuart and Hanoverian England possessed a numerically small, non-bureaucratic and pacific state apparatus" (Ertman, 1999: 30).

For sociologists and historians investigating the formation of the state the idea that the English state was strong, centralised, militarised, bureaucratised and efficient in raising taxes and mobilising soldiers has without doubt been a notable input, mainly because it laid to rest the Whig stereotype of a weak English state. Historians in general, however, especially English historians, have taken less keenly to Brewer's thesis. As Peter Earle points out: "this is a book (Brewer, 1989) where one does not learn very much that one has not read elsewhere, except in respect of the excise where Brewer's own researches have established Britain's relative efficiency as a bureaucracy" (Earle, 1990: 142). Many English historians played down Brewer's contribution, regarding it as less crucial than historians of state formation. He was even accused of having built up his elaborate theories on evidence already well established by other historians. Baugh's Navy studies (1965, 1977) or the taxation studies of Peter Mathias or Patrick O'Brien (1976) are the mainstays of Brewer's theory, already formulated and published by historians of administration or economics who were free of the express concern of making a contribution to the debate about the construction of the state.

This explains why Brewer's theory has come in for the harshest flak precisely from English historians. For some English scholars the concept of "fiscal-military state" is not a stage in the development of the state but rather another dimension thereof, which can coexist with other forms within the same state (Braddick, 2000: 177). Michael J. Braddick is of the opinion that the fiscal military state coincided in time with a "patriarchal state", a "confessional state" and a "dynastic state". This author regards it as crucial not to isolate this state dimension from the rest of the forms, while also bearing in mind that each of these state forms will evolve at different speeds. Applying this idea to the English case, he suggests, along with James Wheeler (1999), that the fiscal-military state did not arise in 1688, as Brewer claims, but dates back

at least to the Civil War, when the state took on military duties and a national taxation system was set up, emphasising that both were brought in to meet the nation's particular needs and interests at the time. In his view the key to the English fiscal-military state is to be found not in the eighteenth century and the tussle between parliament, crown and elites but rather in the first half of the seventeenth century and, above all, in the revolutionary events of the 1640s, when the local powers decided to throw in their lot with the state, collaborate and accept a legitimacy on this basis (Braddick, 2000: 283). In Braddick's view the concept "fiscal-military state" has more to do with cooperation between political agents and legitimisation of administration action than any top-down enforcement, albeit relying on the backing of parliamentary groups and elites. Braddick's interpretation of the fiscal military state involved, firstly, a shift in its chronology, with a consequent reinterpretation of why and how this type of state emerges and, secondly, the idea that, as just another dimension of the state, it could be present at any moment.

Along similar lines John Cookson directly criticised the institutional effects attributed by Brewer to war in the development of the English state and advocates a rethink of what he considers to be a "rather neat linear development" (1997: 4). On the basis of an analysis of the French Revolutionary and Napoleonic Wars he rules out any appreciable development of central authority. On the contrary, and despite the ferocious intensity of these wars, Cookson argues that the English state was still hard put to mobilise war resources at the end of the eighteenth century and was obliged to seek collaboration from the local powers. In the last analysis, the ostensible strength of the English state was the result of parleying rather than top-down enforcement or swaggering authority, and the local power and its elites still played a key role in mobilising war resources, including sentimental and ideological support. Almost ironically the English state once more comes across as a weak institution needing to curry favour from intermediate agents, i.e., much in the line of the traditional Whig view of the construction of the state.

Questioning the supposed strength of the English state is also to question the basis of Brewer's theory. In this sense the final chronology of the fiscal-military state could shed light on its nature. Harling and Mandler have drawn attention precisely to the rapid dismantling of the fiscal-military state in the first decades of the nineteenth century to usher in a "laissez-faire state". There is no doubt that the geopolitical and economic circumstances changed with Great Britain's unquestionable supremacy.

But it is still somewhat disconcerting to see how such a complex organisation created to sustain the fiscal-military state, with tailor made structures underpinned by a complex mesh of vested interests, the whole structure apparently fulfilling its remit (ranging from the state, elites, intermediate agents right down to the grassroots), could then be dismantled in a few short years, with no great problems, rejection or opposition from the vested interests. Although these authors do not go into this problem in detail they do come up with a possible explanation for this rapid dismantling in terms of the bill this society and economy was prepared to foot to maintain a fiscal-military state. It would seem that once a certain ceiling had been reached, which, according to these authors, occurred during the Napoleonic wars, “the fiscal-military state was the ultimate casualty of the French wars because the public was no longer willing to pay the price of maintaining it” (Harling, 1993: 52). Such a rapid crumbling away of grassroots acceptance of the cost of maintaining the fiscal-military state certainly suggests that the complex, original and efficient structure conjured up by the term “fiscal-military state” was not in fact so perfect or solid in practice. This would in turn cast doubts on England’s paradigm status as the classic fiscal-military state.

Quite some time ago now Aylmer described England’s administrative machinery as “an extraordinary patchwork” Aylmer (1980: 106; Harling, 1993: 48). This rebuttal of the efficiency attributed by Brewer to the English fiscal-military state pulls the rug out from under another of its key concepts. According to Brewer, Great Britain triumphed because it had the most efficient war-waging state. Hence the importance of the direct criticisms made by Lawrence Stone when he questioned two of the mainstays of the much-vaunted efficiency of the English fiscal-military state: the Navy Board and Treasury-Excise. Stone argues that the English state was not even capable of creating an efficient sailor-recruitment system and wrote off the customs administration as a complete disaster. This means that the English fiscal-military state was not so special or different. His conclusion leaves no room for doubts: “In this respect, the British state was not all that different from its European rivals. If this holds true throughout the century, it means that the one way in which claimed that the British state was indeed very different from those of Europe, namely the efficiency of its tax-collecting bureaucracy, was not so striking after all” (Stone, 1994: 17).

Some of the evidence built up by English historians, therefore, just does not tally with Brewer’s view of the English fiscal military state as

the paradigm of efficiency. These contradictions have not stoked up any sort of debate and Brewer himself, who significantly eschewed the term in an interesting subsequent work, continued to shore up his thesis by stressing the similarities between the British and German state models: “suddenly Britain looks rather more German or Prussian than we realized (Brewer, 1999: 9). He also emphasises the professional expertise and efficiency of the English bureaucracy (Brewer, 1999: 127), a thesis still shared by Thomas Ertman (1999: 49).

### *A Handy and Useful Term*

The criticisms heaped on the “fiscal-military state” concept by English historians would seem to have signed its death warrant but in fact the term has in fact caught on like wildfire for describing other national cases. The reason for this success probably boils down to something as simple as its usefulness. It comes in handy for designating the state’s two main functions, raising tax revenue and waging war, while also drawing attention to the relation between both factors. But it might have come equally in handy as a stopgap term for filling the holes left by the term “absolutism”.

James B. Collins culled the objections made by some historians to the concept of “absolutism” and dismissed it as a “myth” belied by the sheer complexity of real historical circumstances (Collins, 1995: 1). The concept of absolutism had served twentieth century historians well for explaining the growth of state power and the states’ capacity to take on bigger warfare challenges. But these same studies also began to show that absolutism in fact reflected a very complex set of historical circumstances and delved into the true workings of states that were still considered to be absolute, or at least controlled by royal power (Bonney, 1987: 10, 1995). Among the variety of historical cases there began to appear states in which the power of the monarchs was less absolute; more often than was previously thought this power was in fact limited in practice. The efficiency of their administrations did not seem to stem from the power-bestowed authority or even their control over institutional violence. The supposed coercive power of the monarchs was diluted among many participants in a complex mesh of interrelated powers (Parker, 1983: 82). From then on the previous idea of top-down enforcement, intrinsic to the concept “absolutism”, gradually gave way to the notion that those states in fact had to coax cooperation and collaboration from

the rest of the political, social and economic stakeholders. The most efficient states would be those that managed to involve most agents in the resource mobilisation task rather than those that had most authority or were the most centralised. Authority was not the same as legitimacy and those in charge of raising resources were not always equally imbued with both qualities. Likewise, centralisation was more an objective of action than a historical reality. A government's control over the administration or the level of information could turn out in this new interpretation to be more important than the mere degree of administrative centralisation (Bonney, 1987: 93-94).

The paradigmatic term "absolutism" seemed to have been milked dry, prompting many authors to fall back expressly on the term "fiscal-military state" instead. Witness Nicholas Henshall who, to explain the different war-resource mobilising skills of states, called into question both Brewer's initial thesis and the concept of absolutism in saying: "Brewer has recently shown that one (a fiscal-military state) was created in England. The implication is that it was easier to achieve in the context of a parliamentary than of an "absolutist" state. It is possible that this is the wrong conclusion to draw. France arguably did not attempt to create a fiscal-military state by "absolutist" methods. It tried to use the same methods as England – consent and co-operation, which were the only realistic options available" (1992: 4). There was no doubt a search was on for a handier term to describe what absolutism had tried and failed to mean. Donald Ostrowski suggests we are at a terminological crossroads: "in short, at present we may be in the throes of a paradigm shift but without a new paradigm crystallizing sufficiently for a fresh consensus to form around it" (Ostrowski, 2002: 536).

For all these reasons we can now safely claim that cooperation, commitment, consensus and interest in mobilising warfare resources have ousted the concepts of coercion or centralisation as the main factors arising from a study of the paradigmatic absolutist state, and that these attributes are not the exclusive property of any country, political system or chronological era. As Chester Dunning claims "there is a good chance that the model of the fiscal-military state will eventually replace the vague and hollow concept of absolutism as the preferred framework for the study of early modern Europe" (Dunning, 2006: 44). The term "fiscal-military" state has turned out to be handy for the ongoing investigation of a matter that now seems to have outgrown the concepts of "coercion" and "centralisation".

## 2. Mercantilism and the Fiscal–Military State

### *Europeans are from Mars*

Michael Mann, paraphrasing Robert Kaplan’s famous astronomically-conceived aphorism about the relatively peace-loving Europeans coming from Venus and the more warmongering Americans from Mars, has recently turned this saying on its head, claiming that, historically, Europeans are not from Venus at all but from Mars too (Mann, 2006: 368). In the debate Mann is currently holding with Patrick O’Brien (Mann, 2006; O’Brien, 2006) about the revision of Mann’s fundamental work, *The Sources of Social Power* (1986, 1993), Mann again brings war onto centre stage, but this time asking why Europeans appear so often in universal comparative history as the most “Martian”, those who have shown the most gung-ho appetite for waging the most frequent and lethal wars. In his opinion “it is remarkable that in the large literature devoted to the fiscal-military core of European states almost nobody has asked why fighting wars was so important to Europeans. Nor did I” (Mann, 2006: 368). Indeed, Michael Mann himself, like other social scientists who had given a war-based explanation of state formation on the basis of war, had accounted for Europeans’ bellicose activity in his previous work as a question of mere survival, claiming that the system of European states made it inevitable that: “any state that wishes to survive has to increase its revenue-raising capacity on defined territories with the purpose of building up conscripted and professional armies or navies. Those who failed to do so were crushed on the battlefield and absorbed by others. A pacific state would have ceased to exist even quicker than those that were militarily inefficient” (Mann, 1986, I: 689).

The answer Michael Mann himself comes up with now exceeds that almost Darwinian vision and explains the Europeans’ particular bellicose trend, as demonstrated henceforth, in terms of the social, economic and political structures. In his view it was certain factors deeply rooted in the medieval social structures, and the interaction between them, that led to this situation: the economic value of territorial expansion, the possibility of basing social and political relations on military power, a delicate system of states, always at risk of mutation, and a religious cohesion against the outside world. Europeans became more bellicose because “victory meant real gains in lands, income and even supposed moral virtue” (Mann, 2006: 370). On this basis of war and political, social and

economic development in the Middle Ages, Mann claims that Modern Age Europeans brought in two new goads to send militarism into overdrive: a revival of ideological war in the Wars of Religion and the possibility of expansion outside of Europe. Europeans then united tradition and renewed stimuli to make war something normal, “natural”; waging war was “more profitable than pacifism” (Mann, 2006: 370).

In our view these new reflections offer key concepts for further development in studies of the fiscal military state. On the one hand Mann is openly mooting the “natural” condition of war in the Modern Period, not because it was frequent as has traditionally been claimed (Levy, 1983; Rasler, 1989; Tilly, 1992; Kiser, 1993), but rather because peace may not in fact have been such a logical or reasonable alternative in the Modern Period, as we might rather cosily see it with our contemporary hindsight. As Peer Vries has suggested “acting as a stubborn pacifist or free-trader overall was not a realistic option in the war-prone and highly combative context in which early modern states operated” (Vries, 2002: 78). For Europeans of the Modern Age going to war may not have been merely a question of survival, glorification of the monarch or a spiral of coercion (Tilly, 1992: 114-117); rather was it the natural context in which they managed to cope with their lot. History seems to show that Europeans managed to grow not by accreting years of peace and *despite* war, but rather *with* war.

Furthermore, Mann’s insistence on the need to delve into the causes of war rather than war’s state-formation consequences opens up the possibility of bringing war into relation with development. If Europeans managed to grow at an unprecedented rate and did so with war as a constant feature, it would not seem too farfetched to stress war’s creative and development-boosting nature for Europeans of the Modern Period. The traditional image of a predatory, violent state driven by a coercive greed for human and economic resources may be a one-sided picture, cloaking the growth-boosting nature of the management of war for Europeans. In the opinion of John Nye, there is no reason not to consider war as an effective instigator of change and growth for Europeans in the Modern Period (Nye, 1997: 127). Our thesis is that it was precisely the fiscal military state that served as the means by which Europeans managed to make war a creative and development-enhancing force.



*The Mercantilist Stimulus*

How and when did the Europeans strike down this path? The main budgetary aim of any state, European or otherwise, in the Modern Period and perhaps even in the Middle Ages was military expenditure, ensuring stable channels for receiving tax revenue and the legal capacity for mobilising human and economic war resources (Pomeranz, 2000: ch.4). Strictly speaking, any of these states could be classified as a fiscal military state, if we understand as such a state capable of creating and running specific warfare resource-raising systems and bent on using these resources for actually waging war. This character was amply shared by Europeans and non Europeans throughout history but a gulf gradually opened between the capacity for mobilising warfare resources and the influence war had on development. In general Europeans were more efficient in mobilising more and better resources and managed to ensure a bigger knock-on effect of this mobilisation on their economic, technological, institutional and cultural development. With some notable national differences, Europeans in general obtained higher development rates as the Modern Period progressed, especially from the seventeenth century onwards, and the relations between war and growth seem to become clear as the eighteenth century looms.

In our view one of the keys to understanding this war-development relationship is to be found in mercantilism. Mercantilist ideas and practices not only kindled growth but gradually ensured that people saw it as an end in itself, with war as the most efficient development-boosting instrument. When Peer Vries compared the development models of Western Europe and the eastern empires (in his case, China, India and Turkey), bringing out their differences, the conclusion he drew was precisely that the main difference between them was that the eastern states, their governors and elites were much more inclined than their European counterparts to maintain the inherited order and ward off change: “They were not opposed to a welfare policy, but they did not envisage a growth policy. That does not mean there was no economic growth. There was it was growth that was kept as much as possible inside the existing sociopolitical moral framework” (Vries, 2002: 115). On the contrary, Europeans seemed more open to change, and this is largely due to the mercantilist policies pursued by the Europeans. In any case Vries himself acknowledges that “it is not exactly easy to combine explanations that focus on Europe’s mercantilism and war-making with expla-

nations that emphasize Europe's capitalism" (Vries, 2002: 125). Nonetheless, from our point of view, it is precisely here where an analysis of fiscal military states could be useful. In our opinion the fiscal military state became decisive for development of the Europeans when it began to assume mercantilist principles.

Doubts might viably be cast on whether or not mercantilism was a coherent growth policy but what cannot be called into question is its decisive contribution to the unification of power and national wealth. Lars Magnusson has warned us that a certain historicist trait, which he tracks down to Heckscher, has insistently stressed that the main goal of mercantilism was power, overriding any quest for national wealth, whereas in his opinion an analysis of mercantilist writings and political practice shows that "the mercantilists never stressed power in itself but power and plenty as the end of their efforts" (Magnusson, 1994: 152). Magnusson regards it as important to reunite power and national wealth in our analysis because they were so united in history and form together the quintessence of mercantilism. Likewise, it should also be borne in mind here that the historicist insistence on power as the main objective of mercantilism has turned out to be useful for state-formation studies, while it has distorted the analysis of how power and national wealth interact, to the extent, as Peter Musgrave has shown, of limiting positive assessments of the state's economic role. According to Musgrave the tendency to place power over wealth in the historical interpretations of mercantilism has had important consequences, encouraging the view that political decisions would be taken with no concern for economic consequences, that states would be stimulated by the defence of vested interests and group pressure without taking national considerations into account, also reducing taxation to a war funding mechanism with no more political function (Musgrave, 1999: 89-95). It would therefore seem wise to follow Magnusson's counsel and bring power and national wealth back together as mercantilist goals. These goals, it must be stressed, were amply shared by most European states, as pointed out by John Nye "the British and the French sovereigns should not be viewed as being fundamentally different either in their attitudes toward the economy or the state. The overall goals of the two monarchies were probably quite similar" (Nye, 1997: 136).

On the other hand, although mercantilism was far from being a coherent doctrine, there is general agreement about mercantilism's stress on the development of national policies. The construction of a European

system of nation-states was without doubt a very long, inconclusive, idiosyncratic and patchy process but among the many stages through which it moved and the many factors impinging on it there is no doubt about the spurring effect of mercantilism. Its main contribution was to make the state's action framework basically national. Rober Ekelund is categorical in this sense "only nationalist goals were adequate for mercantilist policies" (Ekelund, 1991: 56). The national dimension became a demand for action from a mercantilist government. Insofar as national wealth was essential for increasing the government's action possibilities, national political efficacy increased in direct proportion to the scope of sovereignty over national territory. It should be pointed out here that national sovereignty is not synonymous with a centralised institutional structure from which to exert a national policy. In fact it is more bound up with the capacity to exercise this policy from a position of indisputable sovereignty. The forced or interested cooperation with the state of other agents, institutions or individuals could also be mobilised by the state to act in a national sphere with the same effects and at a lower cost than a supposedly centralised and national state. As Epstein tells us, the main institutional bottleneck of the state "did not arise from a lack of concern with contractual rules, despotic insouciance or parliamentary weakness, but from the coordination failures caused by the absence of undivided sovereignty over the political and economic spheres" (Epstein, 2000: 36). The fiscal military state will mobilise more resources as it moves towards full sovereignty on a national scale, until which time it will have to assume the cost and inefficiency caused by coordinating a contending host of political and economic claims and sovereignties.

Mercantilism's interest in the national dimension also helped to improve the fiscal military state's resource-raising skills insofar as it favoured the development of more integrated and securer markets. Precisely the New Institutional Economics has been stressing the importance of nationwide state action for the economic development of Europeans, because it favoured greater integration of the diverse political, social and economic agents and created the conditions for developing securer and more stable frameworks of relationships and exchanges (Drobak, 1997: xviii). The emphasis placed by mercantilism on facilitating the wherewithal for government action was one of the best responses Europeans could come up with to Europe's "historic" problem of insecurity and uncertainty. One-off solutions dreamed up since the

middle ages to palliate this insecurity (guilds, feudalism, moral economy, subsidised prices, bills of exchange, regulation of supplies or networking between co-religionist merchants) were all makeshift solutions that were not conducive to any growth policy; it was rather a question of coping as best as possible with dearth and uncertainty. Heading off any supply shortages in a city or shortfalls of raw materials for production was more important than the tax revenue they produced or the growth trend they might be experiencing. The goals of mercantilism, on the contrary, were quite otherwise, aiming to achieve secure, protected growth-inducing trading systems in the interests of increasing national wealth and the government's wherewithal for action. Protection of the national market thus became one of the prime government maxims. In all probability, just as some feudal seigniors had previously protected and stimulated urban development, the mercantilist state was keen to promote policies that might unite authority and security with economic growth.

Rather than the stereotyped image of a voracious and insatiable state seeking war resources only through coercion, it might rather have been the case that a mercantilist-driven outlook gradually held sway in which war, together with protection, exclusion and monopoly, represented the only realistic way of implementing a growth policy. European economic reality was essentially national. Until the end of the eighteenth century no European country had enough productive clout to win over a European market, and even though transnational mechanisms of interaction were on the rise in Europe, the national scale was still the overriding concern. Mercantilism's cry for protection of national markets was not only a doctrinal question; it was also a condition *sine qua non*. National markets protected by full sovereignty were the best way of mustering resources for increasing protection. This is what we might dub the virtuous circle. Securer, more stable markets gave more opportunities for creating economic activities that would yield more fiscal and financial returns for the state, also ensuring greater adhesion by the elites; this would enable the state to mobilise more military and economic resources for waging wars or exerting military pressure for protecting existing markets or winning new ones. The fiscal military state could develop indefinitely only on the basis of market protection sought by mercantilism. In a historical context in which there were insufficient instruments for guaranteeing international relations, security was the best way of boosting growth and *ipso facto* competitiveness.

*Protection, exclusion, privileges and monopolies*

It was precisely mercantilism's emphasis on security and protection that was to lead to one of the most controversial aspects of the government action of mercantilist states, with far-reaching repercussions on the fiscal military states' warfare resource-raising capacity. We are of course talking about the monopolies. One of the most thought-provoking interpretations of the significance of monopolies was made by Ekelund and Tollison. According to this view the states' concession of monopolies was the result of the self-seeking clashes between rent-seekers and their final compromise settlements. On the one hand states and their political elites offered businessmen the sale of privileges, exclusion and monopoly as a trade off for receiving revenue. On the other hand businessmen would be ready to pay the state for wielding privileged control over a given economic activity. There would hence be a tug or war to receive the greatest chunk of revenue (Ekelund, 1981, 1997). The appraisal made by these authors of the confrontational situation is clearly negative<sup>3</sup>. They consider that the rent-seeking motive trimmed down the state's power and adversely affected the bases of the economy: "mercantilism is a process through which rent seeking alters property rights systems in socially inefficient manners reducing exchange, efficiency, and economic welfare (Ekelund, 1997: 235).

The fiscal military state working on mercantilist principles would suggest a more upbeat view. Ekelund and Tollison acknowledge that the origin of rent-seeking was deficient economic regulation and was, in short, "the struggle to capture the rents from economic regulation" (Ekelund, 1997: 24). In other words, what the state offered and what businessmen were prepared to buy was essentially economic regulation, institutional security enabling them to operate beset by fewer uncertainties. Ekelund admits that regulation was an essential part in the negotiation of those rent seekers: "regulation could be considered as a good that was supplied and demanded like any other good" (Ekelund, 1992: 58). It would follow from this supposed confrontation for monopoly revenue that both contenders would help to promote economic regulation, thereby bolstering the state's position, for, in the last analysis, it is the state that concedes and guarantees this regulation.

<sup>3</sup> A critical review of Ekelund's thesis can be found in Magnusson (1994: 49-51).

Another factor pulling in the same direction would be the fact that a monopoly would be profitable and attractive for businessmen only if it is not shared by other small monopolies. The intrinsic logic of monopoly is to aspire to the whole. To put it another way, to be effective or profitable the monopoly has to be nationwide without being ground down by continual clashes with small local or regional monopolies, granted by other authorities. The granting of monopolies therefore meant that royal authority had to be enforced throughout the whole territory, dismantling any other privilege outside the full sovereignty of the state (Torres, 2006a: 721). The concession of monopolies could thus have a positive aspect: the state's economic regulation capacity had to be extended and this meant that its sphere of authority had to be unimpeachable and nationwide. All this could have a positive knock-on effect on the national economy and the state's resource-raising capacity.

Let's give an example of how this relation between monopoly, authority and resource-raising capacity might work in practice (Torres, 2002, 2007a). Towards the end of the seventeenth century the Spanish state had been furnished with its military supplies by thousands of private *asentistas* (contracted state suppliers), most of them being foreign businessmen. Moreover, the proportion of foreign *asentistas* was on the rise. After the War of Succession the Bourbon state decided to trim down the number of private *asentistas* and ensure that they were all Spanish. This policy could be interpreted as the triumph of a group of Spanish business over state power and revenue; conversely, another view might be that the granting of military-supply monopolies fuelled a radical change in the provisioning policy pursued hitherto, with far-reaching consequences. From then on the state could shrug off the yoke of the foreign *asentistas*, absolutely all of them, and grant new monopolies over the diverse types of military supplies. This veritable "nationalisation" of monopolies went hand in hand with a pulling in of Spain's imperial horns in Europe; this made Spain less attractive to work with for European financiers, but also ensured that the bulk of military spending would remain in the hands of Spanish financiers, giving an opportunity for Spain's own capitalism to develop. The reduction of needs and the proximity of businessmen gave the state a greater control over *asentistas* and the products supplied, cutting the cost of creating bigger administrative structures, while also favouring a more standardised management of supplies. The increase of state

control over *asentistas* meant that in the new monopoly contracts it could impose the condition that most of the military supplies should be produced in Spain with Spanish or colonial raw materials. All this meant that the Spanish military budget impinged much more directly on the national economy. In the Spanish case the monopolies and the rent-seeking motive became a real leverage for wealth, strengthening the state's authority, giving an opportunity to Spanish capitalism and considerably improving the transfer of revenue from military spending to the national economy as a whole.

It goes without saying that, in the long run, monopoly always turns out to be less effective than the free play of market forces but in the particular historical circumstances we are dealing with here exclusion, privilege and monopoly, properly handled by a mercantilism-driven fiscal military state, could still be an efficient way of increasing the mobilisation of economic and military resources. In our view the development-enhancing effects of a progress policy based on exclusion and monopoly should not be underestimated, especially when it was not easy to attain full sovereignty, as was the case in European countries with insecure territorial domain. Witness the lingering monopoly condition of some European foreign-trading companies, especially overseas, companies that played an important role in the development of the fiscal military state.

Their proliferation and perpetuation up to the end of the eighteenth century has often been attributed to the pressure brought to bear on the state by the groups of merchants running these companies and the revenue they generated for the crown. An equally important factor here, however, would seem to be the state's inability to create a secure market in which national merchants could work. It is no coincidence that it was precisely in the more insecure overseas markets, especially the eastern ones, where the privileged trading companies hung on longer. There was in fact a sharp contrast between the growing opposition of English politicians and writers to monopolies within Great Britain and the persistence of privileged status in, for example, the East India Company during the eighteenth century (Bowen, 2006). In our view the important factor in the apparently anachronistic persistence of a monopoly within a English economy largely evolving in the opposite direction is not the question of whether the government was trammelled by the tangled web of political and economic influences woven by the lobby in favour of this company, nor even of whether the company itself managed to bear a direct influence on the English gov-

ernment's foreign policy<sup>4</sup>, i.e. whether lurking behind the lingering monopoly was a weakened state stymied by vested interests. The important point in our view is what the English fiscal military state could achieve if the monopoly persisted. The English state managed to boost tax and financial contributions by a tidy sum, and the treasury could hardly be expected to forgo this boon, albeit temporarily. Moreover, as Javier Cuenca-Esteban suggests it would probably not have raised as much revenue with territorial presence in India (Cuenca-Esteban, 2007). Furthermore, Great Britain managed to build up a considerable military capacity, which could be deployed in far-off territories at no direct cost to the English exchequer. As Huw Bowen claims, the English state was not able to offer its merchants secure trading in India even after the Seven Year's War, without falling back on the East Indian Company: "trade profit was still important in its own right, but this alone could not pay for the deployment of the Crown armed forces, naval squadrons, and administrators that were necessary for the protection of British interests" (Bowen, 1991: 188).

If the essential objective of a fiscal military state, therefore, was to continually increase the mobilisation capacity of economic and military wherewithal, privilege and exclusion could be an efficient way of achieving this, especially when the state could not rely on full sovereignty. In our view the focus placed on the monopoly-revenue tug of war between private groups and state power has tended to cloak the obvious: namely that European states with these trading monopolies offered privilege and exclusion in areas where these same states did not wield sufficient authority or the clout to enforce it. States offered trading monopolies in markets that were essentially open and competitive, in areas where sovereignty in most cases was shared with a host of local and regional powers not always easy to acknowledge, and where the privileged company had to compete even with other monopolies created by nearly all the European states. In return, therefore, for offering regulation over an area where it did not enjoy full sovereignty, the state received hefty returns that helped it to continue to increase its economic and military resources. If full sovereignty was a *sine qua non* of market development,

<sup>4</sup> Ekelund claims that it did not even manage to impinge directly on English foreign policy, as might be suggested by such key moments as the presence of the company's influential "Secret Committee" in the peace negotiations of the Treaty of Paris in 1763 (Ekelund, 1997: 189).



Europeans still managed by means of exclusion and monopolies to extend this sovereignty and tap into far-off, resource-rich markets.

The natural trend of these trading monopolies was to become less efficient over time and therefore with a lower capacity for generating resources for the state. This was partly offset by the constant competition between Europeans, which mercantilism helped to promote (Pomeranz, 2000, ch. 4). The privileged trading companies operating overseas tended to seek secure arrangements, not on the basis of the state-granted monopoly status but rather on the strength of the network of relations they wove themselves in the places where they operated and their own capacity to protect and expand their activities. The fact is that their security did not come from the state but rather from the possibilities created by the company itself to work in a specific area. Monopolistic companies hence tended to foment relations with local powers acting only in areas of clear influence and eschewing direct confrontation with other European trading monopolies, often resorting to a tacit carve-up of areas and products with other companies. As Vries suggests, “this, not surprisingly, often made them (trading companies) reticent to conquer and do battle” (Vries, 2002: 81). Strictly speaking these trading monopolies should not be construed as a mere armed prolongation of the state. They had their own vested interests and the state offered little more than regulation, which it could not enforce in those territories. This is why mercantilism played an important role by encouraging states to take an interest in trading policies and competition and confrontation between European states, thereby helping to modify the European trading monopolies’ trend towards agreement and collaboration. European wars periodically embroiled these monopolies in skirmishes, an inevitable situation that the companies themselves unhesitatingly exploited to improve their position in the area. State and monopolies were mutually caught up in a spiral of interests. Trading monopolies loomed ever larger in the state’s capacity to mobilise economic and military resources (taxes, funding and direct military support), while the states could draw from more resources, increasing their motives for sustaining and collaborating with those monopolies. A more in-depth study might well be made of the national differences in the growing trend of collaboration between state and trading monopolies from the mid seventeenth century onwards. A good model to follow here could be the study made by Helen Julia Paul in this book of the Royal African and South Sea Companies and the English Royal Navy.

If the Golden Age of the fiscal military state was the eighteenth century, therefore, this was largely due to the partial solution of Europe's longstanding problem of insecurity and uncertainty. Mercantilism's contribution towards this solution was to cement the need of working in secure and protected national areas and promote full sovereignty. National wealth and European rivalry were the two main thrusts of political action, which eventually had a knock-on effect on the development opportunities of their economies and ipso facto their capacity of mobilising military and financial resources.

### 3. The Triumph of Flexibility

It has long been a commonplace, encapsulated in a host of neat phrases, to say that money is needed to wage war. Without money no policy can be sustained, much less wage a war. But this universal truth has manifested itself very differently in each particular historical context, because the source of the money concerned was also different, as was the way of raising it and the relations with the society and economy producing it. The methods and forms of raising this money in Europe were not particularly original. Richard Bonney, in his introduction to the compendium work "The rise of the Fiscal State in Europe c.1200-1815" admits that "the fiscal systems of the various European states were relatively 'backward' in comparison with the Roman system at its heights" (Bonney, 1999: 9).<sup>5</sup> Practically all the components of European fiscal practice dated back to the Middle Ages and would continue to be used right up the contemporary period. Donations, property sales and confiscations, direct or indirect taxes and public debt were still the main instruments for raising these economic resources until the early nineteenth century. But the eighteenth century was also a different stage in the state-financing trend, with a staggering rise in the amount of these economic resources, a much wider trawl and an incomparably larger scale. According to Tim Le Goff any governor or finance expert knew that there was a basic problem: "no war could be paid with the king's

<sup>5</sup> Rome's fiscal system was so advanced that it even included a system of public credit, boasting also "a market in shares for such companies, much as was the case for the *ferme générale* in eighteenth-century France" (Bonney, 1999: 8).

peacetime revenues, or by temporary increase in taxation” (Le Goff, 1999: 379). War was always a supreme test of flexibility and there, in our view, lies the key to Europe’s success and the cue for assessing the efficiency of the fiscal military states. If the fiscal military state reached its Golden Age in the eighteenth century, this was precisely because it was then that most of the European states managed to raise more economic resources than ever before, with more flexibility and with ongoing growth and development. The different national success stories also depended on the degree of flexibility they showed in obtaining these resources for waging increasingly costly wars.

Donations and confiscations were a recurrent and omnipresent war funding method but this method was also the most rigid and stymieing for administrators. The resources obtained by this means flowed into the coffers in an irregular and unforeseeable way and almost always went in hand with compensation payments and informal debts or even reprisals against the governors once peace had come. The means for encouraging society’s collaboration were infinite (intimidation, prebends, religious fervour, patriotism etc, etc) but none guaranteed a secure response that would even out the erratic character of this resource. This was not exactly the flexibility the fiscal military state was looking for if it was to make further progress.

Neither did direct taxes furnish the necessary tax base for expanding the fiscal military state. The emphasis placed by historians on the fiscal administration methods have tended to distract attention from another factor that had significant effects on the development of the fiscal military state: the uneven capacity of mobilising direct and indirect taxes. On the one hand historians have shown persistent interest in the state-formation implications of the development of direct taxation. Edgar Kiser, when he analysed the main milestones of this historical attention, explained it as follows: “since monitoring capacity varies across types of taxes and levels of administration” (Kiser, 2001b: 187). Direct taxation has always been associated with the development of the state’s administrative capacity to register the property of its subjects and obtain updated information on the income they earned. Institutionalisation of this knowledge and successful receipt of these direct taxes has always been thought to depend on an advanced state bureaucracy (Ertman, 1994: 38; 1999: 27). The nineteenth century success with income tax and agrarian revolutions helped to give direct taxes a gloss of modernity. The image of indirect taxes has suffered accordingly. They have been granted less

of an impact on state development, since they are ostensibly easier to get in. They have also been thought to undermine the state due to concomitant privatisation and the assignment of power to private groups in the form of tax farming. Last but not least they have always been attributed with a lower impact on economic development due to a supposed regressiveness, a theory that has all too often been churned out glibly with no real thought given to the matter, as we are warned by Patrick O'Brien "there seems to be a presumption in the historiography that indirect taxes on outlay were 'regressive' in their incidence (O'Brien, 1988: 12).

In contrast to this positive assessment of the role of direct taxation in state development, an analysis of the fiscal military state suggests it played a less important role. The soaring military spending of the eighteenth century was not fuelled mainly by direct taxes. The wealth of data to hand on the fiscal structures of the main European states show that there was even a generalised reduction in the role played by direct taxation (Bonney, 1999). In France, for example, the crown's efforts to bring in new direct taxes from the late seventeenth century onwards to finance the heavier military spending proved to be insufficient. According to Michael Kwass the fact that the revenue from the *capitation* tax was doubled and the *dixième-vingtième* revenue even tripled did not mean that the set of these direct taxes, including the *taille*, showed a corresponding increase in their contribution to the French exchequer. Finally, therefore, "the crown came to rely more and more on indirect taxation" (Kwass, 1999: 347<sup>6</sup>). The same trend is shown by the Spanish fiscal structure throughout the eighteenth century when state spending was based increasingly on indirect taxes because, as Agustín González Enciso suggests, it was a way of "alleviating the citizens" from a tax pressure that the crown itself considered to be too burdensome (González Enciso, 2007). In the same way Great Britain fell back less and less on direct taxes to underpin its expansion as a fiscal military state (Mathias, 1976: 626; O'Brien, 1999: 87-89). As Beckett concludes, "in 1698 central government abandoned its efforts to levy a realistic income tax, and no further attempt was made until Pitt's innovations in 1799", with the result that direct taxes dropped from 37% of the British ex-

<sup>6</sup> This conclusion runs counter to the idea of Peter Mathias and Patrick O'Brien on the greater input of direct taxes over indirect taxes in the eighteenth century French exchequer (Mathias, 1976: 625).

chequer's total revenue at the start of the century to only 17% by the end (Beckett, 1985: 296, 306). One significant exception to this general trend was Holland, where there was a progressive increase in direct taxation (land and houses taxes) throughout the eighteenth century, rising from 30.9% in 1661-7 to 43.9% of total revenue. The reason for this might be the one suggested by Marjolein't Hart "by the early eighteenth century it was evident that in Holland a limit to the rate of increase in indirect taxes had been reached" (Hart, 1999: 319). The author explains that this limit had been reached because these taxes stayed in the hands of tax farmers and because it was a way of overcoming the country's administrative fragmentation. Be that as it may, this significant exception could be bound up in some way with a sharp fall in Dutch military spending in the eighteenth century and the Republic's withdrawal from the international war scene (Fritschy, 1997: 70).

An analysis of the exchequers of the three major fiscal military states of the eighteenth century with absolutist or parliamentarist governments seems to show that their respective upward spirals of warfare expenditure were not principally financed from direct taxation. It seems clear that agriculture, the main economic activity, could not increase its output at the same rate as warfare needs and neither would the privileges, traditions and legal exemptions existing in all states give governments leeway enough for fuelling increasing expenditure with direct taxation. The huge cadastral operations carried out by some states, with specific administrations and meticulous examination of the property and revenue of their subjects, usually turned out to be resounding failures, as has been shown by Luca Mannori for France, Spain and Italy (Mannori, 2001). This difficulty that Europeans had in increasing the direct taxation trawl in line with soaring expenditure contrasts sharply with the success of the eastern states. According to Vries, three quarters of imperial China's revenue came from direct taxes, mainly on land, and the situation was similar in India and Turkey. Even though they had the capacity to increase indirect taxes and real hopes of increasing their revenue in this way, these exchequers did not go down this route. As Vries himself puts it: "it would be interesting to know more about the reasons why imperial governments did not tax goods and services more", offering himself a possible answer "it was considered a sign of good government to spend less than one earned" (Vries, 2002: 97-99). Why it was, therefore, that Europeans were able to increase indirect taxes, thereby giving an unprecedented opportunity of expansion to the fiscal military

state, is a question that as yet has no clear answer, though it would seem to be bound up with mercantilism and the expansion of the market and rising consumption.

There is no doubt that the emphasis placed by mercantilism on trading policies and national and commercial rivalry was bound up with the state's expectations of increasing its tax revenue. Taxes on trade and consumption gave the state its greatest leeway to increase its tax revenue. Trade and consumer taxes allowed the state in theory to increase the taxable objects almost indefinitely but in practice it reined in its powers of almost limitless coercion on taxpayers. As Patrick O'Brien has pointed out, even in Great Britain, where trade and consumer taxes were increased almost limitlessly, moderation was shown in taxing staples; neither were Britain's legislators totally blind to the concept of fair distribution (O'Brien, 1988: 12). Products considered to be "superfluous" such as alcohol, tobacco and a wide range of colonial products bore the brunt of indirect taxation in Great Britain, and the situation was similar in France and Spain. In Spain the consumption of tobacco, a product frankly considered by the authorities to be a "vice", was essential for maintaining the tax relief policies, while also becoming an evermore essential mainstay of its taxation structure.

The generalised expansion of trade and consumption in Europe offered a variety and flexibility that European states did not hesitate to exploit. This has been largely overlooked by historians, their attention caught rather by the apparently greater difficulty of managing these indirect taxes, even though the tax collection procedure still begged many questions (how much of the theoretical revenue actually got to the coffers, how was the revenue allocated or who finally took part in the collection procedure?). Assignment of indirect-tax collection to private groups, the procedure known as tax farming, has traditionally been seen as a factor that balked and checked the institutional development of the state. Nonetheless, from the viewpoint of increasing the revenue trawl (the main need of the fiscal military state) there are grounds for rethinking its actual input. The biggest tax farming arrangement in Europe, the French *Fermiers Généraux*, has always had a bad press (Durand, 1971, Chaussinand-Nogaret, 1972), whereas Eugene White concludes that "the general condemnation of the *Ferme Générale* by the revolutionaries and contemporary historians needs to be tempered" (White, 1997, 118). In his opinion the traditional accusations of corruption should be weighed against the fact that the crown reaped from this arrangement

during the eighteenth century the biggest increase in its indirect income during the whole Modern Period, as well as obtaining a crucial source of public deficit financing. The *Fermes Generales* are not necessarily a synonym of ineffectiveness. Even though the crown subjected them to a closer managerial control, despite constant hikes of the leasing prices and even unforeseeable changes in the agreed contractual conditions on the yield, Eugene White nonetheless concludes that “the management of the *Ferme* proved adept at increasing tax revenues by improving its collection methods” (White, 2001a: 23). From the French exchequer’s point of view the private management of indirect taxes was compatible with the increase in the revenue trawl and was more likely to extend the tax base than centralised management of direct taxes. Much the same went for Spain, where the creation of “*estancos*” or state monopolies on the sale of some products such as tobacco enabled the tax base to be broadened and the revenue trawl increased. In this case some evidence suggests that direct control by the government actually reduced net revenue because of the heavy outlay in administrative structures for distributing the product and combatting contraband (González Enciso, 2006b; Escobedo, 2007). In fact there is no hard evidence to say that private management of indirect taxes always led to graft or contraband. Indeed, in Great Britain, where most progress was made in the creation of a customs and excise administration, the persistent problems of contraband and corruption among the functionaries and the failure of Pitt’s reforms of the 1780s prompted him to give serious thought to privatising the system (Binney, 1958: 279-280). As Kisser points out for the English case: “tax farming was given up because the government feared the increasing power of private financiers, but in the 18th century it may have been a more efficient mode of collection than state administration because it provided stronger incentives” (Kiser, 2001b: 199).

The fiscal military state would therefore have greater chances of expanding its tax base if it favoured indirect taxation, and the managerial arrangement would not seem to change this picture much either way; neither can we take for granted that one system assured less or more revenue than the other. This all prompts us to stress that the opportunities for constantly expanding the tax base in the eighteenth century were closely bound up with the state’s capacity of using its military force for creating conditions of security and sovereignty in certain areas where people could safely trade and consume. Once more the mercantilist policies of creating and protecting national and colonial spaces could have a

decisive influence on the possibilities of boosting the economy and consumption. The beginning of British military and commercial expansion, therefore, could not be understood without the Navigation Act of 1651, a markedly mercantilist measure, which the English government did not hesitate to renew during the whole eighteenth century, and which seemed to have clear effects on economic activity (Baugh, 1994: 191). Likewise, the strengthening of Spain's monopoly on American trade is to be explained rather in terms of the growing intensity of trading activity within the monopoly and the vital character of the taxes from this trade for the Spanish exchequer (Torres, 2007a). In both cases mercantilist action boosted economic and consumer activity, giving the states greater leeway to increase the variety of indirect taxes and thereby increase the tax base. Nonetheless, this connection between military clout and the extension of the tax base was much clearer when the increase of trading activity was accompanied by an increase in consumption, especially at home, as was the case of Great Britain (Capie, 2001: 30). It is not easy to explain the interrelations between trade and consumption, but factors such as the existence of urban networks, integration of markets or transport could finally determine the rate of consumption growth, all of which have a knock-on effect on the tax level. The exceptional nature of the English case was based precisely on the fact that English mercantilist policy allowed a greater correlation between trade and consumption in the framework of an economy with more integrated markets (O'Brien, 1998: 53).

The indirect taxes on trade and consumption gave eighteenth century Europeans a real possibility of extending the tax base at the discretion of the state and thereby fuelling a sharp growth of public debt. In fact, if war financing stepped up in scale, and above all with a greater flexibility in comparison with earlier stages, it was precisely because it could be backed up better than ever by continuing tax rises, mainly indirect taxes.

#### *The key lies in the market. Trade and consumption*

We consider that the success and expansion of public debt during this century has tended to be played down in comparison to the unparalleled increase of British public debt. The benchmark English case has been decisive not only in terms of its intensity, speed and volume, propor-



tionally the highest in Europe, but also because it has been interpreted as the product principally of exceptional institutional transformations. Historians have long stressed the importance of the English political changes at the end of the seventeenth century to explain the economic and political development of Great Britain. North and Weingast pick up on this tradition to explain that these institutional changes produced a financial revolution and made it possible to create a national public debt on a permanent basis because it laid down the property rights and obtained the political commitment of the state, controlled by the parliament, to defray payment of the debt, sustain the institutions that underpin it (the Bank of England) and respect the investors who finance it (North, 1989). The feasibility of these institutional changes, according to later arguments, was possible thanks to the commitment of political elites to sustain the commitments taken on by the state (Stasavage, 2003). The growth of England's public debt is therefore explained on the basis of institutional and political credibility built up since 1688.

Conversely, this reading of the English public debt, arising from the Whig vision and strengthened by the New Institutional Economics, has stressed the absence of institutional transformations in other countries as the main factor limiting their public credit market. Outside Great Britain the lack of institutional change led to limited and more costly national credit markets. England's success in mobilising the biggest public debt per capita could vouch for this conclusion without being a definitive proof of the importance of institutional factors as the ultimate cause of the differences between countries. There is in fact some evidence that institutional factors did not in fact play such a crucial part and that the differences between countries were not so glaring. For example one of the main consequences attributed to English constitutional change is by no means clear, i.e., the almost automatic cheapening of its public debt, as has been repeatedly claimed "the rehabilitation of Parliament's role in policy making in 1688 did indeed give the Crown greater access to credit at lower rates of interest" (Stasavage, 2003: 174). As Nathan Sussman and Yishay Yasef have demonstrated there is evidence suggesting that institutional transformations did not cause such a favourable dip of interest rates in Great Britain. In their opinion interest rates were kept high and volatile in Great Britain during the four decades running up to the Glorious Revolution and when they fell they matched the trends in other European countries surprisingly closely (Sussman, 2006). Comparisons between the different interest rates are

hard because there are many types of public debt and varying contracting terms. With that caveat Sussman and Yasef attempt a comparison for the financing of the American War of Independence with similar public debt rates, and points out that the English public debt then worked with an interest rate of 5.3%, as compared with the 3.8% rate of Austrian public debt, the 4.1% of Denmark (Sussman, 2006: 927). These figures tally with the diverse Spanish long-term public debt rates at this time, ranging from 3.5 to 4% (Torres, 2006b: 221). The price of public debt is worthy of further investigation without institutional prejudices, because the situation might well echo the circumstances of the Industrial Revolution, insofar as there was no single path or unique way to achieve it, as Hoffman has shown, claiming that “lending was widespread in Paris even though financial institutions at the time looked nothing like what economists and historians have grown to expect”, and where the “long-term public debt was rising too. Its ascent was not as dizzying, but it was climbing nonetheless” (Hoffman, 2000: 273, 105).

It would seem that access to public credit did not depend solely on the payment-guaranteeing institution. The great political feat of the Glorious Revolution, the restoration of Parliament as political and financial watchdog<sup>7</sup>, was not the only possible guarantee of unlimited access to public credit. As Grubb has shown, the sale of land in the United States could have a similar effect on the confidence and viability of public credit (Grubb, 2007a). Or in the case of Spain, a monarch could expressly create “national public debt” with a “funding system” similar to the English, using tobacco revenue and even extending it to the whole tax system (Torres, 2006b, 2007b). In the same way access to public credit could depend on the government’s will to acquire public debt. As Julian Hoppit has suggested, Great Britain itself would be a classic case of a fickle attitude towards public debt acquisition, varying over time, because “as Walpole and Pelma showed, governments from at least 1720 were clear that low expenditure brought substantial political dividends” (Hoppit, 2002: 291). The “dread of deficit” is a factor that might undermine this will and determine the public-debt arrangements, as has been shown for the Spanish case (Torres, 2007b). In other words, public

<sup>7</sup> Edgar Kiser, after North and Weingast (1991), grants parliament the most important role and coins the maxim that “The greater the power of the English Parliament, the greater the growth of the state, and the stronger the relationship between war and taxes” (Kiser, 2001a: 418).

credit facilities could be conditional on more factors than strictly institutional ones. As Stephen Conway suggests (in his paper in this book) when analysing parliament's role in the control of military spending: "it remains the case that Parliament was not as effective a check and control on military spending as either constitutional theory or its more optimistic members supposed".

We consider that the main difference between various states in terms of access to public credit resided in the uneven possibilities they had of accompanying public debt with an extension of the tax base. Take Holland as an example. Holland's extraordinary public debt policy during the seventeenth century was based on a public debt model very similar to the one supposedly created by the English "financial revolution" with similar debt payment credibility and even a constant reduction of interest rates, and all without the aforementioned institutional changes (Hart, 1993). According to Marjolein t'Hart that previous financial revolution was based on Holland's ability to keep up a huge increase of its public debt, unprecedented in Europe, backed up by an expansive and efficient tax system mainly based on indirect sources (Hart, in this book). The trend of the Dutch debt from the seventeenth to the eighteenth century shows precisely the true nature of public credit. The Dutch case is paradigmatic in showing how limitations in increasing taxation, especially indirect taxes, ended up by closing off the public debt possibilities. Although public credit could be maintained on the strength of the solid Dutch financial institutions, the possibilities of extending and unifying the tax base to sustain the national public debt clashed with an administrative structure with notable regional differences, balking fiscal unification. To strike a balance between the contending needs of meeting public spending requirements and respect for autonomy the state resorted increasingly to direct and extraordinary taxes such as capitation taxes or forced loans, which increased even more the tax burden of the Dutch without solving the permanent state deficit or helping to expand the tax base (Hart: 1999: 323). The gravest consequence of this Dutch public-debt quandary was a radical change in Dutch policy towards public credit. According to Wantje Fristchy, from the end of the seventeenth century "a policy of simple debt redemption was entered upon" (Fristchy, 1997: 72). The Dutch republic managed to whittle down the economic impact of its public debt at the cost of cutting back its military expenditure and dropping out of the international power stakes. Holland ceased to contend with the great European fiscal military states,

with the concomitant forfeiting of opportunities for its economy, either because Dutch financiers had to seek investment outlets in foreign markets or because of increasing employment among industrial workers, caused, according to Fristchy, by cuts in naval expenditure. A telling fact here is that this debt reduction policy was modified only in the 1780s, when it was decided to increase the military spending budget to combat Great Britain's aggressive protectionist policy on American cotton, a vital raw material of the Dutch textile industry (Fristchy, 1997: 72-73).

The trend of Holland's public debt suggests that the most important factor in determining the use of this financial resource, and therewith the development of the fiscal military state, was the possibility of increasing the tax base. On this theory the differences between the European states in achieving this financial flexibility could be best explained in terms of the uneven opportunities for increasing indirect taxation. The generalised trade and consumption boom throughout Europe in the eighteenth century, which mercantilism helped to fuel and protect, offered that state an opportunity to wage dearer and more complex wars on an unknown scale and in a flexible way.

In sum mercantilism underpinned the triumph of the fiscal military state. If it reached its heyday in the eighteenth century this was because by then its principles had more thoroughly imbued the political action of more states. Mercantilism helped to turn the state's general war-waging objective into an instrument conducive to national development. Sovereignty, protection, exclusion, monopoly, trade and consumption became the salient features of a fiscal military state that, now more than ever, attempted to bring all these strands together. From now on the volume and variety of resources mobilised for war depended more and more on the state's ability to ensure the fruitful interrelationship of these factors, rather than the old hackneyed ideas of the state's powers of coercion or even the type of institutions available. It was precisely this interrelationship that endowed the fiscal military state with the necessary flexibility to ensure that development went hand in hand with war.

## Checking and Controlling British Military Expenditure, 1739-1783

*Stephen Conway*

Systematic examination of the fiscal roots of British military success in the long eighteenth century was begun by P. G. M. Dickinson, Peter Mathias and Patrick O'Brien (Dickinson, 1967; Mathias 1976; O'Brien, 1988), and John Brewer brought the matter to the attention of a non-professional readership (Brewer, 1989). Brewer, indeed, transformed the way in which Britain's rise to great power status was generally viewed, by shifting the focus from military and naval operations, and diplomacy, and emphasising the key role of tax-collectors and bureaucrats.<sup>1</sup> While there have been attempts to bring attention back to the army and navy, and the role of contingency and chance in British success (Black, 1999), the foundations provided by regular and reliable taxation and the creation of the long-term national debt now feature in most modern textbooks of eighteenth-century British history (Holmes, 1993; Hoppit 2000). Inspired in part by this work on the emergence of the "fiscal-military state" in Britain, much scholarly effort has recently been devoted to examining the money-raising efforts of other European powers.<sup>2</sup> But if the relationship between taxation, public credit, and military capacity is now much more widely appreciated than in the past, comparatively little has been written about the ways in which the vast financial resources mobilized to fight the wars of the period were actually spent.

Brewer, it must be said, was certainly aware of the need to look at the spending as well as the raising of money for war. We should note, too, that some important work appeared as long ago as the nineteen-seven-

<sup>1</sup> For the influence of Brewer's approach, see the essays in Stone (1994).

<sup>2</sup> See, esp. Ertman (1997); Bonney (1999); and O'Brien (2002). For studies of individual European states, see, e.g., Dickinson (1987) and Kwass (2000).

ties on contractors, commissaries, and British military supply in the era of the American Revolution (Syrett, 1970; Baker, 1971; Bowler, 1975). Shortly afterwards, Hamish Little produced an important (but unfortunately unpublished) thesis on the commissariat in Germany during the Seven Years War (Little, 1981). An even earlier study was published by Bernard Pool on the Navy Board and contracting for supplies (Pool, 1966), and more recently Christian Buchet has produced an important monograph on the impact of the substantial purchasing by the Victualing Board in the Seven Years War (Buchet, 1999). Logistical problems have been considered by Richard Harding in his work on the British expedition to the West Indies in 1740-2 (Harding 1991; 2006). Government contracting is also discussed in David Hancock's study of the London merchant community, primarily from the perspective of the contractors themselves, and Richard Oswald in particular (Hancock, 1995: ch. 7); while another important contractor, Christopher Atkinson, is the subject of an article by David Syrett (Syrett, 1996).

Yet, despite these important pieces of scholarship, it remains the case that far more attention has been paid to taxation and public borrowing than to expenditure on war. This imbalance is unfortunate, not least for economic historians, for if national economies were affected by systems of taxation and credit, they were no less influenced by patterns of war-related expenditure, as Buchet and others have demonstrated for particular types of spending in particular eighteenth-century conflicts (Buchet, 1999; Jones, 1989; Conway. 2000: ch. 2; Conway 2006: ch. 4). We would benefit from knowing much more about the impact on different countries at different times. So far as historians of the state are concerned, the expenditure side of the equation is no less important in reaching balanced judgements on the strengths or weaknesses of competing polities. We still need to know a lot more about how efficiently the money raised for eighteenth-century wars was applied to military purposes.<sup>3</sup> After all, a state might be successful at squeezing taxes out of its population, and able to borrow extensively on the basis of its tax collection; but if a significant volume of these financial resources is misapplied or wasted, then the military impact – the output, as it were – is likely to be much less powerful than one might expect from the scale of the inputs.

<sup>3</sup> For important new work in this area, from which the current study has benefited, see Hoppit (2002) and Bannerman (2005).

This paper considers a very small part of this bigger issue of war expenditure. It focuses on checks and controls on British military spending from the outbreak of the so-called War of Jenkins's Ear to the end of the War of American Independence. The navy is excluded, partly because its contracts have already been subject to scholarly examination, and are due to be studied in depth by a project supervised by Roger Knight, which will look at the period of the wars against revolutionary and Napoleonic France, from 1793 to 1815.<sup>4</sup> Another consideration is that spending on the Royal Navy, while consistently high in both wartime and peacetime (Wilkinson, 2004), was lower than spending on the army during hostilities themselves. But the concentration on the army is primarily a result of the political contention associated with its expenditure: naval spending tended to be less controversial than spending on the army, as the navy was generally regarded as a benign national institution, whereas the army, and the uses to which it might be put, were viewed with much greater suspicion. While there will be some mention of the periods of peace that punctuated the conflicts of the time, the focus will be on the periods of hostilities, specifically the War of Jenkins's Ear that merged into the War of the Austrian Succession (1739-48), the Seven Years War (1756-63) and the War of American Independence (1775-83). It was during these conflicts, and in the years immediately following them, that the issue of spending on the army appeared most pressing, and provoked the most controversy, and for easily understandable reasons – the military budget rose enormously to support a much increased military establishment, including foreign allies and auxiliaries. In 1748, the last year of the Austrian Succession struggle, some £5.6 million was voted for British troops and foreign auxiliaries; in 1760, at the height of the Seven Years War, nearly £9 million; in 1780, once the American conflict had broadened to include the Bourbon powers, just over £9 million. Comparable figures for peacetime are less than £1 million in 1738; £1.1 million in 1751; and £1.4 million in 1769.<sup>5</sup>

Three elements performed a checking and controlling function so far as British military spending was concerned – “public opinion”, the Westminster Parliament, and the departments of state, particularly the

<sup>4</sup> The “Contractor State” project is based at the University of Greenwich.

<sup>5</sup> These figures are derived from the useful tabulation in Gregory and Stevenson (2000), 196-7.

Treasury. While each of these three elements might work independently from the others, they often operated in combination, even if not to the same agenda, and it was their interaction that tended to produce the best results in terms of reducing waste and curbing improper practices. It should also be noted that government, Parliament, and the public are not always easy to disentangle. Anonymous pamphlets and contributions to the press helped to form public opinion, yet they were sometimes the work of, or paid for by, politicians – either members of the parliamentary opposition or government ministers or their supporters. The Treasury, as we will see, influenced, as well as was influenced by, public enthusiasm for economy. Nevertheless, for our current purposes, the three elements need to be analysed separately and their respective strengths and weaknesses assessed. The paper will conclude with a consideration of the overall effectiveness of checks and controls on military spending during the period.

## I

Encouraged, to some extent, by the translation of Jürgen Habermas's work on the "bourgeois public sphere", over the past couple of decades there has been a growing body of scholarly literature concerned with the role of public opinion in eighteenth-century politics, both in Britain and across much of Europe.<sup>6</sup> There is abundant evidence that public opinion was becoming an increasingly significant element in British politics, and that war, and the controversy it often generated, was a great stimulus to this development (Peters, 1980; Wilson, 1995; Harris, 2002; Cardwell, 2004); Conway, 2006: ch. 6). Public debates about foreign policy and war led naturally to concerns about military expenditure, especially when the army was deployed in places, and for purposes, that were not approved by a significant part of the political nation.

Concern in eighteenth-century Britain about military spending was also a subset of more general interest in government expenditure as a whole – a general interest that was almost inevitable, given a propertied and taxpaying electorate, whose taxes supported much of the expendi-

<sup>6</sup> See, e.g., Van Horn Melton (2001), introduction. Habermas published in German in 1962, but was not translated into French until 1978 and into English in 1989.



ture and serviced the debt that made higher spending possible. With the appearance, from the mid-century, of a number of works charting the rise in public expenditure over many decades, debate and discussion became more focused. James Postlethwayt's *History of the Public Revenue, from the Revolution of 1688* (1759) was perhaps the most complete analysis, though there were many other pamphlets and tracts that considered various aspects of public finance, from different schemes of taxation to the sustainability of the national debt (Hoppit, 2002: 275).<sup>7</sup> At a time when enormous sums were being voted for the military, and taxpayers were said to be complaining "most confoundedly at the increasing load of taxes wch. we all labour under",<sup>8</sup> it was understandable that they should want to know that their money was being spent to good effect. As an officer in the army serving in Germany noted sardonically in a letter home in July 1761, "there is no writing of a Battle without letting you Country Gentlemen know what blood you have had for your money".<sup>9</sup>

During and immediately after the conflicts of 1739-83, there was a good deal of public interest in expenditure on the army – an interest both reflected in, and stimulated by, newspapers, pamphlets, literature, and plays. The very existence of the regular army was resented by some, at least at the beginning of the period. The purpose of expanding the army, according to the anonymous author of a pamphlet published during the War of the Austrian Succession, was not so much military as political: ministers would be able to use appointments to the commissioned ranks as a means to build up support in the House of Commons. But while opposition to the army was essentially constitutional, financial concerns were given prominence. The same pamphlet decried the money wasted on the land forces, and predicted substantial further expenditure to support an increase in the number of regiments.<sup>10</sup> At the same

<sup>7</sup> For other publications, see, e.g., Andrew Hooke, *An Essay on the National Debt, and National Capital; or, the Account Truly Stated, Debtor and Creditor* (London, 1751); and the works of Joseph Massie, esp *Ways and Means for Raising Extraordinary Supplies to Carry on the War for Seven Years, if it Should Continue so Long; Without doing any Prejudice to the Manufactures or Trade of Great Britain*, Pt. I (London, 1757).

<sup>8</sup> Dr Williams's Library, London, Wodrow-Kenrick Correspondence, MS 24157 (69).

<sup>9</sup> Glasgow City Archives, Maxwell of Nether Pollok Papers, T-PM 115/180.

<sup>10</sup> [Anon.], *The Triumphant Campaign. A Critical, Political, Panegyric, Poetical History of the Late Active Glorious German Campaign; To which is Added an Impeachment Brought by the H-----n Troops in the Field, against My Lord S---r; and the Design of a Medal to Perpetuate the Memory of Our Conduct* (London, 1743), esp. 23.

time, isolationist sentiments led to calls for concentration on maritime and colonial warfare, which would require only a small regular army, or even none at all. In the Seven Years War, the army became more acceptable, but only, in the view of some writers, because it was employed in North America.<sup>11</sup> The commitment of British troops to continental Europe was particularly criticized in both mid-century wars, and again an important strain in the criticism was an emphasis on the money wasted. Whereas sailors spent their pay at home, soldiers, it was claimed, spent theirs wherever they were campaigning, with obvious disadvantages for the British economy.<sup>12</sup> Money expended on the army in North America, so the argument ran, was far more beneficial, as it returned home in the form of orders for goods and services, as the colonies were reliant on British manufactures.<sup>13</sup> In the American war, those who opposed the military coercion of the colonists needless to say took a very different line: the deployment of the army across the Atlantic was now depicted as the cause of a great deal of unnecessary expenditure.<sup>14</sup>

A consistent objection was to the alleged squandering of public money on foreign allies and auxiliaries, especially German troops, whose expenses formed part of the military budget. Payments to Hessian auxiliaries and the king's own Hanoverian troops were highlighted, especially during the Austrian Succession war, while the annual subsidy of £670,000 to Frederick the Great of Prussia became an issue in the Seven Years War. Much of the hostility was based on a general xenophobia, or at times a more specific anti-Hanoverian prejudice; but it incorporated financial concerns. It was assumed that money spent on European allies and auxiliaries was wasted because they were not truly committed to the British cause, and looked after their own interests, and so were not effective additions to British military strength. It was also argued that,

<sup>11</sup> See, e.g., [Jonas Hanway?], *Thoughts on the Duty of a Good Citizen, with Regard to War and Invasion; In a Letter from a Citizen to a Friend* (London, 1756), 20.

<sup>12</sup> [Anon.], *The National Interest of Great Britain, in its Present Circumstances, Demonstrated; in a Discourse in two Parts* (London, 1748), 10–11. See also the letter from “Peter Plainspeak” in *London Evening Post*, 24 April 1762, calling for the British troops serving in Germany to be supplied from Britain and Ireland.

<sup>13</sup> See, e.g., [Anon.], *Proposals for Carrying on the War with Vigour, Raising the Supplies within the Year, and Forming a National Militia* (London, 1757).

<sup>14</sup> See, e.g., the arguments used in the Berkshire by-election of Feb. 1776, by the opposition candidate: Berkshire Record Office, Reading, Hartley Russell Papers, D/EHy O44; and Matthew Robinson Morris, *Peace the Best Policy* (2nd edn., London, 1777), 9.

as with British troops serving on the Continent, the money spent on allies and auxiliaries would not help the British economy.<sup>15</sup> Contemporary letters and diaries reveal particularly deep resentment at the subsidies paid to European allies in the Austrian Succession war, and claims that the money had been used to support courtly magnificence rather than putting the agreed number of troops into the field.<sup>16</sup>

The army's commissaries and contractors were attacked no less frequently, usually on the grounds that they had exploited their positions to appropriate part of the bloated military budget. Contractors were accused of profiteering, and both contractors and commissaries of fraud and speculation. There was much criticism after the Seven Years War, not least because a great deal of money was known to have been expended on the army in Germany from 1758 to 1762. Samuel Foote's comic drama *The Commissary* (1765) launched a bitter assault on its central character, Zachary Fungus, the commissary in question: "the fangs of you, and your tribe, A whole people have felt, and for ages will feel" (Bevis, 1970: 251, 259, 263, 286). Tobias Smollett's novel *Henry Clinker* (1771) similarly made unflattering reference to "commissaries and contractors, who have fattened, in two successive wars, on the blood of the nation".<sup>17</sup> During the American conflict, there was also much concern about contractors. In 1776, it was claimed by one London newspaper that they had earned up to sixty-two per cent profits on their transactions with government, and, two years later, a Scottish paper likewise protested at the money flowing "into the pockets of government contractors".<sup>18</sup>

Much of the public criticism of aspects of military expenditure was, it must be said, challenged in other publications. The commitment of troops to the Continent was defended, as was the waging of war in North America from 1775, and the paying of subsidies to allies and the employment of auxiliaries. Apart, perhaps, from on the subject of contractors and commissaries – who seem to have been almost universally

<sup>15</sup> [John Shebbeare,] *A Second Letter to the People of England. On Foreign Subsidies, Subsidiary Armies, and their Consequences to this Nation* (London, 1756), 45.

<sup>16</sup> See Countess of Cork and Orrery (ed.), *Orrery Papers* (2 vols., London, 1903), ii. 28; Alan Saville (ed.), *Secret Comment: The Diaries of Gertrude Savile 1721-1757* (Thoroton Society, Record Series, 40, Nottingham, 1997), 286.

<sup>17</sup> Tobias Smollett, *The Expedition of Humphrey Clinker*, ed. Angus Ross (Harmondsworth, 1967), 65.

<sup>18</sup> *London Evening Post*, 27 July 1776, cited in Baker (1971: 242); *Caledonian Mercury*, 10 Jan. 1778.

unpopular – there was not so much a unified public opinion, as a lively public debate (Conway, 2006: ch. 6). Most of the criticism, moreover, was of a very general and unspecific kind, and a good deal of it was uninformed and inaccurate, and often manufactured, or exaggerated, to support a particular political position. Even so, politicians at Westminster and Whitehall were not always able to ignore it. The willingness of opposition MPs and even government ministers to become involved in newspaper exchanges and pamphleteering shows that they took public opinion seriously. In the run-up to general elections the views of the public became especially relevant – even in an age of very restricted franchises – and the opportunities for public opinion to exert an influence on the actions of the political classes accordingly increased. Perhaps the most obvious incidence of this was the impact of the county association movement in the crisis years of the American war (Christie, 1962; Harling, 1996); Conway, 2000: 233–8). The Yorkshire Association paved the way, meeting at the end of 1779 to criticize the high level of government spending. The associations, it must be said, were not exclusively concerned with military expenditure; their criticism was broad, and their primary target was perhaps the civil list, and the use of public money to buy support in Parliament.<sup>19</sup> Nevertheless, the perception of wasteful and inefficient military spending was undoubtedly influential, as the bloated army budget appeared to be bringing no tangible results in terms of the successful prosecution of the war. Crucially, from our current perspective, pressure exerted by the petitions of the associations – which bore about 60,000 signatures between them – assisted the parliamentary opposition in its campaign for “economical reform”,<sup>20</sup> which was eventually to lead to legislation to reduce waste and misappropriation in the funding of the army in the form of an Act for the better Regulation of the Office of Paymaster General (1781) and the more thoroughgoing Pay Office Amending Act (1783).

<sup>19</sup> See, e.g., North Yorkshire Record Office, Northallerton, Wyvill MSS, ZFW 7/2/4/33, Stephen Croft to Revd. Christopher Wyvill, 20 Dec. 1779.

<sup>20</sup> As Edmund Burke told one of the associations in Feb. 1780, it was the “The Watchful Attention, and temperate Zeal of the people at large” that would make reform possible: Thomas W. Copeland et al (eds.), *The Correspondence of Edmund Burke* (10 vols., Cambridge, 1958–78), iv. 208.

## II

We move now from the diffuse and general pressure exerted by public opinion to the more specific probing of Parliament. While the wider public provided the background music, MPs produced the libretto. Their concerns were in many ways very similar to those of their constituents: there was much parliamentary hostility to the augmentation of the army at key points; to the use of the army on the Continent in the mid-century wars, and in North America during the War of Independence; to paying for foreign subsidies and auxiliaries; and to the alleged peculation and profiteering thought to be rife in the provision of food-stuffs, money, and other necessaries to the army. While all of these subjects might be approached from a variety of angles, concern about the waste of public money was nearly always highlighted, if only because emphasis on this point was seen as the best way to win over those politicians and members of the public who were not vehemently opposed to the government and its military policies.<sup>21</sup>

Individual MPs might raise concerns on many different occasions, but the parliamentary events most likely to lead to questioning and debate were the presentation of the army estimates and of the accounts of the army's extraordinary expenditure, or the "extraordinaries", as they were generally known. The estimates, prepared by the War Office, and presented by the secretary at war, the minister responsible for the army, listed the forces for which money was to be required in the coming twelve months, and produced an anticipated total sum based on the number of regiments and corps.<sup>22</sup> The extraordinaries, also submitted by the secretary at war, took the form of an account of the additional money expended, over and above that estimated, during the past year. In theory, at least, the true cost of supporting the army for any given year could be derived by adding together the appropriate set of estimates and extraordinaries.

<sup>21</sup> See the Earl of Albemarle (ed.), *Memoirs of the Marquis of Rockingham* (2 vols., London, 1852), ii. 309, for the Duke of Richmond's view, in 1777, that this was the opposition's best chance of winning widespread support for its criticisms of the war in America.

<sup>22</sup> Regiments on the Irish establishment were omitted, as their support was the responsibility of the Dublin Parliament, though if regiments were re-deployed, in time of war, either in Britain or abroad, they became a charge on the British military budget.

A few examples will have to suffice to illustrate the kind of issues pursued. In March 1743, Edmund Waller, an opposition MP, described as a “public fraud” the excessive profits of the contractors who had been appointed to supply money to the army in Flanders. The contractors, according to Waller, might have made as much as £75,000 out of the arrangements (Cobbett, 1806-20: xiii: 10, 21). A year later, on 19 March 1744, a debate on the army extraordinaries brought forth opposition criticism of a payment of £40,000 to the Duke of Aremberg, the Austrian commander in the Low Countries, to put his troops “in motion”. The payment was described as “a dangerous misapplication of public money”. A month later, when the army extraordinaries were again debated, a motion was proposed criticizing the payment to Aremberg, but it was amended in a way that made it acceptable to the government.<sup>23</sup> In December 1761, the Commons resolved to address the king asking for a particular account of the extraordinary expenditure on the army, especially the army in Germany, “distinguishing the several Services to which the money has been applied, the Authorities by which it has been issued, and the Persons to whom it has been paid, during the Years 1757, 1758, 1759, 1760, and the present Year, to the 24<sup>th</sup> June last”. A few days later, the secretary at war presented to the Commons, “pursuant to their Address to his Majesty”, a detailed account of the extraordinary services “not provided for by Parliament”, for the past year.<sup>24</sup> In March 1779, during the American war, an attempt was made to prevent a committee of the whole house from agreeing to an item in that year’s army extraordinaries, relating to more than £500,000 used for the “Purchase of *Spanish and Portugal* Coins for the Use and Service of His Majesty’s Forces in *North America*”, “no Vouchers having yet been presented to this House relative to the same”.<sup>25</sup>

Contemporary opinion regarded the House of Commons as a vital check on the power of the executive,<sup>26</sup> and checking and controlling

<sup>23</sup> Cobbett, 1806-20: xiii: 675-83, 698-702. See also, for the debate of 10 April, Historical Manuscripts Commission, *Egmont MSS*, 3 vols., London, 1920-3, ii. 296; Taylor, 1998: 68.

<sup>24</sup> *Journals of the House of Commons*, xxix. 60 and 67 (2 and 9 Dec. 1761).

<sup>25</sup> *Journals of the House of Commons*., xxxvii. 293 (26 March 1779).

<sup>26</sup> See, e.g., [Anon.] *An Essay on Civil Government* (London, 1743), 256; Thomas Pownall, *Principles of Polity, being the Grounds and Reasons of Civil Empire* (London, 1752), 9.

government expenditure was seen as a key element of Parliament's function. At times efforts were certainly made to secure serious and sustained examination. In 1763 a parliamentary select committee was appointed to report on public expenditure since the outbreak of the recently concluded war, and concentrated on the Board of Ordnance, which was responsible for the army's artillery. The committee's report concluded that if "more open Bargains for Contracts had been made ... considerable sums" might have been "saved to the Public" (Lambert, 1975, xxv: 30). Another select committee of 1778 began by considering the supply of rum to the army since 1776 (Lambert, 1975, xxxii. 73-230). But Parliament's greatest success in this regard might be thought to have come with the appointment of commissioners to examine the public accounts in 1780. The commissioners produced fifteen reports for the House of Commons between November of that year and January 1787, several of which explored military expenditure. Two reports criticized the practice whereby the paymaster of the forces kept in his hands sums voted by Parliament, even once he had left office, often settling his final account, and surrendering the outstanding sums, only years later. Another report specifically focused on army extraordinaries during the American war, and sought to discover whether any frauds had been committed, and "whether the Public has been sufficiently guarded against Fraud and Imposition, in the Modes adopted for carrying on this Expenditure". As the commissioners decided that it was impossible to determine whether frauds had actually occurred, they concentrated on the safeguards, and found them lacking. They had two major concerns. The first was that "Officers intrusted with the Expenditure of the Public Money have been permitted to have an Interest themselves in the Subject Matter of Expence" – a reference to the common practice of quartermasters privately purchasing (or otherwise acquiring) wagons and other forms of transport and then hiring them to the army. The second concern was that vouchers for payments for services were allowed without "sufficient Examination": "This Defect", the commissioners wrote, "pervades every Branch of the Expenditure under our Consideration." (Lambert, 1975, xli. 147, 186, 422-3, 431).

Yet it would be a mistake to assume from these reports, and the examples given earlier of parliamentary activity to check and control military expenditure, that MPs were truly effective in this respect. We might note that the commission for examining the public accounts of 1780, while established by parliamentary legislation, was promoted by the govern-

ment. The opposition feared that the commissioners would be “Tools of the Ministers nomination”, and that Parliament would effectively be denied the right to scrutinize the accounts: Edmund Burke argued that “a Scheme [is] formed to frustrate all that enquiry into the publick expenditure, which the people have so strongly and so justly required of us in their petitions”.<sup>27</sup> That the commissioners acted so conscientiously, and with such commendable speed, came as a surprise both to the opposition and to the government – John Robinson, one of Lord North’s highly political secretaries to the treasury, despaired of the ammunition provided to the ministry’s enemies.<sup>28</sup>

In general, MPs were probably unable to make much sense of the accounts of military expenditure submitted to them. In part this was because of the technical and abstruse nature of the details of the accounts, but it also owed something to the manner in which they were made available for examination. On 22 March 1779, Sir Philip Jennings Clerke, an opposition MP, argued that inadequate information existed for a proper scrutiny. A single copy of the accounts of extraordinary expenses for the army had been presented to the House, Clerke complained, and “it was impossible for any number of gentlemen to peruse the paper on the table with proper attention”. He went on to claim that “not half the members would know any thing about a matter of so much importance when the House proceeded to debate upon it” in a few days time. He accordingly called for the account of the extraordinaries to be “printed for the use of the members”. Predictably, Lord North opposed the proposal as unprecedented, and it was voted down by the government-supporting majority.<sup>29</sup>

If North’s obstructionism was politically motivated, so was much of the attempted scrutiny that did occur. As a result, some of the criticisms were hardly more specific than those appearing in pamphlets or newspapers. When, on 29 March 1779, the army extraordinaries were brought before the Commons for approval a few days after Clerke’s failed attempt to secure printed copies of the accounts, Charles James Fox, another leading opposition figure, complained of the way in which more than £2 million was “voted in the lump, hastily, of a sudden, and at a late hour

<sup>27</sup> Copeland et al (eds.), *Correspondence of Burke*, iv. 222.

<sup>28</sup> British Library, London, Liverpool Papers, Additional MS 38567, fo. 891.

<sup>29</sup> John Almon (ed.), *The Parliamentary Register; or, History of the Proceedings and Debates of the House of Commons*, xii (1779), 179–82.



of the night". Yet when he tried to explain why he opposed the sums approved, Fox was obliged to fall back on his general condemnation of the government's handling of the war in America – a war that he had consistently opposed (Cobbett, 1806-1820, xx: 359 (29 March 1779). In April 1782, shortly after North's government had fallen and been replaced by a new administration under the Marquis of Rockingham, the presentation of the extraordinaries was again an opportunity to score political points. As the extraordinaries related to the period when North was still in office, here was an irresistible temptation for supporters of the new administration to engage in wholesale criticism of the previous government's handling of military expenditure. Isaac Barré led the charge, claiming that the figures presented significantly underestimated the true expenses, which he maintained "would be found to amount to upwards of 5,000,000 *l.*". He criticized the great number of commissaries employed ("so many cormorants preying on the vitals of their country"), and argued that "the carriage and transport service" had been excluded from the accounts. A succession of MPs then rose to draw attention to abuses of which they had personal knowledge. Yet, for all the sound and fury, the original accounts, on being put to the vote, were carried without a division.<sup>30</sup>

When there were no obvious political points to be made, MPs appear to have allowed the army's estimates and extraordinaries to pass without much comment. It must be conceded that this might be a mistaken impression created by the nature of the surviving evidence. For much of the period considered here, the reporting of parliamentary debates was regarded as a breach of privilege; the reports that appear in collections such as the contemporaneous *Parliamentary Register* compiled by John Almon, and the *Parliamentary History* subsequently produced by William Cobbett and John Wright, are largely derived from contemporary newspaper accounts (Namier, 1964: i. 522-3): Those debates that found their way into print tended to be the great set-piece clashes between the political parties or factions, which provided an opportunity for reporters to highlight their differences. Detailed and non-partisan scrutiny of military expenditure would perhaps have been less likely to attract the

<sup>30</sup> Cobbett, 1806-1820, xxii: 1344-6. It was left to a committee to identify savings that might cover at least part of the extrordinaries: See *Journals of the House of Commons*, xxxviii. 955, 962-3.

attention of the newspapers, and therefore could be missing from the collected reports of debates compiled at the time or later. The official records, chiefly the printed *Journals*, usually noted decisions only, and not the points made by individual MPs.

Even so, the silence of both the unofficial and official parliamentary sources is suggestive. The *Journals* seem to have noted requests for additional material, or reference to committee, when accounts were presented, whether those requests and references were successful or not; so we can fairly safely assume that if no such requests or references were recorded, they were not made. There are reasonable grounds, then, for believing that the estimates and extraordinaries frequently passed without serious scrutiny. During the Seven Years War, it seems that the Commons even took to agreeing legislation to provide the government with sums to cover, in advance, a portion of the extraordinary expenses for the coming year – an acknowledgement that the estimates seriously understated the likely costs of the army, and therefore a very considerable surrender of control over spending. In 1757, for instance, £1 million was voted to cover “any extraordinary Expences of the War, incurred or to be incurred, for the service of the Year”. A further £800,000 was given in the same way in 1758, and £1 million a year thereafter for the rest of the war.<sup>31</sup> A recent study surmises that the government probably submitted artificially low army estimates, safe in the knowledge that there was unlikely to be any significant resistance to funding the extraordinaries (Bannerman, 2005: 32).

This is not to say that Parliament was a totally ineffectual check and control on military expenditure. There were conscientious MPs, who followed the accounts as carefully as they could. In the Seven Years War, Sir Francis Dashwood, a consistent opponent of a continental military commitment,<sup>32</sup> kept notes of the rising costs of the army in Germany. He recorded that the expense had been £692,477, “exclusive of transports” in 1757, before a British contingent joined the allied forces, but by 1761 had reached £5,063,218, “besides Subsidy to King [of] P[russia]

<sup>31</sup> 30 Geo. II, c. 23; 31 Geo. II, c. 33; 32 Geo. II, c. 36; 33 Geo. II, c. 18; 1 Geo. III, c. 19; 2 Geo. III, c. 34.

<sup>32</sup> See, e.g., the comments attributed to him on 19 April 1758, in the debate on the Prussian treaty and subsidy: “Apprehend this Means bring you into a Continental War” (Berkshire Record Office, Reading, Neville and Aldworth Papers, 034/16, Parliamentary Diaries of Richard Neville Aldworth).

670000 and exclusive of the expence of *Transports*".<sup>33</sup> Even if opposition MPs failed to achieve many immediate victories – which was more or less inevitable in a legislature usually dominated by government supporters – their recommendations were sometimes subsequently adopted. In February 1767, for instance, George Grenville, formerly first minister but now in opposition, tried to have the army extraordinaries refused, on the grounds that the troops in North America should be brought "nearer the sea coast ... upon account of the expense of keeping up the outposts" beyond the Appalachians, which had to be provided with food and other necessaries that were transported at considerable cost from the settled agricultural areas (Simmons, 1982: ii. 428-9). Grenville's motion to this effect was rejected decisively, and the extrordinaries approved, but the next year the government ordered a redeployment of the army in North America along the lines that he had urged, and for the same reason – to save money (Shy, 1965: 258-66, 269-74). Nor should we forget that the commission for examining the public accounts created in 1780 was almost certainly intended by Lord North as a means of heading off strong parliamentary pressure, supported by the county associations, for a thorough reform of government expenditure. With a general election due by the end of September 1781 at the latest, North no doubt reckoned that he had to take pre-emptive measures, or risk some MPs who normally supported the government becoming more inclined to back opposition calls for cuts in spending the nearer the time came for them to face their electorates. Nevertheless, it remains the case that Parliament was not as effective in exerting control over military spending as either constitutional theory or its more optimistic members supposed.

### III

As the House of Commons was meant to check the power of the executive, and particularly to hold ministers to account for the use of public money, it might seem ironic that perhaps the most effective check and control on military spending was provided by the various agencies of the state itself. The Hanoverian kings, in their capacity as commanders-in-chief of the army, took a keen interest in the well-being of the land serv-

<sup>33</sup> Centre for Buckinghamshire Studies, Aylesbury, Dashwood Papers, D/D/19/5.

ice, and, mainly through the prerogative instrument of royal warrants, a whole host of reforms relating to finance was introduced on crown authority. The key changes were the ending of the practice of putting fictitious names on regimental muster rolls, and claiming non-existent men's pay; the introduction of better reviewing procedures; and new methods for checking regimental accounts. Regulations relating to these matters came out at various points in the eighteenth century, but they were a particular feature of the middle decades, during and following on from the wars of the 1739–63. As a result of these reforms, colonels and captains found themselves less able to acquire an additional income from the management of their regiments and companies – a change that can be seen as part of a long-drawn out process of professionalization of the army, gradually transforming it from a collection of separate proprietary units into a state-controlled whole (Guy, 1984:162). But, from our current perspective, it should also be noted that the reforms to regimental and company economies had the effect of helping to avoid profiteering and the waste of public money.

If the king and his ministers provided an important check on military spending, it should not be assumed that the crown's desire for economy was taken up enthusiastically throughout the army. Even after the implementation of the reforms just mentioned, the scope for perquisites was not eliminated. Colonels continued to be responsible for contracting to clothe their regiments – a responsibility that provided ample opportunities for money-making, sometimes at the expense of their soldiers, part of whose pay was deducted for their clothing, and sometimes at the expense of the public.<sup>34</sup> Furthermore, certain posts in the army's service departments were well-known for their opportunities for profit, and prized for just this reason.<sup>35</sup> Even if army officers were conscientious in their supervision of the spending of the money in their charge, those who rose to high command were not always well equipped to ensure proper management of the finances relating to large bodies of troops. The qualities that had brought officers to a senior position – leadership, courage, or perhaps just birth and patronage – were not usually the qualities that made them good accountants. The third Duke of Marl-

<sup>34</sup> See TNA: PRO, London, War Office Papers, WO 30/105, "The Custom and Practice of the Army concerning Offreckonings", 25 April 1772.

<sup>35</sup> For the case of James Robertson in America, see *Journals of the Hon. William Hervey, in North America and Europe, from 1755 to 1814* (Bury St Edmunds, 1906), 74, 128.

borough, in charge of the army sent to Germany in 1758, was clearly overwhelmed and unable to cope. "I am quite stupified", he told his wife, "with reading writing, looking over accounts, making contracts for bread, forage, wagons, &c &c absolutely necessary for the existence of the English troops".<sup>36</sup> A few years later, Colonel Richard Peirson, appointed to supervise the commissariat in Germany, and at the same time a serving officer in the Guards, overcame the problem of acting "in a double Capacity" by giving a clear priority to his military over his commissariat functions. The result, a subsequent enquiry revealed, was that Peirson failed properly to oversee expenditure in his department.<sup>37</sup>

The agency of the state that played the key role in controlling military expenditure was the Treasury. If the colonels of regiments contracted for the clothing of their corps, the Treasury supervised all other supply contracts, for items such as food and drink for the men, fodder for the horses, fuel for warmth and for cooking, and transport, both by sea and by land. In May 1741, when an army was earmarked for service in Flanders to assist the Austrians and Dutch in defending the Low Countries from the French, General John Ligonier was directed by the Treasury "to inform himself in the best manner of the rates and prices of bread and bread waggons". To assist him, the Treasury sent him "copies of all contracts found previously relating thereto" (Shaw, 1901: 467). At this stage, as the army had not been employed in serious campaigning since the end of the War of the Spanish Succession (1702-13), there was little recent precedent on which to draw. But as fresh experience was acquired during the mid-century conflicts, the Treasury became more and more interested in contract monitoring to avoid fraud and waste. Commissaries were charged with overseeing the carrying out of the agreed terms and conditions by the contractors.<sup>38</sup> Ships carrying supplies to distant military theatres were ordered to sail in convoy, to reduce insurance costs. Increasingly robust auditing procedures were introduced to diminish the scope for peculation. And, perhaps most importantly, contracts were entered into on a relatively short-term basis, allowing for revision of terms at renewal, and therefore acting as a check on costs (Bannerman, 2005: ch. 3). To give just one example: John Warrington,

<sup>36</sup> British Library, London, Blenheim Papers, Add. MS 61667, fo. 47.

<sup>37</sup> National Library of Scotland, Edinburgh, Minto Papers, MS 11039, fos. 64 and 87.

<sup>38</sup> For an example of this, see National Army Museum, London, Hawley Papers, 7411-24-17, Newcastle to Lt.-Gen. Henry Hawley, 4 Jan. 1746.

who supplied horses for the artillery during the Seven Years War, found himself obliged to accept appreciably less favourable terms in the later stages of the conflict – a reduction from a shilling per horse per day in 1760 to ten and a half pence per horse per day in 1761.<sup>39</sup> In the American war, some of the lessons had to be re-learned, but there was an increased element of competition introduced into contract negotiations from 1780, and contract management generally seems to have improved after a not very impressive start in 1776. Profits for contractors appear to have diminished accordingly from around fifteen–twenty per cent before 1780, to about ten per cent thereafter (Baker, 1971: 247).

It was the Treasury, furthermore, that initiated enquiry into improper practices in the army's ancillary services in the later stages of the Seven Years War. Prince Ferdinand of Brunswick, commander-in-chief of the allied army in Germany, complained about the commissariat, leading British ministers to make their own investigations. In April 1760, the Duke of Newcastle, the first lord of the Treasury, wrote to the Marquis of Granby, the British commander-in-chief in Germany, expressing his concerns about Michael Hatton, one of the commissaries. Further letters in May followed up these concerns, and on the 23<sup>rd</sup> Newcastle noted with alarm that since 5 February some £753,000 had been paid for extraordinaries on Hatton's orders. A few days later, Newcastle turned his attention to Peter Taylor, a deputy paymaster, whom it was claimed deducted from six to seven percent from his payments as a personal perquisite.<sup>40</sup> Newcastle remained sufficiently worried about what was happening in Germany to order an enquiry a year later. Commissioners were appointed to conduct interviews in Germany and to collect evidence of any wrong-doing (Little, 1981: 205–8). A summary of the correspondence between the Treasury and the commissaries was prepared by Treasury officials and delivered to Newcastle's successor, the Earl of Bute, in June 1762.<sup>41</sup>

Of course, Newcastle and the Treasury were not operating in a political vacuum, any more than North was when he decided to appoint a commission to examine the public accounts in 1780. They were only too aware of public disquiet and the potential for parliamentary attack.

<sup>39</sup> TNA: PRO, Chancery Papers, C 103/202, Warrington's Account-book, 1760–1.

<sup>40</sup> Historical Manuscripts Commission, *Rutland MSS* (5 vols., London, 1888–1905), ii. 208, 209, 213, 214. See also 216, for more on Hatton and the commissariat.

<sup>41</sup> Bodleian Library, Oxford, MS North c 2, fos. 280–320.

When governments took steps to control military spending, they were no doubt trying in part to minimize the scope for public and parliamentary criticism of bloated army budgets. Ministers responded to waste and fraud in military expenditure because they knew that if it remained unchecked, then the parliamentary opposition would cause enormous trouble, and government-supporting MPs might suffer at the hands of an enraged public at the next general election. But there was also a concern for economy that seems to have been generated from within the Treasury itself – as a departmental ethos – which owed relatively little to external political pressure. Indeed, the Treasury, or its officials, might well have contributed to the general mood in favour of tighter control over government spending. The James Postlethwayt who wrote the tract on national finance that was cited earlier as a stimulus to public interest in expenditure questions seems to have been the James Postlethwaite who served as chief clerk of the Treasury from 1759 to 1761 (Sainty, 1972: 35, 145).<sup>42</sup>

#### IV

How successful were the checks and controls discussed in this paper when considered collectively? Was there widespread and serious fraud and waste of public money, or was the vast bulk of the sums raised spent effectively and for the purposes intended?

Gordon Bannerman, who has recently completed a study of the supply contracts for the army at home in the period 1739-63, concludes that the most remarkable feature of contracting at this time was its efficiency, by which he means the value for money that it represented to the state. “While patronage and jobbery clearly existed”, he writes, “they do not, and did not, imply inefficiency and incapacity. Contractors deserve to be viewed in more generous and accurate terms than as rapacious beneficiaries of a corrupt eighteenth-century supply system” (Bannerman, 2005: 310). Bannerman stresses that contractors usually won their business not just as a result of their political connections but also on the basis

<sup>42</sup> For a description of his duties, see National Library of Scotland, Edinburgh, Minto Papers, MS 11040, fo. 32, copy of Treasury Minute of 31 July 1759. See also, for the development of Treasury control and commitment to economy, Roseveare (1973).

of their expertise at large-scale commodity trading or financial management, and their ability to acquire significant quantities of capital and credit. The profits that they made, he concludes, were not usually excessive given the services they provided to government, and the general efficiency with which their duties were discharged. Whether contractors supplying the army at home were as efficient and effective in the American war is open to question. There is some anecdotal evidence that they were not: the delivery of poor quality bread led one camp commander to argue that “the Contractors deserve to be hanged”.<sup>43</sup> None the less, Bannerman’s findings for the period of the mid-century wars suggest that there was remarkably little fraud and waste, and a fair level of efficiency, in the contracting for supplying the army operating in the home territories.

Before we assume by extrapolation that these conclusions probably hold good for the provisioning and servicing of the mid-eighteenth-century military campaigning abroad, it should be noted that the army operating in Britain itself, while certainly not immune from criticism, especially when it incorporated foreign regiments, as in 1745-6 and 1756-7, was subject to less sustained political attack than either the army serving in the Low Countries or Germany in the mid-century wars, or in America during the War of Independence. There was less incentive, in other words, for anyone to dig deep in search of unedifying financial practices, or the waste of public money. But it may well be that fraud and waste were indeed less of a problem when the army was operating in the home territories. Expenditure could be more closely supervised and monitored at home than when the army was serving overseas, and at home aggrieved persons might be interviewed and their complaints taken up by well-connected members of the local elite. Regiments and corps serving in Britain also provided less scope for commissaries, paymasters and contractors to take advantage of currency exchanges and transfers.

It was surely no coincidence that the inquiries set up to investigate fraud and speculation in our period both concerned the servicing of the army operating at some distance from home: in Germany in the Seven Years War, and in North America in the War of Independence. Neither the Treasury investigation into the commissariat in Germany nor the re-

<sup>43</sup> Centre for Kentish Studies, Maidstone, Amherst MSS, U 1350 086/9.



ports of the commissioners for examining the public accounts issued in and after the American war led to the prosecution of individuals, but the clear impression was left that public money had been misappropriated for personal profit. Hamish Little, whose dissertation on supplies for the combined army in Germany during the Seven Years War is generally positive about the performance of the commissaries, acknowledges that the enquiry of 1761-2 both uncovered “and proved the existence of a great deal of fraud” (Little, 1981: 206). Sir Gilbert Elliot, a lord of the Treasury involved in the investigations at that time, kept detailed notes of the correspondence and interviews, and his papers point to serious abuse, and suggest that leading individuals had, at the very least, failed to take action to stem dishonest behaviour amongst their subordinates.<sup>44</sup> The scale of fraud and speculation is impossible to judge, but there are some compelling indications of fortunes having been made. Henry Hulton, appointed to supervise the accounts of the army in Germany and one of the commissioners of enquiry in 1761-2, had no doubt that the problem was endemic. He wrote that “when fraud can be practised with impunity, covered by confusion, or supported by the number and power of associates, no wonder it breaks all bounds, and is carried to every length.” The number of persons involved, he believed, “and the enormity of their crime, was their protection: the fortunes they had acquired gave them consequence and influence”.<sup>45</sup> Lawrence Dundas, one of the targets of Hulton’s strictures, certainly made a good deal of money, and became a baronet in 1762. While he denied any wrong-doing, he admitted that he saw no difficulty in “being very usefull to the Publick and also doing myself some Material service”.<sup>46</sup> Hulton wrote that since his return to England, Dundas had been living “with a princely magnificence”.<sup>47</sup> Richard Oswald, who made about £112,000 from his army bread contracts alone during the German campaigns, became a major landowner in his native Scotland after the war. Peter Taylor, the son of a grocer, who had been a silversmith before he became deputy paymaster,

<sup>44</sup> National Library of Scotland, Edinburgh, Minto Papers, MS 11039.

<sup>45</sup> Yale University Library, Hulton MSS, “Matters, relative to the conduct of the Commissariat which attended the Allied Army in Germany, 1760. 61, 62”, 2-3, 167.

<sup>46</sup> North Yorkshire Record Office, Northallerton, Dundas (Zetland) Papers, ZNK/X1/2/3.

<sup>47</sup> Yale University Library, Hulton MSS, “Matters, relative to the conduct of the Commissariat”, 10.

was quick to attribute the accusations against him to prejudice: “tis a crime amongst my Countrymen for a man by his Industry to raise in the world”, he wrote bitterly.<sup>48</sup> But the claims made about his meteoric ascent were hardly surprising: after all, he returned home with enough money to buy two landed estates and to secure himself a seat in Parliament. In the American war, there appears to have been a good deal of fraudulent behaviour by commissaries, who refused to honour receipts given to civilians for goods or services requisitioned by the army, yet charged government for their use. Accusations of this kind were levelled against assistant and deputy commissaries in Georgia, South Carolina, and New York.<sup>49</sup> But these were probably only the small fries. Others did spectacularly well out of the war in America. Sir William Erskine, quartermaster-general from 1776 to 1779, sent home some £13,000 in 1777 alone.<sup>50</sup> Archibald Robertson, an engineer who became deputy quartermaster, appears not to have been wealthy or well-connected before the conflict began; indeed he had risen only painfully slowly through the officer ranks, languishing as a lieutenant for twelve years after the end of the Seven Years War. But when Robertson retired from the service in 1783, he was able to devote £35,000 to the purchase of a landed estate in Scotland. William Shirreff, another deputy quartermaster of similarly obscure background, purchased an estate at Old Alresford, Hampshire (Bowler, 1975: 196). Small wonder that Frederick Smyth, a New York loyalist, despaired. “I think it high time to terminate the war in this Country”, he wrote in December 1781, “for in truth the war in this Country is now little more than a war upon the Treasury”.<sup>51</sup>

For all the efforts made, then, there appears still to have been significant fraud and waste in military expenditure in the period considered in this paper, at least when the army was operating beyond the home territories. Viewed through a long lens, this comes as little or no surprise. The supplying of armies with necessaries such as foodstuffs, fuel, and

<sup>48</sup> British Library, London, Taylor’s Letter-book, 1760-1, Add. MS 54,485, fo. 14.

<sup>49</sup> See Library of Congress, Washington DC, Siege of Savannah Order-book, entry of 13 July 1779; TNA: PRO, Cornwallis Papers, 30/11/84, fo. 44; TNA: PRO, Audit Office Papers, Loyalist Claims Commission, AO 12/110, fos. 8-9.

<sup>50</sup> National Library of Scotland, Edinburgh, Halkett Papers, MS 6410, fos. 26, 31, 37, 77.

<sup>51</sup> Royal Society, London, Blagden Papers, S. 38, Smyth to Charles Blagden, 5 Dec. 1781.

transport has provided opportunities for personal gain, often at public expense, in many wars since the eighteenth century. But the most important comparison is not with later periods, but with the situation in other eighteenth-century armies. What checks and controls were there on their expenditure, and how successfully did such checks and controls operate? Was Britain, as is often suggested, exceptional? Perhaps so, but we should not automatically assume that Britain's Parliament and its politically active public necessarily gave a special character to the way in which British spending on war was controlled. The Westminster Parliament was not the only representative body in Europe to have an overseeing role so far as expenditure was concerned, and public opinion was an increasingly important influence in several continental polities as well as in Britain. Equally, the British Treasury was not the only government department in the whole of Europe to develop an ethos that favoured economy for its own sake.<sup>52</sup> A broad and detailed comparison between Britain and other European countries may be beyond the capacity of any single scholar working in isolation, but is perhaps not out of reach for a collaborative enterprise. It would certainly be valuable to know whether the British experience was unusual or essentially similar to that of other European powers. If such a comparison is thought valid for the raising of money for war, it must be hardly less so for the spending of money on war.

<sup>52</sup> See Jurado Sánchez (2002) for work on the control of expenditure in the Spanish royal household.



## **Fiscal dimensions of Britain's regulated trade with Asia, 1765-1812**

*Javier Cuenca-Esteban*

Britain's rise to pre-eminence from the Glorious Revolution to the late eighteenth century is arguably over-explained. The myriad of allegedly distinctive advantages behind Britain's success may be classified, with no claim to mutual exclusion, as home centred, externally driven, and determined by stochastic factors. Home centred explanations emphasize distinctive abilities originated or largely nurtured within Britain itself. This line of historical interpretation was stimulated by Brewer's forceful portrayal of eighteenth-century Britain as a particularly effective fiscal-military State -- even though Brewer himself was wary of "being seduced into that orgy of self-congratulation to which British historians are prone" (Brewer, 1989: XVIII). Perhaps coincidentally, Brewer's influential book came on the heels of long standing revision of demand-side views of British industrialization by mainstream economic historians. Textbook wisdom in this field has long portrayed the Industrial Revolution as a supply-driven process of structural change where British technological breakthroughs in cotton and iron, and the home and overseas demand they generated, played the decisive dynamic roles (McCloskey, 1994; Mokyr, 1999).

Such home centred views have not remained unchallenged. On technical terms alone, we have long had grounds to presume that export demand played a more dynamic and independent role in British economic growth than has been assumed (Hatton *et al*, 1983; O'Brien and Engerman, 1991; Cuenca Esteban, 1997, 2004). More generally, Inikori's systematic work on the contribution of coerced African labour has supplemented Pomeranz's contention that Western Europe's ability to avert a major Malthusian crisis, and Britain's massive deployment of labour resources for industrialization, owed much to privileged access to land-intensive products from overseas within a

timely set of global conjunctures (Inikori, 2002; Pomeranz, 2000; also Komlos, 2000).

Consideration of the external contributions to national economic fortunes points to neglected areas of research within Brewer's perspective. The differential ability of particular States to mobilize and to deploy resources may well be a major issue in its own right; but any such differential ability, and the learning process involved, were mediated by the extent of the available revenue and by its growth and dependability. Had one particular State acquired an overwhelming advantage on these scores, the matter of effective mobilization and deployment would be of lesser significance. Britain's overall fiscal advantage may not have been decisive; but her dynamic, dependable, and resilient government revenue owed much to the size and distinctive diversification of her colonial Empire. The major contending nations for world supremacy in the eighteenth century stand out for their access to vast external resources that were tapped by the respective States in different ways. Most prominent among these expedients was the Spanish Crown's appropriation of American bullion; less directly, such private inflows as bullion remittances to Spain, the "India drain" to England, and the Irish rents remitted to absentee landlords residing in Britain, may have significantly enlarged the respective tax bases. When compounded with tax revenue on colonial commodities, the rewards of external involvement were arguably vital in that they could enhance a State's ability to borrow during warfare, and to lighten the tax burden on the domestic economies. Yet we lack the type of quantitative detail, on customs revenue by geographical areas and commodities in particular, that would support meaningful analysis of differential growth and dependability in a comparative context.

To this end and as a point of departure, this paper draws on a controlled choice of evidence to quantify Britain's revenue from customs and excise payments on Asian commodities through 1765-1812. It will be shown that the Asian trade's fiscal burden was heavier than might be expected from the size of the commodity flows involved. In 1765-1812 a trade that seldom employed more than 3 per cent of British tonnage, to bring 17 per cent of total imports retained for home consumption, somehow supplied 24 per cent of net customs and excise revenue on worldwide imports. The direct contribution of Asian goods to British finances was largest at both ends of the period and appears to have grown during the French wars. At a time of rising total revenue in nominal and

real terms, with increasing reliance on import taxes to more than one third of Britain's total tax receipts by the 1780s, by 1803-12 the relevant Asian shares would have reached 25 per cent of Britain's net receipts on worldwide imports, or 8.4 per cent of net tax income as a whole. Insight into the trends involved will be sought in the motivations of fiscal policy and in the favourable circumstances that blessed its implementation.

These findings are of wider interest because historians are prone to overlook the full range and significance of Britain's benefits from the East India Company's privileged command of Indian resources -- particularly after the acquisition of Bengal's territorial revenues in 1765. Throughout the eighteenth century and beyond the "new" East India Company and its Asian trade made a wide range of substantial contributions to the warring British State, in good part at the Company's expense; yet systematic work on this matter has only recently been undertaken (Bowen, 2006a: 30, 46-52; Bowen, 2006b: *passim*). Ongoing qualification of received wisdom has also focused on the Company's substantial purchases from the ailing textile industries of East Anglia and the West Country (Bowen, 2002); on the size and favourable terms of Britain's total trade with Asia into the French wars (Cuenca-Esteban, 2007: 168-72); and on seemingly vital contributions of Indian goods to the British balance of payments in 1702-8 and in 1793-1812 (Jones, 1988: 27, 211-22; Cuenca-Esteban, 2007: 165-8). The fiscal dimension highlighted here further suggests that India's direct and indirect contributions to the warring British State were more substantial than may be thought. Should this widening revision take hold in the literature and remain unchallenged, we might eventually have solid grounds for updating Marshall's 1968 statement that "few economic historians would now argue that [the Asian Empire's] contribution had been of major importance" (Marshall, 1968: 92).

## 1

At the turn of the nineteenth century the administration of British taxation on external trade was undergoing rapid change. Although two different modes of tax collection co-existed throughout the period 1765-1812, the old "drawback system" had proved to encourage fraud and was being replaced. In this old system most imported commodities were taxed upon arrival in Britain, but all or part of the revenue was later

returned or “drawn back” to re-exporters. In the new approach that took definitive form in 1803, imported goods were temporarily stored in bonded warehouses under joint control by the Crown and by the merchant; customs duties and excise taxes were levied only when the goods were issued for home consumption. The new “warehousing system” thus postponed the payment of tax or waived it altogether for those goods that were re-exported from Britain (Hoon, 1968: 256-7, 262-4). At the same time the administration of taxes on several imported goods was being transferred from the Customs to the Excise department (Mathias and O’Brien, 1976: 617. O’Brien, 1988: 9n).

These and other changes limit the usefulness of the East India Company’s accounts as a record of customs payments to the Exchequer. Until 1799 the Company was entrusted with the collection of most specific and *ad valorem* customs duties -- the latter being assessed at the prices that were set at the public sales of Asian goods in London. One consequence of the gradual transfer of control from the Customs to the Excise Department was that the total figures given in some of the Company’s accounts exclude both customs and excise on tea since 1785 and on coffee since 1794.<sup>1</sup> After 1798-9 the Company’s tax collection burden was limited to warehousing duties, which were not abolished until 1819.<sup>2</sup> After 1803 all Asian goods with the exception of indigo could be exported directly from the East India Company’s warehouse without payment of duty (Mascall, 1803: 92). The potential confusion caused by these changes is apparent in otherwise inexplicable downturns in some of the customs series given in Parliamentary transcriptions and in nineteenth century publications.<sup>3</sup>

Inconsistence of coverage over time is compounded by gaps and omissions in the accounts themselves. One of the Company’s more detailed annual returns for 1750-80 includes a global entry for “customs” receipts, an inland duty on pepper, and excise taxes on tea, coffee, and arrack (a strong alcoholic drink); even here, however, it is not clear whether the given customs payments are gross or net of re-export drawbacks (BL, OIOC, L/AG/18/2/1: 10). This annual return, and a similar manuscript account with separate breakdowns on the tea indemnity (1769-73 only),

<sup>1</sup> PP 1812, VI, Fourth Report: 436, 501. BL, OIOC, H/449: 33.

<sup>2</sup> Milburn, 1813, II: 183. PP 1812, VI, Fourth Report: 428-9, 494-5. PP 1831-2, X, II: 592, Appendix 5.

<sup>3</sup> PP 1812-3, VII: 487-8. Milburn, 1813: I, XCIII. MacGregor, 1843-50: IV, 411.



also fail to differentiate between Indian and Chinese goods and exclude the "privilege trade" in Company ships on the account of commanders and officers (BL, OIOC, H-338: 17). The annual breakdowns of customs revenue by commodities in Robert Wissett's manuscript also exclude the privilege trade, and the time coverage is restricted to 1788-96 (BL, OIOC, H/449: 22-37). Several printed renditions of Company accounts cover different periods and fail to specify commodity coverage.<sup>4</sup> A long series of total customs payments to government can be constructed from annual entries in the Company's ledgers; but the period averages calculated by Bowen for 1761-1815 too often fall short of well documented totals of government receipts from the Asian trade (BL, OIOC, L/AG/1/1: vols. 20-31. Bowen, 2006b: 98).

Gaps and omissions in the Company's accounts can be filled only partially with a choice of unusually detailed sources that confirm and complement one another in relevant ways. The important tea revenue is annually documented in well known Parliamentary returns and elsewhere, with sufficient detail on rates to warrant full distinction between customs and excise through 1765-1812.<sup>5</sup> The Fourth Report on East Indian Affairs gives annual totals of "gross" and "net" customs revenue on imports from India and China excluding tea through 1793-1810.<sup>6</sup> The totals for Asia in the Fourth Report are consistent with far more detailed annual figures of customs receipts -- both gross and net of drawbacks by commodities -- in the Board of Customs and Excise's ledgers for 1788-1808; but here the distinction between India and China is missing. The separate excise tables in the same ledgers confirm the independent data on tea but provide no useful breakdowns for other Asian commodities (BNA, Customs 17, vols. 10-30).

The critical choice of evidence undertaken here is guided and supplemented with independent revenue calculations from trade quantities and tax rates. This latter exercise has the triple purpose of identifying coverage in cryptic accounts, reconciling inconsistencies, and fill-

<sup>4</sup> PP 1773, Third Report: 40-59. PP 1783, Ninth Report: 172-83. Milburn, 1813, I: XCIII, XCV. Krishna, 1924: 271.

<sup>5</sup> PP 1845, XLVI: 1-5. PP 1829, XV: MSSp. 379. PP 1830, XXV: 21-2. MacGregor, 1843-50, IV: 421. PP 1812, VI, Fourth Report: 502, Appendix 33. MacPherson, 1812: 416.

<sup>6</sup> PP 1812, VI, Fourth Report: 501-2, 519-20. For background see *ibid*: 436, 438.

Table 1 *British customs and excise revenue on trade with Asia, 1765-1812*  
(period averages of nominal annual values in ,'000)

	1765- 1784	1785- 1792	1793- 1802	1803- 1812
<i>Total trade with Asia (India + China):</i>				
Total gross revenue on imports	1282	1232	2082	4306
Total net revenue on imports	1110*	915	1629	4294
Gross customs revenue on exports		2	10	65
<i>Imports from India:</i>				
Gross customs on India goods	452	599	760	470
-re-export drawbacks	115*	299	428	8
=Net customs on India goods	337*	299	331	463
+Warehousing duty (since 1800)			77	120
+War duty (since 5 July 1803)				56
+Excise on coffee and pepper	10*	28	90	149
=Net revenue on India goods	347*	327	498	789
<i>Imports from China:</i>				
Gross customs on tea	272	125	165	185
-re-export drawbacks	57*	15	20	4
=Net customs on tea	214*	110	145	181
+Excise on tea (ad valorem percent)	240	406	938	3174
+Excise on tea (specific per pound)	243			
+Tea indemnity (1769-73)	24			
=Net revenue on tea	722	516	1083	3355
+Gross customs (other China goods)	40	74	32	49
-re-export drawbacks	0.1*	2.5	4.2	0.7
=Net customs (other China goods)	40*	71	28	48
Total net revenue on China goods	762*	588	1112	3404
+Warehousing duty (since 1800)			19	57
+War duty (since 5 July 1803)				44
=Total net revenue on China goods	762*	588	1130	3504

\* Very rough estimates: see the text.

Sources and procedures: See the text, Section 1.

ing remaining gaps.<sup>7</sup> The central goal has been to construct continuous annual series with as much detail as possible, including excise revenue and additional receipts from warehousing and war duties whenever relevant. It has proved desirable to calculate gross revenue, and net receipts wherever possible, for each major Asian commodity. For this purpose, *gross* customs and excise revenue are defined here as import values (or quantities) times the respective *ad valorem* (or specific) tax rates; *net* customs revenue is the result of subtracting re-export values (or quantities) times the relevant drawback rates. The calculation of import and re-export values in current prices at British ports from quantity and price data has been explained and documented elsewhere (Cuenca Esteban, 2001: 69-80; Cuenca Esteban, 2004: 66; Cuenca-Esteban, 2007: 158-60, 163-4, Appendix B.). The relevant *rates* of customs, drawback, and excise have been compiled from contemporary dictionaries, price histories, and tariff manuals.<sup>8</sup> The resulting revenue figures are close enough to independently documented breakdowns to warrant interpolation and extrapolation at several levels. One further advantage of this elaborate procedure is that it makes it possible to differentiate, at all times, between the contribution of Indian and Chinese commodities to British customs and excise revenue. In any event, the period 1750-80 remains poorly documented and the estimates for 1781-92 and 1809-12 must be regarded with particular caution.

<sup>7</sup> The definitive choice of revenue sources for Tables 1-4 is as follows. MacGregor (1843-50), IV: 411, 421. MacPherson, 1812: 416. Milburn (1813), I: XCIII, XCV. Pritchard (1936): 397. BNA (British National Archives), Customs 17: vols. 10-30. BL, OIOC, H/338: MSSp. 17. BL, OIOC, H/449: MSSpp. 22-37. BL, OIOC, L/AG/18/2/1, MSSp. 10. HCSP, vol. 91 (1793): 171. PP 1773, Third Report: 40-59. PP 1783, Ninth Report: 172-83. PP 1810-11, VII: MSSp. 61. PP 1812, VI: MSSp. 417, "Annual Account". PP 1812, VI, Fourth Report: 488 (Appendix 22), 501 (Appendix 31), 502 (Appendix 33). PP 1812-3, VIII: MSSp. 405, "Annual Account". PP 1829, XV: MSSp. 379. PP 1830, XXV: 14-22. PP 1845, XLVI: 1-5.

<sup>8</sup> Tax rates compiled from Atton and Holland (1910), I: 375; Blackader, 1810; Baines, 1835: 324-5; Cartwright, 1788: 45-52; Dowell, 1884: 331-4; London Price Current, 1779-89, 1796-9; Mascall, 1787, 1813; Mascall, 1801, 1803; McCulloch, 1840, I: 375-6, II: 559; Pope, 1814; Tooke, 1824: 46-61; Tooke and Newmarch 1838-57, II: 399-416; HCSP, vol. 116, 1797-8: 439, 441; HCJ, LVIII (1803): 1078-1105; HCJ, LXIV (1809): 631-5; PP 1813-4, I: MSSpp. 104-55; PP 1829, XV: MSSpp. 369-83; PP 1830, XXV: 2-13; PP 1830, XXV: 14-22; PP 1831-2, X, Part II: 592-607, Appendix 5; PP 1845, XLVI: 1-5. PP 1898, LXXXV: 59-67, 78-85, 199-200, 213-24.

With these qualifications, the adopted choice of revenue figures is outlined by selected sub-periods in Table 1. One salient feature of this Table is the sharp and sustained rise in nominal government receipts from the Asian trade from the mid-1790s onwards. The series of total *gross* revenue conveys a mild upward trend from 1750 to the early 1790s, with only a minor setback at the height of war in 1780-4. As from 1788, and more confidently through 1793-1808, we can differentiate between gross and net revenue with firm evidence on drawback payments.<sup>9</sup> The bulk of these payments went to re-exporters of calicos -- by far the most important Indian commodity in both import values and re-export shares; the 1790s saw substantial re-payments on muslins, sugar, cinnamon, and coffee. The subsequent demise of drawbacks was due, in part, to legislative change that limited re-payments on textiles to dyed or printed fabrics in 1803; and in part to a falling trend in textile re-exports -- most sharply at the height of Napoleon's Continental System (1806-13). In the absence of evidence on collection costs, the closest proxy for nominal government receipts in Table 1 are the revenue figures net of drawback re-payments. The net totals on Asian goods take two sharp upward turns, the first in 1795 to twice the previous levels by 1799, and again in 1804 to 4 to 5 times as much through 1812. To be sure, the purchasing power of government receipts fell with rising prices. Judging from O'Brien's proposed deflator for total tax revenue, however, real receipts from the Asian trade would still have tripled between 1785-92 and 1804-12.<sup>10</sup>

Table 1 also reveals major structural change in the composition of total revenue on Asian goods during the French wars (1793-1815). The central factor here was a veritable onslaught on growing numbers of tea consumers in the form of soaring excise rates. In the years following the rate reduction by the Commutation Act of 1784, excise revenue on domestic tea consumption roughly equalled net customs income on all other Asian goods; this even proportion subsequently soared in favour of tea revenue, to twice as much in 1793-1802 and to a factor of 5 by 1803-12. Excise rates on Indian coffee and pepper also rose in the 1790s; but the sums collected in 1803-12 on the small shares retained for home consumption fell short of the combined yield of warehousing and war

<sup>9</sup> BNA, Customs 17, vols. 10-30. PP 1812, VI, Fourth Report: 501, Appendix 32.

<sup>10</sup> Calculated with "Price deflator" in O'Brien, 1988: 3, Table 2.

duties on Indian goods. So long as British imports from China remained dominated by tea, only a fraction of which was re-exported, it is not surprising that net revenue on China goods more than quadrupled while that on Indian goods did not even double.

## 2

How important was British net revenue on trade with Asia in 1765-1812? A proper comparative answer to this question would require additional geographical breakdowns of British tax receipts on worldwide trade. The analysis offered here is narrowly focused on the Indian and Chinese shares alone. One of the points of reference for this analysis -- British net revenue on worldwide imports -- would be poorly proxied by the series of total customs and excise receipts published by Mitchell: the former series excludes the sums transferred from the Customs to the Excise Departments from the late 1780s onwards; the latter includes excise receipts on sales of both imported and domestic goods; both series refer to "net receipts" up to 1801 and to "gross public income" thereafter. Far more adequate for the present purpose are O'Brien's 5-year averages of "Customs duties levied on retained imports" (Mitchell, 1988: 382, 387-8, 392. O'Brien, 1988: 9n). The period averages of net revenue on worldwide imports in Table 2 have been calculated, on an annual basis for all but four years, with O'Brien's proposed sources and methodology and with comparable results.<sup>11</sup> On these estimates the average share of net tax revenue on worldwide imports, out of net tax income as a whole, rises from 24 per cent in 1750-84 to 37 per cent in 1785-1812.

In relative terms, the direct contribution of Asian goods to British finances was largest at both ends of the period and appears to have grown during the French wars. At a time of rising total tax revenue in nominal and real terms, by 1803-12 the relevant Asian shares would have reached 25 per cent of Britain's net receipts on worldwide imports, or 8.4 per cent of net tax income as a whole. For the first two decades 1765-84 the record is blurred, as already noted, by cryptic labelling of the East India Company accounts and by poor evidence on drawback payments. In an effort to introduce a downward bias in the revenue breakdowns for India

<sup>11</sup> As specified in Note to Table 2.

and China in these decades, the Company's figures for 1765-80 have been assumed to be gross and have accordingly been discounted with evidence on drawback payments for the late 1780s. The resulting Asian share in Britain's net receipts on worldwide imports takes two sharp drops, from stable levels around 47 per cent through 1765-80 to 25 per cent in 1781-4, and again to 17 per cent in 1785-92. The conjectural Asian share of 47 per cent for 1765-80 may well be a gross overstatement; but the relatively robust shares of net revenue on Chinese goods -- 28 per cent of the worldwide total in 1765-84 -- is not implausible in view of the major rate reduction on tea imports in 1784.

Table 2 *British net revenue on imports (customs + excise), 1765-1812*  
(period averages of nominal annual values in , '000)

	1765- 1780	1781- 1784	1785- 1792	1793- 1802	1803- 1812
1. Net tax receipts	10221	12745	15208	23100	51425
2. Net revenue on worldwide imports	2576	2973	5504	9348	17444
3. percentage of line 1	25	23	36	40	34
4. Net revenue on imports from Asia	1200*	750*	916	1629	4294
5. percentage of line 1	11.7*	5.9*	6.0	7.1	8.4
6. percentage of line 2	47*	25*	17	17	25
7. Net revenue on imports from China	778*	699*	588	1130	3504
8. percentage of line 1	7.6*	5.5*	3.9	4.9	6.8
9. percentage of line 2	30*	24*	11	12	20
10. Net revenue on imports from India	422*	50.7*	327	499	789
11. percentage of line 1	4.1*	.4*	2.2	2.2	1.5
12. percentage of line 2	16*	2*	6	5	5

\* Very rough estimates: see the text.

*Sources and procedures:* Line 1 from 5-year averages of [net] tax receipts at the Exchequer in O'Brien, 1988: 3. Line 2 as follows: 1750-87 from annual figures in Mitchell, 1988: 387-8 (Great Britain, net Customs +Excise); 1788-1808 compiled and calculated on an annual basis from customs and excise tables in BNA, Customs: vols. 10-30 ("net produce" "paid to the Exchequer" of customs inward plus outward, plus bounties, minus receipts on coastwise trade; "net produce" of excise on imported goods only, including consolidated, annual, temporary, and war duties); 1809-12 as in O'Brien, 1988: 9 (Customs duties levied on retained imports, 5-year average for 1808-12). Other revenue figures as in Table 1.

The relative size of British revenue on Asian imports is all the more remarkable in view of the small base on which it was drawn. In 1765-1812 a trade that seldom employed more than 3 per cent of British tonnage, to bring 17 per cent of total imports retained for home consumption, somehow supplied 24 per cent of net customs and excise revenue on worldwide imports. The ratios at play are periodized in Table 3. The tonnage employed in Britain's direct trade with Asia surged by leaps and bounds in the 1780s and reached a plateau in the 1800s, to an overall growth of four and a half times on average from 1765 onwards; in terms of British worldwide tonnage, however, more than proportional growth was limited to the French wars -- the Asian share seldom surpassing the 3 per cent mark. The much larger shares in worldwide imports can be misleading because the proportion of Asian goods retained for home consumption differed widely across commodities. The trade with China remained dominated by tea, only a fraction of which was re-exported. By contrast some of the most valuable Indian commodities, notably calicos and muslins, were sold abroad to a greater extent than average: whereas imports from India represented 4 per cent of British worldwide imports in 1792-1812, re-exports of Indian goods amounted to 35 per cent of total re-exports in the same period. As a result the Indian shares in worldwide imports *for home consumption* were smaller than those of China despite similar import values. On the whole, however, the Asian share of total retained imports remained relatively stable through 1765-1812. The central point of substance of Table 3 is that, at both ends of the period, the Asian share of net revenue on worldwide imports was much larger than that of either measure of total imports.

### 3

Why was the Asian trade's fiscal burden so often heavier than might be expected from the relative size of the net import values involved? A preliminary, descriptive answer to this question pivots around tax rates and net import volumes at various levels of aggregation. Some customs and excise duties were levied *ad valorem*, but most were assessed at specific rates per widely differing units of weight or number. The rough estimates given in Table 4 are all calculated as net revenue divided by the relevant net imports for home consumption (import value minus re-export value). These ratios are independent of the units of measurement

Table 3 *Asian shares in British tonnage, imports, and net revenue on imports 1765-1812 (percentages of relevant worldwide totals)*

	1765- 1784*	1785- 1792	1793- 1802	1803- 1812
Tonnage employed in trade with Asia / total tonnage	1.8	1.8	2.8	2.9
Imports from Asia / total imports worldwide	18	19	18	16
Retained imports from Asia / total retained imports	18	21	20	17
Net revenue on imports from Asia / net revenue on total net imports worldwide	42	17	17	25
Tonnage employed in trade with China / total tonnage	.7	1.2	1.3	1.4
Imports from China / total imports worldwide	7	11	8	8
Retained imports from China / total retained imports	10	13	11	10
Net revenue on imports from China / net revenue on total net imports worldwide	29	11	12	20
Tonnage employed in trade with India / total tonnage	1.1	.6	1.5	1.5
Imports from India / total imports worldwide	11	8	10	8
Retained imports from India / total retained imports	8	8	9	7
Net revenue on imports from India / net revenue on total net imports worldwide	13	6	5	5

\* Very rough estimates: see the text.

*Sources and procedures:* Tonnage figures compiled from Milburn, 1813, vol. I: LIV, LXVI, XCI; PP 1812, VI: 515-6, Appendix 46; Marshall, 1833, Part II: 224; BNA, Customs 17: vols. 1-30. Tonnage breakdowns estimated with ton equivalents by commodities in Krishna, 1924: 248-51; Cartwright, 1788: LXXVI-LXXVII. Import and re-export values in current prices at British ports as estimated in Cuenca Esteban, 2001: 69-80; Cuenca Esteban, 2004: see p. 66; Cuenca-Esteban, 2007: 158-60, 163-4, Appendix B (imports retained for home consumption calculated as import minus re-export values, both at current import prices). Net revenue as in Tables 1 and 2.

and thus allow for meaningful comparison by broad groups of commodities and for selected individual goods. On this measure the average tax rates on British worldwide imports rise almost continuously, from 13 per cent in 1765-84 to 33 per cent by 1803-12. Predictably, for Asian goods taken as a whole the picture conveyed by the first two lines of Table 4 is similar to that in Table 3: much higher tax rates than average at both ends of the period; lower but rising rates during the French wars.



At issue is how the tax rates for particular Asian goods often combined with net import volumes to yield heavier tax burdens than those for net worldwide imports. The rates estimated here vary dramatically but betray a discernible pattern: they are lower for calicos and raw materials; higher for muslins, beverages, and spices. In 1765-92, legal imports of tea accounted for an average of 39 per cent of the British total

Table 4 *Average tax burden of British retained imports, 1772-1808*  
(percentages)

	1772- 1776*	1791- 1792	1797- 1801	1804- 1808
<i>Shares of relevant breakdowns of net customs and excise revenue in:</i>				
Retained imports worldwide	19	25	27	42
Retained imports from Asia	65	19	27	61
Retained imports from China	63	23	33	81
of which tea (customs + excise)	77	24	36	89
nankeens			21	26
raw silk China	7	17	12	17
Retained imports from India	68	13	18	33
of which calicos	10	5	4	17
muslins		34	62	61
"prohibited" textiles		2	3	2
raw silk (Bengal)	6	11	20	21
indigo			13	2
cotton			4	19
saltpetre	10	14	2	.4
sugar		41	44	96
coffee (customs + excise)				314
pepper (customs + excise)	38	28	69	87

\* Very rough estimates: see the text.

*Sources and procedures:* See the text, Section 3. Total trade values as in sources to Table 3; choice of relevant breakdowns for 1772-92 as in BL, OIOC, L/AG/10/2, vol. 2, MSSpp. 26-39; BL, OIOC, L/AG/10/2, vol. 2, MSSpp. 232-5; BL, OIOC, L/AG/10/2, vol. 3, MSSpp. 3-4. Net revenue figures as explained and documented in Section 1.

from Asia; Indian textiles were worth 45 per cent, but the most valuable calicos were lightly taxed and drew substantial drawbacks upon re-export. In these early decades the size of British net revenue on Asian goods was governed by extremely high excise rates on growing volumes of tea and by the sharp reduction of these rates after 1784. The 1790s were marked by the first substantial imports of several Indian commodities, most notably indigo but also coffee, raw silk, and cotton. Like tea, Indian foods and spices fell prey to soaring excise rates as from the late 1790s; but these consumption goods declined in relative weight in the 1800s. The overriding moderating factor in the overall tax burden on net imports from India was that these always included a large proportion of lightly taxed textiles and raw materials. As already mentioned the most important Indian commodities, most notably calicos, received the bulk of drawbacks upon re-export; and their relative decline after the 1790s was more than offset by the rise of indigo -- the most valuable commodity imported from India by the 1800s, and one of the most lightly taxed in the Asian sample. On the whole, however, despite a temporary respite in tax rates during the 1780s and 1790s the average fiscal burden of Asian goods most often was heavier than that of worldwide imports.

Deeper insight into these trends may be sought in the motivations of fiscal policy and in favourable circumstances that blessed its implementation. The sharp reduction of tea rates in 1784 was dictated by a perceived threat of mounting contraband trade. The long-term growth in tea revenue that followed, in the face of sharply rising tax rates since the late 1790s, owed much to the war conditions that weakened foreign competition and helped to keep smuggling under control. More generally, differential fiscal pressure on trade with Asia was facilitated by more than proportional growth in the tax base: it has been shown elsewhere that the real volume of British direct trade with India and China most frequently grew at a faster pace than the worldwide totals and retained some of the acquired gains to the end of the period (Cuenca-Esteban, 2007: 169). From the 1790s onwards a growing number of Indian staples in inelastic demand afforded new opportunities to widen what would become a veritable onslaught on British consumers. Here the State's pressing needs could go hand in hand with the West Indian planters' interests -- whose ability to secure preferential treatment for their crops in London meant that Indian coffee and sugar, which were cheaper than

their American counterparts, were taxed at much higher rates.<sup>12</sup> In the case of Indian calicos, where rates remained moderate until the end of the Company's regulated monopoly of direct trade with India in 1813, the interests of domestic printers and consumers prevailed over those of manufacturers and the public purse. In such ways the interplay of policy design and practical realities at times constrained, but most often supported, the State's fiscal imperative in times of war.

## 4

This paper has drawn on an arguably central case study to lay the ground for further comparative work on the fiscal resources of contending States in the eighteenth-century. One practical lesson from this exercise is that even the most varied and seemingly elaborate records of customs revenue can betray hidden pitfalls and contradictions that only detailed studies can hope to unravel. The guiding motivation has been a perceived need more firmly to quantify those external contributions to national economic fortunes that seemingly conferred major advantages on colonial States. Certainly the English East India Company's capture of Bengal in 1757 was a timely windfall with far reaching implications for Great Britain. The tax powers subsequently gained over the local population amply allowed in India for defence against French inroads and for a degree of territorial expansion; they also left room for unilateral transfers to England that helped to bring back the Dutch debt before the war expenses in Europe became massive in the 1800s. Throughout the eighteenth century and beyond the "new" East India Company and its Asian trade also made substantial contributions to the warring British State, often at the Company's expense. The additional fiscal dimension highlighted here suggests that British revenue from taxes on Asian goods also was significant, both in absolute terms and by reference to the size of the commodity flows involved. Although the largest tax revenue on Asian goods came from Chinese tea, Britain's massive trade deficits with Canton were ultimately covered with Indian silver and with funds accumulated in Calcutta from the triangular "country trade" between India,

<sup>12</sup> Compare rates and commentary in McCulloch (1840), vol. I: 375-6, 637-8; vol. II: 559, 563. Also PP 1829, XV, MSSpp. 378, 380-1; PP 1830, XXV: 11.

the Eastern Archipelago, and China.<sup>13</sup> Here as elsewhere, India's early contribution to the warring British state would have been more significant and less dispensable than has been thought.

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# **The Swedish Fiscal-Military State in transition and decline, 1650-1815**

*Jan Glete\**

## **1. Introduction**

This paper is a brief survey of how resources were mobilized for Sweden's wars from the mid-seventeenth century up to 1815. The innovative and dynamic phase of Sweden as a fiscal-military state was already to a large extent over by 1650. This state reached its apogee on the European scene from 1630 to 1660 when it proved its ability to defeat all neighbouring states and to resist a large coalition formed against its expansion. After 1650, the Swedish political system had to solve domestic conflicts which were results of earlier resource mobilization for war. The state also had to adjust its ambitions and strategy to a new environment where competing states developed an ability to mobilize resources for modern warfare.

The Swedish solutions to these problems were tested during 22 years of warfare from 1700 to 1721. The Swedish empire was largely lost but whether the cause was shortcomings in the fiscal-military system, strategic and diplomatic mistakes or lack of a sufficient resource base is far from clear. It was certainly not due to lack of domestic resource mobilization for war, as that probably reached its highest level ever in that war. The following century saw no similar resource mobilization and it may be argued that the Swedish society had developed efficient structures to resist large-scale military ambitions from the state. Sweden continued to fight offensive wars but these were started by opportunistic political leaders in the hope that they would be rapid victories or paid by subsidies from great powers.

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There are no modern syntheses of Sweden's early modern financial history and no author has come forward to write about the subject in recent standard works on European fiscal history.<sup>1</sup> The explanations presented in this paper are tentative and partly based on my own comparative studies of early modern European fiscal-military state formation.<sup>2</sup>

## 2. Sweden and early modern war finance

The economic aspects of Sweden's rise and decline as an early modern great power have attracted considerable interest from Swedish and Finnish historians. It might then perhaps be expected that a clear picture of how warfare was financed, neatly presented in tables and graphs, can be made. Unfortunately, this is not the case. What we have is detailed studies of the administration and politics of war finance during important periods and how that influenced military operations. These studies show that many resources, both in Sweden and in the operational theatres, were raised in such forms that they did not enter any centralized and easily available book-keeping system (Odén, 1966; Landberg, 1971; Cavallie, 1975; Fredriksson, 1976).

There is also much research about how the long wars up to the 1650s caused a transfer of control of crown land to the nobility and how much of that land returned to the crown after 1680 as a result of political power struggles between the crown, the non-noble estates and the aristocrats (Blomdahl, 1963; Ågren, 1964; Dahlgren, 1964). The Swedish tax system and the administration of the state finance have also been studied (Wittrock, 1914-17; Hammarström, 1956; Åmark, 1961; Torstendahl, 1979; Karlsson, 1994; Hallenberg, 2001). More recently, the demographic pre-conditions and effects of the war on the Swedish population have been investigated (Lindegren, 1980; Villstrand, 1992; Lindegren, unpublished).

No attempt has however been made to summarize the total costs of war as reflected in financial records, the value of the resources raised from occupied territories and the real market value of the several hun-

<sup>1</sup> Bonney (1999). Björn Poulsen's chapter on the Nordic states in Bonney 1995 ends with the sixteenth century but his brief survey of Sweden in that century on 121-122 is pertinent.

<sup>2</sup> Glete (2002), with more detailed references.



dred thousand Swedes and Finns who were either conscripted or recruited by the peasant communities as part of their tax obligations to the state. These were burdens on the society which to a large extent never entered the state's financial records. If the same number of soldiers had been raised on the market and paid by taxes, the real tax burden on the Swedish people would have become visible. That would also have made it easier to compare Swedish resource mobilisation with other early modern states.<sup>3</sup>

Lack of such comparisons has frequently caused misunderstandings in international historiography, which even have influenced interpretations of European history. A frequent misunderstanding is that Sweden's continental wars were paid by extraction of local resources or foreign subsidies to such an extent that the burden of war on the Swedish population actually was moderate. It has even been suggested that the existence of a Swedish parliament acted as a *brake* on large-scale domestic resource extraction and that Sweden was lightly taxed compared to most European countries (Downing, 1992: 187-211; Asch, 1997: 165).

Central in such explanations is the conception that Sweden only sent small armies abroad and mainly relied on recruitment of large armies of mercenaries. The contractual system for army recruitment, which was important in Europe up to the later half of the seventeenth century, is supposed to have made it possible to quickly recruit large armies on credit. The Swedish invasion of Germany in 1630, generally regarded as a turning point in the war, is often cited as an example. In the international literature it has repeatedly been stated that this operation was undertaken with only 13,000 or 14,000 men sent from Sweden and that it was followed by large-scale local recruitment through German military entrepreneurs which in a brief period created a much larger army (up to 80,000 men are mentioned), able to defeat the combined Imperial and Catholic armies already by 1631 (Parker, 1990: 215; Bonney, 1991: 195; Downing, 1992: 196; Parrott, 2001: 99; Lockhart, 2004: 50; Mortimer, 2004: 101-1).

Sweden's real invasion of Germany was different, and from a military perspective much more conventional. It was built on ability to overwhelm initial resistance from even a large army with brute force. At the

<sup>3</sup> Recent surveys and interpretations in English of Swedish and Finnish studies on resource mobilization are Jespersen 2000; Frost, 2000: 102-135; Glete, 2002: 174-212.

time of the invasion (mid-1630), Sweden had an army with an effective strength of around 72,500 men, not much less than the continental adversary. Of these, 38,000 were native Swedes and Finns serving in the permanent national army, while the others belonged to German and Scottish mercenary regiments, most of them in units which already had served Sweden in the Polish war. The 13,500 men who arrived in Pomerania in July 1630 were only one of several contingents of the invasion force. The rate with which strength was built up on German territory was determined by available shipping resources, not by the supply of German military entrepreneurs. Almost 6,000 men were in Stralsund already before the main invasion began, 31,500 arrived from mid-1630 until the end of the year and 20,500 more arrived in 1631 before the battle of Breitenfeld in September.

Few new German military entrepreneurs offered their services to Sweden before Breitenfeld and only around 20 % of 50,000 men in the Swedish forces in Germany in September 1631 belonged to regiments organised in Germany. Most of these were however owned by Swedish-born generals working as entrepreneurs or by German and Scottish officers who had served Sweden before the invasion. They were economically interested in Swedish success already before 1630. Less than 4,000 men had been recruited by new German entrepreneurs and these new and unseasoned units were of little importance for the combat readiness of the army.<sup>4</sup>

Military operations in Germany in 1630–31 did not show that a large, victorious army could be improvised by contract. It rather showed that successful operations required a large army of veterans. It was Sweden's development of such an army which gave that state a key role in the German war. Seasoned regiments with cores of skilled officers and veteran soldiers were a scarce resource in Europe before the general development of permanent armies (Parrott 2001: 44–48). Only after the victory at Breitenfeld, when Sweden gained control of large German territo-

<sup>4</sup> *Sveriges Krig, 1611–1632*, Stockholm, vol. 3, 1936, 380–411, 569–571, 576, vol. 4, 1937, 360–368, 453–462, vol. 5, 1938, 527; lists of Swedish regiments and their monthly location 1630–32 in Gustav Adolfs-verkets arbetsarkiv, vol. 32e, Krigsarkivet, Stockholm; Glete, 2005. Sweden's few pre-Breitenfeld allies, primarily Saxony, had also begun to recruit armies through entrepreneurs but they could act from their position as territorial German princes and, as demonstrated in the battle of Breitenfeld, their hastily assembled regiments were no match for the seasoned Catholic army.

ries, confiscated enemy property and shaped up as the power that could distribute the spoils of victory, did many military entrepreneurs begin to offer their services to the Swedish king, including their credit. For a brief period, Sweden could indeed fight a large continental war almost without Swedish resources. This was an untypical situation, however, and generalisations based on that period are untenable. After the defeat of the Swedish army at Nördlingen in 1634, large Swedish resources, mainly conscripted soldiers were yearly required to bring the war effort to a successful end. At least 70,000 native Swedes and Finns died in the Thirty Years War from 1630 to 1648 (Lindegren, *Maktstaten*, 138; Lundkvist, 1966: 377-421).

This example shows that early modern European warfare was less dependent on market-forces than is often believed. Long-term organisational efforts and domestic fiscal resources could be decisive already by 1650. No early modern state could just invite itself to other nations with many times its own population, start to raise local resources and hire mercenaries through entrepreneurs in order to conquer large territories. An invader must start from a position of military superiority and maintain that advantage by successful offensive operations in order to gain control of resources and become credible as an employer of mercenaries.

The fundamental precondition both for Sweden's expansion from 1561 to 1660 and the defence of the empire from 1660 to 1721 was the ability to quickly send a major combat-ready army, supported by a large navy to the continent. The scale of that type of warfare grew, but the principle was the same. The army must be strong enough to immediately defeat enemy forces which tried to evict it and the navy must be able to protect the lines of communication against Baltic navies and fleets sent from Western Europe. That meant that Sweden must maintain large, domestically financed armed forces. It must also have the administrative ability to mobilize and concentrate large resources; men, horses, provisions, warships and transport shipping, at the beginning of a war in order to take the military initiative and keep it. Few European states maintained large permanent armies and navies before 1650. With the exception of the Dutch Republic, none did it on the same *per capita* level as Sweden (Glete, 2002: 10-41). Even after 1721 the number of Swedish soldiers compared to the population was unusually large and the navy was also large in a comparative perspective. The difference was that Sweden now partly relied on foreign subsidies to maintain the appearance of a strong military power.

Historians have tried various explanations for Sweden's unusually early development of large-scale permanent armed forces and ability to launch offensives against enemies with much larger resources. Common explanations have been that Sweden had an unfavourable strategic situation (it was "encircled by its neighbours") and that Sweden's neighbours were aggressive and even threatened Sweden's independence, forcing Sweden into making pre-emptive strikes on their territories.<sup>5</sup> The historiography of such explanations is not a part of this paper, but it is difficult to find the empirical ground for them.<sup>6</sup> Sweden had a wide territory surrounded by more or less impenetrable forests and mountains, its neighbours did not encircle Sweden more than neighbours usually do on the European map and they did not develop fiscal and military structures able to support offensive wars against Sweden until Sweden already had robbed them of important provinces.

The most conventional explanations: an unusually favourable geography and unusually weak neighbours are those which are best supported by empirical evidence. The development of Sweden as a great power appears more as a result of opportunities than of threats. Opportunities are however open to many at the same time. It is the ability or inability to take advantage of opportunities by innovative behaviour which creates success or failure.

### **3. An entrepreneurial state?**

Theoretically-based economic history has not been very helpful in explaining why the Swedish system for resource mobilization for war for a long time was markedly superior in an international perspective. War and European state formation has usually not been seen as the economic historians' task, despite the fact that states are managers of large economic resources and their success often depends on their skill in organizing these resources. Sociologists and political scientists have provided most of the theoretical explanations but, however helpful their views may be, the lack of analysis with economic concepts is sometimes em-

<sup>5</sup> A recent restatement of this view is Lockhart 2004, esp. 13-17, 38-40.

<sup>6</sup> A historiographical essay from a Danish perspective: Frede, 1976. See also Glete 2002: 174-181.

barrassing when state formation and resource mobilization is discussed. A particular study should be made of the incentives for transferring war resources to the state and the administration of resources together with economic ideas about human activities in a society.

The founder of economic history as an academic discipline in Sweden, Eli F. Heckscher, made no investigation of state finance in his studies of early modern Swedish economy. He did however sketch an economic explanation of the rise and fall of the Swedish empire (1935-36). Heckscher regarded the sixteenth century Swedish state, with its tax incomes in kind rather than money as primitive with little ability to finance large-scale wars. Under Gustav II Adolf and Axel Oxenstierna a monetary based financial system developed. Heckscher interpreted this as a grand programme of modernization where customs on increased Baltic trade, taxes on mines and new industries and lease of crown land should be the future backbone of state finance. In the meantime crown land was sold, used as security for loans in order to finance war or given away for political and military service of special importance for the war efforts. Although these efforts led to Swedish control of large parts of the Baltic the new income turned out to be insufficient and a more or less permanent financial crisis developed. From 1650 this became the central conflict in domestic politics and from 1680, the king ruthlessly reclaimed ownership of old crown land. In Heckscher's view, this was a backward-looking policy which created stable state finance in peacetime at the expense of the state's ability to take loans and promise rewards for good conduct in future wars. This lack of an accomplished financial modernization was an important cause of the final catastrophe of the Swedish empire (Heckscher, 1936: 269-298).

Heckscher's interpretation was made in the 1930s when little empirical research about early modern resource mobilization for war in Sweden and other European states had been made. Important parts of its empirical foundation have since been eroded. The Vasa dynasty's interest in raising customs on Baltic trade was re-dated far back into the sixteenth century by the economic historian Artur Attman, who made it the central part of his explanation of imperial growth (Attman, 1944, 1979). In 1956 Ingrid Hammarström showed that the late medieval and early sixteenth century Swedish state to a considerable extent had been based on a monetary financial system and armed force paid by cash. Taxes in kind were an innovation introduced by Gustav I around 1540, not an unbroken medieval tradition. The king must have had strong incentives

for a radical innovation. Taxes raised in food, iron, forest products and personal service by the tax-payers were inflation-proof in a time of rising prices and the administration of these products and services enabled the state to make profits on trade and channel the resource-flow in the interest of state policy (Hammarström, 1956).

In 1967 Birgitta Odén presented a preliminary synthesis of her own and other historians' research. She argued that Heckscher's dichotomy between a modern financial system based on money and a primitive system based on payments with concrete products and services was of limited value in an analysis. Ultimately, the early modern Swedish state needed products and services, not money for its ambitious imperial policy. The problem was how to get the relevant resources as cheaply as possible. The dynastic state had throughout its history in a flexible way experimented with various economic, administrative and political solutions of how to mobilize such resources in the most convenient way and the reform programme of Gustav Adolf and Oxenstierna was only one of several transformations to adjust to opportunities and urgent demands. Money had been used more than Heckscher believed but access to money was of limited importance compared to access to essential resources for war at a low cost (Odén, 1967).

Odén mentioned Schumpeter's famous article from 1918 about the decline of the domain state and the rise of the tax state as an inspiration, with the caveat that Sweden had been pretty much a tax state since the thirteenth century. Actually, Odén's thinking was shaped by transaction cost analysis, although that concept was largely unknown, even among economists in the 1960s. It also placed the focus on the state as an innovative entrepreneur, which in a flexible way attempts to improve resource utilization. If economic and sociological theories should be used to explain state formation, Schumpeter's theory about the entrepreneurial function in economic and social life is an obvious candidate, naturally supplemented by Weberian and other theories about organisations and organisational behaviour. Economic, administrative, political and military innovations, all with the aim of making better use of available resources and reduce transaction cost was certainly of central importance for Sweden's ability to fight long wars which usually exhausted enemies with far larger potential resources (Glete 2002, 42-66).

In an economic perspective, the Swedish dynastic state acted as a factor which by intense and continuous demand reshaped the supply of resources in Sweden to suit an ambitious foreign policy based on

military force. The industries and industrial skills developed were to a high degree suited to support war efforts, the political institutions were shaped to speed up decision-making about taxes and conscription, and the administrative staff of the state was to a large extent occupied with negotiations with various groups in local society about how local resources best could be utilised for military purposes without fatally reducing society's ability to produce and reproduce. Several historical studies show how the system worked. Sven A. Nilsson provided a macro-level framework with his and other Uppsala historians' studies of Sweden as a military state, where the society was systematically exploited for military purposes. Jan Lindegren has continued this with quantitative and demographic studies about the most important part of that exploitation, the large number of men serving in the armed forces. From another perspective, Eva Österberg has made micro-level studies which show the interaction between the state and the peasant communities under periods of pressure. The state was not only exploitative. It was also politically clever and administratively flexible in a way that minimized the risk for large-scale tax rebellions (Österberg, 1971; Nilsson, 1990; Lindegren, *Maktstaten*).

Broad syntheses about the early modern Sweden often tend to emphasize the limitations of the resources, the backwardness of the sixteenth century state and society and the modernisation of Sweden according to European models in the seventeenth century. Sweden's armed forces were however strong in relation to available resources already in the sixteenth century and the rulers were ambitious participants in power struggles with states and combinations of states that already had far larger potential resources to draw on. The explanation must be that the state was able to mobilize an unusually large proportion of its society's resources for military purposes or it must have been able to organize resources in a superior way. If modernization is the introduction and spread of structures which, with historical hindsight, we know became predominant, the Swedish state was ahead of the European average from some time in the sixteenth century, gained a major advantage in the first half of the seventeenth century and then in a gradual and uneven way declined to an average European position in the eighteenth century. Sixteenth century Sweden may in important economic and cultural aspects have been backward in a European perspective but the Swedish state and the society's political institutions were already on a fast track to European modernity.

Modernization requires innovative behaviour and entrepreneurship. Growing resource extraction and resource organization for war indicate that a state develops three different entrepreneurial skills: political, fiscal and military. Military entrepreneurship is the organisation of efficient armed forces, a subject which in the Swedish case has attracted much interest among military historians as the cutting edge of imperial expansion. Political and fiscal entrepreneurship from an ambitious central state usually means that the state is able to increase mobilization and concentration of resources without increasing the costs of resource extraction in terms of resistance from society. In the Swedish case this was done through administrative structures which penetrated local society and made the resource base visible and accessible to the central state. This could be achieved without help from local elites, which otherwise was the normal situation in early modern Europe (Hallenberg, 2001).

It was also achieved through the growth of parliamentary institutions for decision-making on a national level. It might even be argued that the policy of the state developed estates and articulated interest groups on a central level in a society where earlier only the aristocracy had been acting in that fashion. Not only the state but also the society was politically innovative.<sup>7</sup> Peasants, priests and burghers developed skills in fighting for their interests in a parliament and the growing number of civil servants and officers who were the backbone of the state became powerful interest groups. They gradually came to dominate the House of Nobles at the expense of aristocrats and the land-owning nobility.

From the dynastic state's point of view, this development was favourable as the various estates and interest groups normally fought each other and did their best to ally themselves with the ruler in that struggle. One way or another, the estates tied their political interests to the success of the state and the dynastic ruler could often play them off against each other. There was no broad political alliance behind offensive wars and empire-building but there was a genuine fear of what would happen inside Sweden and of the effect on Sweden's relation to its neighbours if the Parliament failed to support the royal policy. The dynasty could use the system as long as it appeared as the best protector against politi-

<sup>7</sup> Ihse (2005); Holm, Stockholm, forthcoming PhD thesis about the peasant estate 1595-1640.



cal disorder, foreign invasions and a world where war was the inevitable divine punishment for human sins (Forssberg, 2005).

What was left for the Parliament to decide was how the burden of war should be shared out. Typically the aristocracy was in conflict with the three lower estates about taxation while the state bureaucrats and officers often voted for taxes which were used to pay their wages. In the Swedish case state formation and the growth of a powerful state did not mean that the society became politically emasculated. Parliament had become the sole channel from which the government could authorise taxes and in 1668 the Parliament took the step of establishing a bank (the present central bank, *Riksbanken*) under the control of the estates, not the king. This was a guarantee that the state would not use the lender's money for policies not supported by the estates, which represented the groups that placed money in the bank. The estates proved very compliant to the rise of absolutism under Charles XI but the king's increased power was authorised step by step by the parliament and it never gave up its right to authorise taxes.

The parliament did however in 1693 authorise the king to raise extra taxes if the country was attacked, an authorisation which Charles XII from 1700 used in an extreme fashion when he raised taxes year after year without ever on his own initiative calling parliament during the Great Northern War. It was in total contrast to his ancestors who often held sessions with the Parliament during periods of intense resource extraction, both to authorise taxes but also to use the Parliament to legitimise their policy and help the administration to raise resources. Behind the facade of outward loyalty to a warrior king in a period of crisis, the bureaucracy and the political "body" of the Swedish society in the early 1700s grew disappointed with what they saw as a perversion of the dynastic state. Heavy war taxation on the richer part of the population in the 1710s undermined the legitimacy which absolutism had achieved before 1700 by creating order in the state's financial system (Karlsson 1994; Lindhe, 2000).

After the death of Charles XII in 1718 the four estates, the bureaucracy and the officers immediately gained political control of the state and continued to run it in an increasingly parliamentary fashion. The servants of the state, especially the officers had strong economic interests in upholding the system of paying wages in agricultural products as the prices were rising. The military organisation with its many officer charges was outwardly left intact but its efficiency deteriorated due to lack of training and reforms (Artéus, 1982). Dynastic power in its true

sense, power inherited in a family, never returned although individual kings, Gustav III and Karl XIV Johan (Jean-Baptist Bernadotte) could exercise strong political power because they were skilled and even charismatic leaders. A politically inept king, Gustav IV Adolf was deposed by his officers and bureaucrats in spite of his formally strong power. During various political upheavals (1772, 1789, 1809) the Parliament's right to control taxation remained and in 1789 it also gained control over the state's public loans.

It is in my opinion fruitful to study the early modern European states as enterprises in protection and violence-control. The Swedish state is an unusually clear-cut case of a dynasty primarily engaged for two centuries in organising the state for warfare, first for control of the territory against domestic and foreign competitors, in a second phase for expansion around the Baltic and in a third phase for defence of the conquered empire. The resource base was limited but repeated innovative efforts were made to reduce transaction costs of resource mobilization. The entrepreneurial efforts were both fiscal and military: both resource extraction and the organization of the resources were improved step by step. But the dynasty was also skilled in political entrepreneurship and innovation. Resources were mobilized after negotiations with various interest groups and a major, probably decisive part of the transaction cost reduction was achieved through the use of the political system. There were few interest groups in Sweden who asked for an empire and the fact that it was created with the means they placed in the hand of their rulers for their protection was largely the result of the rulers' unusual ability to use the military resources with imagination. When that ability disappeared the entrepreneurial dynastic state was politically dead.<sup>8</sup>

#### **4. Soldiers. The most essential resource**

During the period of imperial expansion, Sweden fought Russia (1570-95, 1609-17, 1656-61), Poland-Lithuania (1562-68, 1600-11, 1621-29, 1655-60), Denmark-Norway (1563-70, 1611-13, 1643-45, 1657-60), Lübeck (1534-36, 1562-70) and Habsburg Austria and their several

<sup>8</sup> Glete (2002), 51-66; Jan Glete, "Statsbyggande och entreprenörskap: Sverige som skattemilitär stat, 1521-1721" (forthcoming chapter to an edited book).

Catholic and Protestant allies in Germany (1630-48). In the late 1650s, Sweden was at war with Poland-Lithuania, Russia, Denmark-Norway, the Dutch Republic, Brandenburg and (indirectly) Austria at the same time. These wars were predominantly fought as offensive wars on enemy territory and the Baltic Sea. Explanations stressing Sweden's survival need as a poor country to transfer the war to enemy territory miss the essential point that Sweden normally had the military and naval superiority to take the wars to regions where the enemies had to pay. In the war which brought down the empire from 1700 to 1721 Sweden was at war with Russia, Denmark-Norway, Saxony, Poland-Lithuania, Brandenburg-Prussia, Hanover and (unofficially) Great Britain, from 1715 to 1719 with all these powers at the same time. Even that war was primarily fought as an offensive continental war up to 1713.

The basic resource for Sweden's ability to fight large-scale offensive wars was always the supply of native soldiers. These were raised by the local society. The infantry was up to the 1680s raised by conscription while the cavalry and seamen were recruited as volunteers but with an obligation for local society to pay and quarter them when they were not on active service. From the 1680s the infantry was also recruited without conscription but the system required the peasant communities to find and pay the volunteers and support their families when they were at war. Gradually a system developed where soldiers and seamen normally lived in small cottages around the countryside and worked for the peasants whenever the state did not require their services. Officers normally lived in the same region as their companies and regiments, usually on farms or estates owned by the state. It was a cheap system for providing large armed forces in peace-time, as much of the military training was done in periods of low demand for agricultural work. The Swedish armed forces were in a sense a "proto-industrial" enterprise exploiting the fact that agriculture is a seasonal occupation. It was however also a system that strained the resources of the peasant society heavily in times of war as soldiers died in large numbers and their replacements had to be found quickly unless the peasants had to serve themselves. Much of these costs, especially for the infantry are not recorded in the state's book-keeping.

Sweden's participation in the Thirty Years War in 1630-48 was not the most demanding of its military enterprises in terms of losses (70,000 men in 18 years) of native Swedes and Finns. Such losses were on a yearly basis higher in the war against Poland in 1621-29 (around 50,000), the Northern War of 1655-60 (at least 70,000), the war of 1675-79 (70,000)

and the Great Northern War 1700-21 (around 200,000). The total losses from 1620 to 1721 have been estimated at around half a million men.<sup>9</sup> The total number of men recruited to the Swedish army and navy in this period has never been calculated. The average service-time of a soldier in war was only a few years, but in periods of peace (40 years of 100), the turnover of men was naturally much lower. If we suppose that 5 to 10 % of men left the service every year from 1620 to 1720 due to age or incapacity to serve and had to be replaced the result is a total of around a quarter of a million to around half a million men.<sup>10</sup> Added to the half million who died and had to be replaced and the 50,000 who remained in service in 1720 we get a total of 800,000 to 1,050,000 men, or 8,000 to 10,500 new recruits every year. This is very much guesswork but it indicates the magnitude of the burden on society.

The territories from which they were recruited increased their population from around 1.25 in 1620 to almost 2 million in 1700, partly by the conquest of several Danish and Norwegian provinces in 1645 and 1658. Sweden's Baltic and German provinces are not included in these figures. These provinces' resources were used for paying hired soldiers who mainly served in the garrisons on the periphery of the empire. Sweden's population figures are in fact favourable compared to Poland and Germany which suffered enormously from the destructions of military operations. From a demographic point of view it was certainly better to invade than to be invaded and the argument was sometimes used in the Swedish parliaments in order to persuade peasants to agree to conscription. The drain of manpower for wars outside the country was however in a comparative perspective gigantic, especially as it was concentrated on young men who were the most productive farm labourers.

## 5. Taxes and custom duties

Sweden has occasionally been described as a domain state that only partly developed as a tax state in the early modern period.<sup>11</sup> This is correct only in a qualified sense. What is true and important is that the state since the

<sup>9</sup> Lindegren, *Maktstaten*, especially 179.

<sup>10</sup> These figures do not include conscripted men who deserted before they entered infantry service.

<sup>11</sup> For example in Jespersen 2000, 97-101.

protestant Reformation was a large landowner and that it used its land as much as possible to facilitate military efforts. Permanent expenditures should ideally be paid by permanent income and income from land was regarded as eternal. The largest permanent income to the state was however paid by the land-owning peasants and it may be misleading to call that domain income. The effective collection of these permanent taxes did require an extensive fiscal organisation and once that was in place the administrative cost of raising extra taxes for war efforts was small (Hallenberg, 2001). Furthermore, the king's right to raise soldiers was not a traditional domain income. It derived from the peasant communities' obligation to participate in the defence of their provinces, a duty which the Vasa dynasty with political methods extended to include warfare outside Sweden's traditional borders.

All war effort meant extra taxation. Taxation was normally raised after negotiations with those who should pay it and gradually such discussions about taxation were concentrated in parliamentary meetings with the four estates. That process was almost complete by 1650. Several extra taxes were invented, mainly on the peasant society. The estates were usually deeply engaged in heated debates about how tax burdens should be divided between the nobility, priests, burghers of various professions, the king's servants, peasants who owned their farms, peasants who leased farms from the crown and peasants who leased farms from the nobility.

Custom duties were another important source of income and the state had wider latitudes to raise customs than taxes alone. The dreams of controlling the trade between east and west and raise huge custom duties on it remained a dream as trade tended to take other routes if it had to pay heavy duties. Income from the Baltic and German ports under Swedish control, especially Riga were important but these provinces did also require much expenditure on local defence. Custom duties on Sweden's own export and import trade was however increasingly important, especially on the copper export. Much of Sweden's export was essential for western Europe and it continued to flow in wartime under neutral flags, through middlemen (for example Prussian Königsberg in 1717-18), by informal mutual consent (as between Britain and Sweden in 1810-12) or through a formal agreement to continue trade relations during war (as between the Dutch Republic and Sweden in 1675-78).<sup>12</sup>

<sup>12</sup> Indirect trade in 1716-18: Lindeberg, 1941: 35-48, 336-370, 385-394.

The question of whether the Swedish empire was profitable for the state or a burden because of the defence cost has hardly been raised and certainly not answered. Extra taxes in the conquered Baltic and German provinces were raised after negotiations with their local estates which in practice meant the nobility and some cities (Cavallie, 1975: 155-194). War often led to these provinces becoming areas of military operations which reduced taxes and custom duties but when the Baltic provinces were at peace (especially 1660 to 1700) they were fairly profitable for the Swedish crown (Piirimäe, 2000: 31-56). The loss of these provinces to Russia in the early 1700s was primarily a strategic disadvantage, not a severe financial loss for the Swedish state but they had on the average been a roughly self-supporting part of the Swedish empire. The same can be said of the German provinces. The defence of empire was hardly a financial burden in a narrow sense but if the empire attracted more enemies than Sweden without an empire, it was obviously a burden on the Swedish society to raise soldiers for imperial defence.

From 1650 to 1680 discussions about taxation was dominated by conflicts which were legacies of the great wars of expansion. Large parts of the crown domain had been transferred to the nobility by outright sale, as gifts for political and military services and in order to pay debts. The tax burden on noble land was lower than on non-noble land, even if the nobility normally agreed to pay taxes for war efforts in political compromises with the ruler and the three non-noble estates. The latter did however demand that crown land transferred to the nobility should be returned in order to increase the state's permanent income. One solution was achieved in 1655 when the nobility agreed to return a part (in principle one fourth) of the crown land as a one-time effort to create a stable financial system. This *reduktion* was however not completed when the aristocratic regency for Charles XI took over in 1660. During his time in power the financial problems were never solved, in spite of the peace (Wittrock, 1914-17).

The aristocrats were discredited by the military and financial problems which were revealed in the 1675-79 war. In 1680 Charles XI, the non-noble estates and many of the officers and civil servants in the House of Nobles overruled the aristocracy and decided on a large-scale *reduktion* of former crown land. The legality behind this was the idea that those who had controlled the land for long periods had received income from it to such an extent that the state's debt had been paid. Several of the largest aristocratic landowners were also sentenced to pay

large damages to the state for mismanagement during the regency. One long-term effect of this policy was that it became difficult to use crown land as security for loans.<sup>13</sup>

## 6. Loans

The political struggle around the crown's domain land reflects that the mobilization of resources for war up to 1650 partially had been made through credits. The state's ability to spend first and pay later had been essential, possibly decisive for its offensive warfare. This was not reflected in a large state debt circulating on a financial market as bonds with fixed interest rates and it has consequently been difficult to study. Such studies would probably reveal that the supposedly primitive and backward Swedish society had a surprising capacity to extend credits to the state and that the sixteenth and early seventeenth century Swedish state in an international perspective was a surprisingly credible debtor. There was no financial revolution comparable to the Dutch and English experiences but there was no development comparable to that of Castile and Naples where a large part of the state's revenues became the property of the groups who had provided credits for war (Glete, 2002: 122–126).

The most important lenders to the state may have been its own personnel. From the 1560s and up to the late seventeenth century, and again during the great Northern War it is a notorious fact that the servants of the state did not receive their wages in a regular fashion. They *were* paid but often one year or more in arrears. The aristocratic members of the government frequently lent their own money to pay urgent expenses or they gave their personal guarantee to merchants and military entrepreneurs who delivered goods and services on credit. This was the type of loyalty and risk-bearing for which the aristocrats demanded crown land as compensation. The Swedish state was also an important buyer of various products connected with wars and armament, and merchants were often willing to sell on credit. There were also a limited but not unimportant number of families with liquid assets who were willing to lend money to the state, often with the hope of receiving nobility and crown land as reward. The position of financial bureaucrat and financier

<sup>13</sup> A survey in English of the *reduktion* in Upton, 1998.

sometimes became interwoven in an almost seamless fashion (Munthe, 1941; Fredriksson, 1976: 54-72, 86-88, 110-121; Torstendahl, 1979: 280-283).

The foundation of the *Riksbank* in 1668 did not mean a radical new departure in war finance but it was important and replaced parts of the loan given earlier with crown land as security. It provided the state with valuable credits already in the war of 1675-79 (Fredriksson, 1976: 71-72). After the death of Charles XII in 1718 the state had a debt to the bank of 8.5 million *daler silvermynt* (d s) while the traditional form of raising loans with crown land as security only had provided 2.3 million d s. The total debt of the state at that time was around 64 million d s, most of which had been raised without any other security except trust in the state's ability to pay its debts.<sup>14</sup> The financial history of the Great Northern War is to a large extent unwritten but it is obvious that the view of leading financial administrators in 1700 that credits for war could not be raised after the *reduktion* was much too pessimistic (Cavallie, 1975: 94). The state, from 1719 to 1772 controlled by the estates which represented most of the lenders, paid regular interest on its debts and repaid it in a slow process during the eighteenth century (Åmark, 1961: 6-15, 598-647).

The exception was the copper coins issued by Charles XII from 1716 to 1718 as substitutes for silver coins (*nödmynt*) at a nominal value of 26.6 million d s. They soon lost in market value and in 1719 the estates decided to reduce their value to half the nominal value. 7/8 of the new nominal value was paid with papers, promising payment as soon as possible. These papers were eventually honoured. This sudden partial default on the debts left by Charles XII has remained famous in Swedish financial history, although it was not much different from the inflation caused by issues of paper money in Sweden's eighteenth and early nineteenth century wars. They all left domestic debts, partly paid by inflation, which was accepted as permanent losses for the owners of the paper money during reconstructions of the monetary system in 1776, 1803 and 1830 (Åmark, 1961: 6-15; Andreen, 1958-61).

Large loans to the Swedish state on the international market began to be raised only in 1766. Amsterdam firms like Hope & Co, J. & C. Hasselgren and Fizeaux, Grand & Co came to dominate the issues of

<sup>14</sup> 1 *daler silvermynt* was from 1716 equal to 1/3 *riksdaler* (Åmark, 1961: 3).



Swedish state bonds. Loans were also placed in Genoa, Hamburg, Antwerp and Leipzig. The loans were raised during several decades and they were important for financing both past wars and new military efforts by the Swedish state. By 1811 the foreign debt amounted to 11.5 millions *riksdaler*, of which 10 million was funded debt. Most of it was never paid. In 1812, when Sweden went to war with Napoleon, the Parliament decided to cancel two thirds of the foreign debt on the grounds that it was held by enemies, that is, it had been issued in territories which now were occupied by France. Naturally the financial markets in these regions boycotted loans to Sweden for many decades but in the nineteenth century that did not matter much as Sweden could raise large loans in Great Britain and France for investments in railways and other infrastructure projects during the industrialisation period. The remaining third of the debt was paid by Great Britain, which transferred the French colony Guadeloupe to Sweden (formally to Crown Prince Karl Johan personally) as a reward for Sweden's (and the former French marshal Bernadotte's) rather daring change of side even before Napoleon was defeated in Russia. The island was bought back by Britain in 1813 (and returned to France in 1814) and the money was used to pay foreign investors in Swedish bonds (Åmark, 1961: 619-660).

## **7. Contributions raised by armed force**

Swedish resource extraction for war from occupied territories reached its apogee during the Thirty Years War. Attempts to create a similar base for the war effort in Poland-Lithuania in 1655 soon turned out to be failures due to grassroots resistance. Fertile Denmark was on the other hand an almost welcome addition to the list of enemies in 1657 as it provided the Swedish army with excellent conditions for provisions (Torstendahl, 2006). In the war of 1675-79, a Swedish attempt of "peaceful" occupation of Brandenburg led straight to a politically undesired war in which Sweden for a change had to fight Danish soldiers on its own territory.

In the Great Northern War, Charles XII initially concentrated his efforts on defeating Poland-Lithuania and Saxony. Whether he did that for political or logistical reasons is difficult to know for certain but it is obvious that Poland provided Sweden with a large territory from which it could feed an enlarged field army through requisitions. In 1706-07 even Saxony was occupied to force the Elector to give up his Polish crown and

leave the war. When Charles XII turned east against Russia he must have hoped that a similar policy would be possible but Tsar Peter I thwarted that with a ruthless scorched earth strategy. In 1712-13 a Swedish army made a last attempt to occupy territory for resource extraction in northern Germany or Poland but the effort failed. It was never repeated.

## 8. Subsidies

Foreign subsidies began to be paid to Sweden during the Thirty Years War. Apart from symbolic support from the Dutch Republic and Russia around 1630, France paid substantial subsidies during 1631-34 and 1638-48, a yearly average of 343,000 *riksdaler* during 18 years of war. In relation to the value of the contributions, provisioning and quarters which the Swedish army extracted from the German population (several million *riksdaler* every year) these subsidies were limited but they replaced more than half of the custom income in Prussia, which from 1630 to 1635 had given a yearly average of 620,000 *riksdaler*.<sup>15</sup> Politically, subsidies served the purpose of offsetting France's much smaller military participation in the German War, in comparison to Sweden's, while the two powers should act as equal partners in peace negotiations.

The next major conflict Sweden was involved in, the Northern Wars 1655-60 was fought with considerable success against several enemies without major allies and without subsidies. During the aristocratic regency for Charles XI (1660-72) Sweden had chronic problems with balancing the budget. The aristocrats were unwilling to increase taxes on themselves and they were consequently unable to persuade other groups in the society to increase their taxes. Subsidies were looked at as a possible solution but the aristocrats were not interested in new wars. They searched for alliance partners who were willing to pay for a Swedish army on the continent without committing it to actual war. Various negotiations followed, including a surprising alliance with Spain in 1668 with the aim of protecting the Spanish Netherlands from France. In the end, Louis XIV won the game for a Swedish alliance. In 1672 he promised to pay Sweden 400,000 *riksdaler* a year for maintaining an army in

<sup>15</sup> Wendt (1933): 239; Glete (2002): 246; contemporary calculations of local contributions to the Swedish army: Oschmann, 1991.

Northern Germany. In 1674 he promised to increase the sum to 800,000 *riksdaler* if Sweden entered the war. That turned out to be the case and in the following war with Denmark and Brandenburg Sweden suffered both humiliating defeats and large losses of men. Subsidies were important for the war effort but the political lesson was to stay out of alliances which threatened to drag Sweden into large wars not in her own interest (Wittrock, 1914-17; Fredriksson, 1976).

That policy was, with minor exceptions upheld under Charles XI and Charles XII. Towards the end of the Great Northern War, Europe's great powers began to pay Sweden subsidies because they were concerned about the long-term effects of Sweden's weakened position in northern Europe. France sent subsidies from 1715 to 1721 and Great Britain from 1719 to 1721, without asking any favours in return. The new situation in northern Europe, with Russia as a great power with a considerable weight in the European balance of power, created new opportunities for Sweden. Other great powers became interested in alliances with Sweden and for that purpose subsidies were paid in a more regular fashion with the purpose of increasing Sweden's military readiness. Great Britain and France paid subsidies in 1727-29, France from 1738 to 1743 and again from 1747. By then subsidies had become almost a regular part of the income side of the Swedish financial system and France paid them with brief interruptions until 1789. Subsidies were much increased during Sweden's participation in the coalition war against Prussia (1757-62) and during the personal regime of the francophile Gustav III from 1772 on. For brief periods Sweden also received financial support from Russia and the Ottoman Empire.

Most of these subsidies were paid in peace-time as part of defensive alliances. They were hardly the cause of Sweden's participation in any of its brief wars after 1721. The wars against Russia in 1741-43 and 1788-90 were fought because the regimes in Sweden erroneously believed that rapid and easy victories could be gained. The Prussian War would not have been fought without the French money, but Sweden had no alliance obligation to fight offensive wars and again victory was believed to be easy in a powerful coalition with France, Russia and Austria. Subsidies had however become a normal part of Sweden's fiscal system and their absence would have created considerable problems and a reduction of Swedish military and naval expenditures.

After 1789, when French money ceased to arrive, reductions became inevitable, and especially the naval construction programme was re-

duced. Sweden now looked for allies who might be interested in paying for increased Swedish military spending or a limited low-risk participation in the continental wars. After various frustrations, Great Britain turned out to be a reliable paymaster of a Swedish war effort. It started in 1805 when Sweden joined as a minor partner in the great alliance against France with an army on the continent. When the alliance was defeated by Napoleon and Russia changed side, Sweden became involved in wars with Russia and Denmark-Norway in 1808-09, losing Finland to Russia. Around one third of the war costs was paid by Great Britain (Åmark 1961: 855). After a brief interlude in 1810-11, when Sweden and Great Britain formally were at war, the new Swedish regime under Crown Prince Karl Johan (Bernadotte) joined Russia and Great Britain as allies, again with British money as the means of maintaining a Swedish army on the continent.

It has often been assumed that Sweden's position as a great power was impossible to uphold without large inflows of foreign resources. The reality was different. Huge war efforts like those in the 1620s, 1655-60 and 1700-15 were made without any foreign support. Subsidies were actually of marginal importance except in the 1670s, and then mainly because domestic politics had been locked in a conflict where foreign money looked like a convenient solution. Sweden's position as a medium-sized military power after 1721 was on the other hand to a considerable extent the result of the European balance of power, which made it possible for alliances to be formed in which Sweden, thanks to its geographical position and its inherited reputation as a military power, could make any profit. By the early nineteenth century, Sweden was unwilling or unable to fight wars without a massive inflow of foreign subsidies.

## **A Moderate and Rational Absolutism. Spanish Fiscal Policy in the First Half of the Eighteenth Century**

*Agustín González Enciso*

According to the theory of the “fiscal military state”, states need to raise more funds as wars become increasingly expensive and, at times, more numerous too. War tends to be taken for granted as a constant feature of society, so this financial need stands to reason. It should also be remembered that waging war and maintaining law and order was the states’ most important public responsibility in the eighteenth century, so military and naval expenses accounted for an extremely high percentage of total spending, topped up with administrative costs. These latter costs also increased in line with the need for an increasingly complex bureaucracy to meet the growing needs of the armed forces, in the form of both financial and logistic resources.

Spain in the first half of the eighteenth century was no exception to this rule. Like all the other countries of that time, the Spain of Philip V and Ferdinand VI was faced with the need of increasing its revenue trawl to meet its defence obligations. How did it do so? The purpose of this paper is to show the main structural lines of the Spanish exchequer (*hacienda*) in the first half of the eighteenth century and also to explain the main financial policies of the governments of that time. Historians often base their analyses on the premise that the financial revolution undertaken by Holland in the sixteenth century and then copied and improved by England in the late seventeenth century was the explanation of these countries’ military success at certain historical moments and was hence the role model to follow. There is certainly no doubt about the efficiency of the system but any comparison calls for a prior knowledge of the terms being compared. If there were some countries like Spain with no Anglo-Dutch-like public-debt system in the eighteenth century we cannot simply draw from this the predisposed conclusion that such countries were backward. Neither would it be any more enlightening

to lay the blame too hastily at the door of absolutism and its political procedures. Rather should we try to understand first Spain's particular situation in the eighteenth century, the possibilities it could draw on and the mindset it had to cope with, all in light of the prevailing circumstances of the time.

This paper aims to evaluate first and foremost the inherited situation and the difficulties of bringing it into line with current needs. This inheritance refers not only to the fiscal structure but also to the prevailing attitude about how the *hacienda* should be run and the reasons for this attitude. Secondly it will be argued that many measures of varied ilk were in fact taken in the first half of the eighteenth century, greatly increasing Spain's revenue trawl. These measures significantly improved its financial and military possibilities, as was borne out only too clearly by the international feats pulled off at this time, especially the various treaties signed in mid century (Treaty of Aix-la-Chapelle in 1748; the Keene-Carvajal commercial treaty in 1750, for example). Finally I will try to weigh up the financial changes and how far they helped to gird the country's loins for future action. As a sneak preview of these conclusions we can point out here that this will not be a complete success story. The shortcomings will also be dwelled on, especially in terms of the country's ill-preparedness for the commitments looming up in the second half of the century. Nonetheless we are dealing with a case of active management, with a sound approach to the problems and clear objectives sought, albeit sluggishly at times. Growth was undoubtedly achieved, especially on the strength of a more efficient management. Above all we are dealing with a *hacienda* that tried to dig itself out of the deep hole it had slumped into during the seventeenth century and endow its armed forces with an appreciable capacity for action, thereby restoring Spain to pole position on the grid of international prestige (González Enciso, 2003a).

### 1. Three Inherited Situations

The eighteenth century and the government of the new Bourbon dynasty inherited a very old exchequer structure, forged right back at the start of Spain's modern centralised state under the Catholic monarchs (Ladero, 1973). Subsequent additions then tagged onto the system did not affect its structure much, simply phasing in new fiscal elements to

the same organisational scheme. This basic scheme was inherited from the Crown of Castile, which would become the core of the Spanish Royal Exchequer (*Hacienda Real*). In the fifteenth century, the Castilian exchequer was founded on four mainstays: the *patrimonio real* (crown property), *impuesto* (taxes, fundamentally the sales tax called *alcabala*), the *regalías* (rights of the king), consisting in revenue from customs duties and *estancos* (state monopolies), and the *servicios* ("services" by the kingdom at the request of the Crown) (Artola, 1982: 16). In the sixteenth and seventeenth centuries the *patrimonio real* dwindled in importance. Other sales taxes, always of negligible importance, were added to the *alcabala*. Customs duties were reinforced, including a special excise on wool imports, as were the monopolies, especially the state monopoly on American precious metals and the other two important *estancos* created in the seventeenth century, on salt and tobacco. The American precious-metal monopoly tended to be singled out for special attention, in view of its particular importance. Services also grew during these two centuries as the *cortes* (parliaments) brought in new direct taxes, which then became locked into the fiscal structure. Finally the monarchs received the revenue corresponding to them from the non-Castilian territories of the monarchy, the Crown of Aragon and the Kingdom of Navarre, as well as the income they obtained from the Basque provinces, ostensibly subsumed long ago in the Crown of Castile but still with their own special tax system. All these regions were considered in tax terms to be *foral* regions, where tax and *servicio* arrangements were not the same as in Castile; there were also some variations here in the *regalías*. In the sixteenth and seventeenth centuries the revenue from the *foral* regions was meagre in comparison to Castilian taxes and the *cortes* of these territories were in general more loath to impose *servicios* than the Castilian parliaments. To all the above must be added the ecclesiastical taxes received by the king from the various church institutions.

#### a) *The Fiscal Structure*

Come the eighteenth century, the fiscal structure was based on four main revenue sources or *rentas* (type of tax or group of taxes). Throughout the century as a whole these four types generally and regularly accounted for about 80 percent of the Spanish monarch's total revenue, so the rest can be largely ignored for our purposes here. First and foremost comes

the provincial revenue (*rentas provinciales*). This term defines the set of indirect taxes and direct *servicios* collected only in the provinces of the Crown of Castile (hence the term *provinciales*). It lumps together very different taxes. The most important were the *alcabala* and *servicios*. The *alcabala*, a sales tax levied on all transactions, had a theoretical value of 10 percent but with four additional percentage points tagged on at various moments, bringing the *alcabala*'s potential value up to 14 percent of commercial transactions. The *servicios* had been accepted by the Castilian *cortes* in the previous centuries, many thence becoming incorporated permanently into the tax system. They included the traditional direct taxes, the *pechos*, paid by all non-privileged taxpayers. As well as the *alcabala* and *servicios* there was another tax called the *millones*, a tax created in the late sixteenth century on certain foodstuffs, theoretically paid by the whole population (Ulloa, 1977). The very heterogeneity of the different types of tax was one of the main snags in managing the *rentas provinciales*. Administrative unification of these taxes, almost certainly achieved at the end of the seventeenth century, was therefore one of the most significant fiscal breakthroughs (Gelabert, 1999). Nonetheless, although administratively unified, this revenue still included very varied taxes (tax on mercantile trade, direct taxes, indirect taxes): the failure to discriminate between them would be one of the greatest hindrances to their reform.

Next came the general revenue (*rentas generales*), so called because it was collected throughout the whole Spanish territory, albeit in different ways. This heading included all customs revenue, in turn made up of different taxes, varying from region to region. Be that as it may, as a *regalía* (right of the king), customs were set up on all border crossings.

The main *estancos* or state monopolies were those set up on tobacco and salt. The tobacco revenue (*renta del tabaco*) especially became increasingly important in the eighteenth century, outstripping all other taxes. The tobacco monopoly affected both its manufacture and sale, so the consumers' only legal choice was to buy the king's tobacco, or else turn to the contraband market.

In the eighteenth century the amount of precious metal received by the king from the Americas, especially silver, rose anew. The *hacienda*'s portion, theoretically one fifth of the total production, corresponded to the king by virtue of his *regalía*. The rest of the production was sold off freely by the *asentistas* (government supply contractors) of the mines and merchants.



Finally, there was also an eighteenth-century increase in the amount of money paid to the king by the Crown of Aragón, thanks to the centralising measures introduced in the *Nueva Planta* decrees at the start of the century. This money was a tidy sum at first but then tailed off in comparison to the other sources of royal income.

The following tables show the percentage trend of each revenue source in the total income of the Spanish *hacienda real*:

Table 1 *Percentage shares of the main revenue sources in 1702*

1 <i>Alcabalas</i> , <i>tercias</i> (tithes), <i>cientos</i> (another sales tax on sales, exchanges and mortgages) and <i>servicios</i>	35.2%
2. <i>Servicios de millones</i>	22.3%
3 <i>Almojarifazgos</i> (customs duties), <i>Indias</i> (customs duties on the American trade) <i>puertos secos</i> (domestic customs duties) and <i>lanas</i> (wool tax)	12.8%
4. Salt	9.6%
5. Tobacco	7%

Source: Kamen, 1974: 232-33. The total gross royal revenue was 96.7 million reales. Given that this total is close to 100, the actual amounts of each tax are fairly close to their percentages. Other revenue sources raised the total to 120.3 million reales.

Table 2 *Average Revenue Figures from 1730 to 1742*

	<i>Millions of reales</i>	<i>Percentage</i>
1. <i>Rentas provinciales</i>	57.4	27.2%
2. <i>Rentas generales</i>	22.2	10.5%
3. Tobacco	40.2	19.0%
4. Salt revenue	14.9	7.0%
5. <i>Equivalentes</i> of the Crown of Aragón	17.2	12.7%
Total	210.7	100%

Source: Archivo General de Simancas, Secretaría de Hacienda, 2354; Fernández Albaladejo, 1977.

Table 3 *Percentage of the Different Revenue Sources*

	1763/69	1770/79
	%	%
1. <i>Rentas provinciales</i>	12.10	12.8
2. Tobacco revenue	12.04	15.4
3. <i>Rentas generales</i>	8.10	9.1
4. Funds from the Americas	10.50	12.1

Source: Merino, 1987: 38 ff. In this case the most important revenue sources account for less than 50 percent of the total. This is not because there were more important revenue sources but rather because of the large amounts of unspent money carried over from one year to another and the accounts treatment of unpaid bills. If we exclude these accounting effects, the aforementioned revenue sources still provide the highest percentage of the hacienda's net income.

These tables show that, at the beginning of the century, the *rentas provinciales* (numbers 1 and 2 of table 1) accounted for a very high percentage of the *hacienda's* total income. This percentage then fell throughout the first half of the century to about 12 percent by the sixties. The falling percentage share of *rentas provinciales* was offset by phased-in increases of other taxes: first of all came the *equivalentes* of the Crown of Aragón (the new taxes created in this territory with the *Nueva Planta* decrees of 1707-1714), levelling off in value thereafter; then came a notable rise in the *rentas generales* on the back on an increase in mercantile activity; finally there was an especially noteworthy increase in the monopoly revenues, from tobacco and American precious metals. All these figures give a fairly good idea of the inherited fiscal structure in terms of income, and how it evolved during the first half of the eighteenth century.

b) *Fiscal Forbearance and Fiscal Even-handedness  
between Castile and Aragón*

We have now seen, therefore, how the eighteenth-century Spanish *hacienda real* was a carbon copy of the Castilian financial tradition, which had been maintained during the sixteenth and seventeenth centuries, with the lion's share of the revenue coming from the subjects of the Crown of Castile. Philip V tried to iron out this lopsidedness, so that the sub-

jects of the Crown of Aragón would pay equivalent sums to those the Castilians had to fork out: hence the name of the new taxes set up on those kingdoms: *equivalentes*. The ideal chance for this fiscal reform came when these territories were brought back into the fold after their rebellion during the Spanish War of Succession. In 1704 they had risen up and spread the war, already underway in the Spanish monarchy's European territories, to the whole Peninsula. The initial idea was to establish in the Crown of Aragón some taxes similar to those of the Castilian *rentas provinciales* but it soon became clear that it would be inefficient and even impossible to copy that system. Instead a system of cadastral assessment was brought in, evaluating the regional wealth as the basis for the corresponding tax. The new taxes represented a fiscal revolution in the Crown of Aragón, whose subjects saw how their payments to the king rose during the twenties, by which time the system was in full swing. Nonetheless it soon became clear in subsequent years that the system, established with fixed quotas, had no growth capacity. In fact the king's *equivalentes* revenue became bogged down throughout the eighteenth century at the level established in the thirties. Table 2 shows how the Aragon revenue accounted for a high percentage at first but then fell away as the king's other revenue grew while the *equivalentes* trod water.

The increasing of tax revenue from Aragón revealed a desire not only for even-handedness – all subjects are equal before the king – but also rationality, since it was by no means efficient to run different tax systems. Nonetheless, these objectives were not achieved. Another end in view was to offset the lessening of the tax burden on Castile. Back in the reign of Charles II, after the defeat against France and Portugal and with smaller military obligations, the governments of that time began a policy of fiscal *alleviation* (tax reduction) of Castilian subjects. This policy was inaugurated in 1669 and kept up during the rest of the century (Sánchez Belén, 1996). The tax-alleviation policy was directed almost exclusively at *alcabalas*, *millones* and *servicios*, i.e., the set of taxes known in the eighteenth century as *rentas provinciales*. This was an acknowledgement of the Castilian taxpayer's inability to cope with the growing taxation pressure (Gelabert, 1977: 327)<sup>1</sup>.

<sup>1</sup> The fiscal burden sustained by each taxpayer in the first half of the seventeenth century was calculated by Gelabert as “a sum equivalent to another tithe in extremely difficult circumstances”.

In the first years of the next century the new dynasty tried to continue this line of low-key taxation and to a certain extent succeeded in doing so, despite the needs created by the War of Succession, the new expenses being defrayed by extraordinary measures (Artola, 1982: 224; Castro, 2004: 199). The conflict certainly raised the levels of fiscal income. As Kamen has also pointed out, however, most of this increase came not from ordinary income (from habitual fiscal revenue), nor even from the new Aragón taxes (which had not yet been established in all the territories of this crown during the whole conflict and were therefore not yet at full yield) but from extraordinary revenue sources: ecclesiastical taxes, confiscations, universal taxes (Kamen, 1974: 245). This would also be the tonic for the rest of the century: financing wars with extraordinary revenue.

During the eighteenth century, however, in contrast to seventeenth-century practice, the extraordinary taxes ended with the urgent needs that had led to them. The general tonic in the seventeenth century had been for the *cortes* to approve *servicios* for a given period, after which this tax would become a fixture. In the eighteenth century the *cortes* were not called, the king himself taking authoritarian decisions on the taxes to be collected or “donations” (always in fact compulsory), asked for. These measures, however, would end with the corresponding conflict. Not only that, there were also often attempts to compensate the contributors; i.e., many donations were taken in the form of loans, with attempts to pay them back afterwards. This meant that income would fall with the return of peace, often with the aggravating circumstances of an increased level of debt. This happened after the War of Succession and would also occur after other conflicts.

Absolutism, therefore, at least in the first half of the eighteenth century, was by no means synonymous with fiscal arbitrariness or willy-nilly tax increases. Quite on the contrary there was in fact a policy of fiscal forbearance, trying not to increase the taxes paid by all subjects (i.e., the taxes included in the *rentas provinciales*) and placing the emphasis rather on more selective taxes paid on a voluntary consumer basis, such as the tax on tobacco.

Hard facts on the value of ordinary revenue are few and far between in the aftermath of the War of Succession and tend to be unreliable to boot. Nonetheless these figures do tend to bear out the picture we have painted above. Between the end of the war and 1730 there was a fall in *hacienda* income from *rentas provinciales* (Fernández, 1977: 57; Artola,

1982: 306), clearly showing a continuation of the policy of alleviating the tax burden on Castile. This was the general opinion held by the various writers with some political clout, such as Uztáriz and above all Ensenada. Uztáriz considered the *alcabala* to be “one of the main causes of the destruction of most of our crafts” (Uztáriz, 1742: 320). Bernardo de Ulloa was later to insist on the importance of lightening the tax load of the *alcabala* and *millones*; for his part Ensenada thought that attempts should be made to increase tax revenue without overloading the taxpayer, and clearly advocated, as others had done earlier, the abolition of *rentas provinciales* (Fernández, 1977: 71-75). The idea that the system of *rentas provinciales* was harmful had already been mooted at the end of the seventeenth century and was maintained throughout the whole of the eighteenth century and afterwards. Historians have tended to echo it since, though some doubts have recently been shed on this received opinion, as we will see later.

The *alleviation* of taxpayers, therefore, was a desideratum that led in practice to a stagnation of *rentas provinciales* until well into the century (Fernández, 1977: 57, 77; Artola, 1982: 343): in 1722 the net worth of the *rentas provinciales* was 62 million reales; by 1750 this value had risen to only 62.6 million reales. In the intermediate decades the figures had always been low, averaging 57.4 million reales throughout the period. As we have already seen, the *equivalentes* of the Crown of Aragón were brought in partly as an attempt to offset this standstill in the *hacienda*'s most important tax revenue, with the hope of an increase in customs income – largely unfulfilled on a regular basis – fuelled by the increasing imports of precious metal and above all the tobacco revenue. The latter was the only revenue that rose on a regular basis thanks to tinkering with the official sales price (González Enciso, 2006b).

### c) *The Debt*

The third inheritance received by the Spanish *hacienda real* in the eighteenth century was a backlog of public debt. The high debt levels run up during the most tempestuous war years of the seventeenth century were now a thing of the past, but the debt backlog still needed to be paid off. The serious problems caused by debt in the past had bitten deep into the Spanish mentality, this effect still lingering on throughout the eighteenth century. Two particular hangovers of this situation are of interest to us

here. The first is tangible, so to speak, in terms of the interest payments to be met. The second is intangible, in terms of the anti-debt mindset itself. The first is relatively clear. The debt interest at the start of the century has been calculated at 100 million reales, at a time when ordinary revenue added up to only 90 million reales. This could obviously not be paid off at a stroke, but had to be nursed progressively (Torres, 2006d). This debt had been built up in *juros*, interest-bearing state bonds. But not all this *juro* debt had been taken up voluntarily; much of it had been imposed on the bearers when the state declared suspension of payments. In other words the loan debt run up in the sixteenth and seventeenth centuries was still pending in the form of *juro* interest. It would seem that Charles II's governors, like the previous ones, had not found a way of paying of this debt without imposing a heavy new interest-paying burden on the *hacienda*. Philip V, as we will see later, eventually found a way to rid himself of this historic debt.

The second effect of this debt, unsurprisingly, was debt aversion. The *idée fixe* of most governors at this time was to avoid further debt like the plague. Eighteenth-century statesmen lived with the worry about how to pay back the debt and the desire not to generate any more; the overriding concern now was to balance the books. In fact it was not until the nineties that any significant loan was taken up. The financiers involved did not operate strictly speaking in the loan business but only in the supply field. Another debt was in fact run up but it was a current debt based on the *hacienda's* payment defaults at a time when it was strapped for cash. A new suspension of payments had to be resorted to in 1739. This was not because new loans had been asked for, however, but rather because, for the moment, the backlog could not be written off.

\* \* \*

The three abovementioned inheritances acted more or less as blinkers for eighteenth-century treasury experts; they could see no other course. The first inheritance, the fiscal structure, laid down two clear guidelines: the idea of lessening the tax burden pre-empted any increase of the set of taxes in the *rentas provinciales*, which were deemed to be an indissoluble unit. Spain's absolutist state could have increased taxes arbitrarily but resisted the temptation. Failing that, attempts had to be made to increase foreign trade or fall back on the state monopolies. Another option

was to change the whole system; this was attempted but proved to be too difficult; no one had ever done any such thing in Europe.

The second inheritance led to the double play of alleviating Castilian taxpayers while raising taxes for Aragón. The first part of this strategy was successfully negotiated, thanks to the levelling out of the value of the *rentas provinciales*, whereas the second was implemented only with partial success. Aragón taxpayers paid more but still less than Castilians and less than their economic growth might have allowed them to contribute if the reform had been tackled differently. Here a solution was no longer possible, especially if the state wished to avoid rocking the boat in the Crown of Aragón. Here again absolutism reined itself in (according to some, the damage had already been done).

The third inheritance, the public-debt aversion, prevented any reasonable debt market from being set up in the first half of the century and even afterwards. It is impossible now to calculate what its input might have been but it must surely have been considerable. Debt was anathema in the first half of the century: governors dreaded it and potential investors mistrusted state solvency. Everyone was aware of the score. The problem was not only to avoid new debt but also to pay off the backlog. Governors therefore opted to reduce debt interest, thwarting the expectations of financiers, large and not so large.

The triple inheritance thus marked out the course to follow. There were three possibilities. The first two, as we will soon see, seemed easier because they depended on political action. Such action was always considered to be efficient, maybe even more efficient than it really was, due to the power of royal authority. Here absolutism did flex its muscles somewhat. These two political possibilities were, firstly, to tinker with the organisational and administrative details of all the revenue sources, secondly, to rack up monopoly revenue and lower interest rates. We will speak of these options below.

The third possibility was trickier. It involved increasing income indirectly by boosting economic activity. Brisker industrial activity and trade would generate more production and wealth and ipso facto more revenue for the *hacienda*. This option would also have the added advantage of “making useful citizens”, according to the tenets of enlightened thinking. This is the path of economic reform, a path along which some headway had already been made since the reign of Charles II; it has turned out to be a commonplace of historians dealing with the economy and politics of eighteenth-century Spain. We do not intend to go into

this matter here because it needs a more detailed analysis. We would only like to point out that, taken as a whole, the economic reforms of the eighteenth century had a patchy success; in general the most substantial reforms came late. Witness the famous decree of free trade with the Americas, which broke the single-port state monopoly (first Seville and then Cádiz from 1717 onwards) for Spain's trade with its American domains; this was not brought in until 1778, while it had been mulled over much earlier. Meanwhile the other reforms that had been phased into trade with the Americas had gleaned only limited success.

## 2. The Administrative Option

The revenue-boosting options with the best chances of political success were system modifications, such as working on the organisation. All the governments of the first half of the eighteenth century worked along these lines. The method was classical: husband resources better, improve the management while trying to cut costs. Charles II's Spain had already made many efforts of this type (Sánchez, 1996). One of them was the division of revenue into the two concepts of *rentas provinciales* and *rentas generales*, as an aggregate of taxes that could be jointly managed. Later on, now in the eighteenth century, came the creation of the *Tesorería General* (General Exchequer), also called *Tesorería Mayor* (Major Exchequer), in turn an inheritance of Orry's measures to meet the needs of the War of Succession, now being fleshed out a few decades later. This organisation brought all the monarchy's income and expenses under unified control, albeit with different accounting arrangements. Important steps had therefore already been taken by the beginning of the eighteenth century though much remained to be done. I will mention here only two of the most important possibilities; one successfully brought in, the other unsuccessful. The first is the bringing of all revenue into direct administration by cutting out the former tax farmers. The second, failed option was the attempt to bring in a single contribution based on land revenue and lucrative activities. This reform, whose germinal idea also dates back to the seventeenth century, was studied in depth for some time (at least from the forties onwards) only to be definitively ditched in 1776.

The centralisation of the management and collection of taxes by the *hacienda*, eschewing tax farmers, went back a long way. The process was



initiated right at the start of Philip V's reign, finally coming to fruition in 1749. By 1703 Orry's plan had already been tabled. This plan had been designed to modify the tax system, including, among other measures, the centralisation of all revenues. Ten years later, in 1713, now back in Spain after his recall to France, Orry embarked upon his reorganisation of the revenue collection process (Kamen, 1974: 254); under his plan there would be only one official tax farmer in each province, with responsibility for all the taxes of this province. Afterwards there were further attempts to shrug off the yoke of the revenue farmers, or at least cut down their number and bring them under closer control. Such attempts were made on the *rentas generales* and wool revenue, which were temporarily organised in 1715 as a single tax. General revenue then remained under central administration up to 1725, without any appreciable increase in income (Artola, 1982: 285). Some years later, in 1740, general revenue was brought back into administration due to the continual abuses of the tax farmers, this arrangement then becoming definitive. Wool revenue, for its part, was under administration until 1731, then to be newly farmed out until the general decree of 1749 (Aquerreta, 2001).

It was certainly no easy task to bring in direct administration, even though the tax farmers came in for some harsh criticism at the time. But they seemed to wield enough clout to fend off any attempts to change the system before their contracts ran out. The government concentrated its efforts on tobacco revenue. Special attention was paid to this product because of its yield at the start of the century, its future growth prospects and its relative independence of economic activity and purchasing power. It was not a staple, after all, but a voluntarily consumed product. In 1701 a new system was brought in whereby the general tax farmer was replaced by a general superintendent, appointed by the king. There were still provincial tax farmers but subject to an administrative authority controlling the whole group. Between 1726 and 1730 the definitive step was taken towards direct administration (Escobedo, 2007).

At the moment we have no detailed information on the process of bringing the other *hacienda* revenues under direct administration but we do know that the aforementioned revenues of tobacco and general revenue plus part of provincial revenue and saltmine revenue had been brought under direct administration by 1749. As for provincial revenue, from 1741 onwards, Campillo took it into administration on an experimental basis where no suitable tax farmer had come forward. Between 1743 and 1748 the process was brought to completion in this and other

revenue sources, culminating in 1749 as far as the most important taxes were concerned, though some minor ones took somewhat longer (Angulo Teja, 2002a: 53). Subsequent figures bear out the shrewdness of this decision, with a sizeable increase in net income, as shown in table 4. Although it is no longer possible to prove that this increase was solely due to the reforms, it is striking that the improvement should come about precisely in the years following their introduction.

Table 4 *Net Revenue in Millions of Reales*

1747	214.6
1748	214.6
1749	292.2
1750	292.2
1751	280.6
1752	280.6
1753	376.6

Source: Merino, 1987.

As for the single contribution, it did not gel. The idea of a single revenue source based on the income of private individuals was fine in theory. It would be much easier to manage than the motley glut of *rentas provinciales*. Without any doubt it would involve a head-on clash with the privileged classes. Such opposition certainly did exist (Otazu, 1978a: 75) and historians have traditionally explained the failure of this reform precisely in terms of these vested interests. Nonetheless, the spadework for bringing in the new tax began in 1749<sup>2</sup>; it was also set up on an experimental basis in the province of Guadalajara but then stalled. The fall of its driving force, Ensenada, in 1754, disrupted the process, which was then renewed in the reign of Charles III in 1760. It was suspended anew after the uprising against Esquilache (1766), the new minister who had revived Ensenada and his project (Andrés-Gallego, 2003: 141). Studies

<sup>2</sup> The famous Ensenada Cadastre is a wide-ranging survey on the wealth of the Castilian provinces, which has been handed down to us as the legacy of that great endeavour and represents today a priceless source of information.

began again in 1770 only to be finally dropped six years later (Matilla, 1947; Otazu, 1978a: 20).

Recent research has shed doubts on the longstanding idea that provincial revenue was a burden for the Castilian economy (Angulo, 2002a: 226, 318). If so, this would mean that the opposition to these taxes might have had more of a psychological or ideological basis. This fact, together with the technical difficulties of bringing in the reform and *hacienda's* fear (based on trials) of raking in less than expected might well have been reasons enough to balk the reform, together with the opposition of the privileged classes. In any case, during the second half of the century, and in default of any modification of the system of *rentas provinciales*, the need became clear for an increase in tax revenue, and this was in fact implemented from the sixties onwards. In the first half of the century the taxes of the *rentas provinciales* had not been raised, among other reasons, because of a general reliance that the system would be reformed in the future. This reform unforthcoming, a rise in taxes now came to be regarded as essential.

### 3. The Debt and the Monopolies

#### a) *The Debt*

As already pointed out, another way of increasing revenue was to whittle down the debt and rack up monopoly income. By whittling down the debt I am referring to the policy of arbitrarily trimming the creditors' interest rates. The creditors were the holders of the *juros*, state bonds to cover the debt previously run up by the *hacienda*. This policy also went back a long way. In the last third of the seventeenth century, after which the state issued no more *juros*, the interest rate was brought down from a possible 14 percent, in some cases, to a maximum of 5 percent (Toboso, 1987: 177). This policy would then be pursued at various moments of the eighteenth century, especially during the War of Succession or in the short war against Great Britain in 1727. In this latter year the interest rate was slashed to 3 percent. To make matters worse, there were to be no exceptions; no one would be exempt from this reduction (Torres, 2007c).

This policy could at times be aggressive against the financiers. In the suspension of payments of 1739, for example, the state agreed to pay the

debt of the affected firms against the money raised by the *juro* reduction policy, at an interest rate of 3 percent. Only nine years later, however, on occasion of the Austrian War of Succession, the state decided to review the “legitimacy” of the *juros* and came down hard against the main bearers of this debt, especially against the group of 1739. The board set up to study the legitimacy problem in 1748 brought in a verdict against this group, precisely the financiers, as we have just seen, who had been fobbed off with *juros* as payment of their debt a few years earlier (Torres, 2007c). It has been calculated that the state was paying annual *juro* interest of about 100 million reales at the start of the eighteenth century; by 1748 this figure had been slashed to only 26.7 million reales.

There was another debt, this time generated during the reign of Philip V. As Torres Sánchez has shown most of it was run up from the thirties onwards, i.e., during the financial straits created by the conflicts of the last decades of Philip V’s reign. On the monarch’s death this debt amounted to about 520 million reales. It was a current debt, mainly comprising payment default and delays. Although interest payments were modest (low rates had been accepted at all moments) there was still a will to pay it off entirely, even though this was not actually achieved until the reign of Charles III<sup>3</sup>.

In any case whether it was an old debt that the state wished to trim right down without entirely wiping it out or a modern debt that it did wish to pay off entirely, there was a clear will not to run up any more significant debts. Once again the mentality of the governors here is clearly dependent on the inherited situation. The current mindset towards the debt problem, as we have already seen was a hangover from the dire financial straits of the sixteenth and seventeenth centuries, a time of state bankruptcies, and encumbrance of state income with the interest-bearing *juros*. On the one hand there was a clear need to pay back the creditors; on the other hand this seemed to be throwing good money after bad: there was no sense in setting up a new debt system when the interests of the former were still being paid off. In these circumstances

<sup>3</sup> As Torres Sánchez has pointed out the reduction was greater in later years, until whittling the debt down so much that interest payments became negligible by the end of the century. I would like to thank Rafael Torres Sánchez for his generosity in letting me consult an as yet unpublished work of his with groundbreaking ideas on this matter of the debt, little studied hitherto. The ideas expressed in these paragraphs are based on that work.

the option of setting up a market open to the participation of everyone did not seem to be feasible. It was necessary, first and foremost, to continue along the path of complete debt extinction, albeit in this case with an arbitrary manipulation of interest rates. Such underhand practice was justified on the grounds that it affected few people, who were well off to boot.

Injustice apart, the political risk of this tinkering was probably low. As is only logical the holders of the historic debt were financiers, large or small, associated with the policy of the previous dynasty. The new dynasty had come to power on the shoulders of new financial elites and new protégés (González Enciso, 2003a: 55 ff.; González Enciso, 2007b). This meant that financial support could be obtained from relatively new financiers who had not been harmed by the first debt-reduction measures and hoped for bountiful opportunities from the recently inaugurated dynasty. In all likelihood the suspension of payments of 1739 and the campaign waged by Campillo and Ensenada against the tax farmers was a slap in the face for many of them, but by then the governors had solved many of their fiscal income problems. In fact it was precisely the debt-interest reduction policy that had enabled fixed costs to be slashed. Moreover, by an accounting sleight of hand, this sum had been turned into an income source. The unpaid sums were deposited in a new organisation set up in 1715, the *Pagaduría de juros* (Juro Payment Office) which then dipped into these funds as though they were a new revenue source for the *hacienda*.

In light of all the above, it seems to be clear that the Bourbon government's debt policy in the first half of the century solved many problems, for the debt was really being reduced and the state had more money to play with. A delicate line had to be trod between the ongoing saving endeavor, new financial needs and running up new payment defaults and delays. Against all the odds, however, some headway was indeed being made.

#### b) *The Monopolies*

If the debt-reduction policy seemed to work, the monopoly-milking policy was even more successful. The two strategies were completely different in means but the end was the same: increasing income without needing to raise the subjects' tax burden. This circle could be squared if

more money came in from the Americas or tobacco revenue rose. Both in fact happened.

Uztáriz wrote that “tobacco revenue is your Majesty’s surest and most useful income, and will become increasingly opulent if your administration gives it the care and attention it deserves” (Uztáriz, 1742: 367). The phrase “most useful” probably means that it had the highest yield with the lowest cost and risk; it was the “surest” because it was the least prone to value swings and also produced the quickest returns; furthermore, it was easy to make it more “opulent” because a simple improvement in management procedures would produce a sharp growth. Uztáriz knew what he was talking about because he had past experience in both absolute and relative terms with other revenue, dating back to the last third of the seventeenth century (Rodríguez, 2002: 59 ff.).

Rodríguez Gordillo has compiled the known values for the tobacco yield in the seventeenth century (Rodríguez, 1984: 16). We note down some of them below:

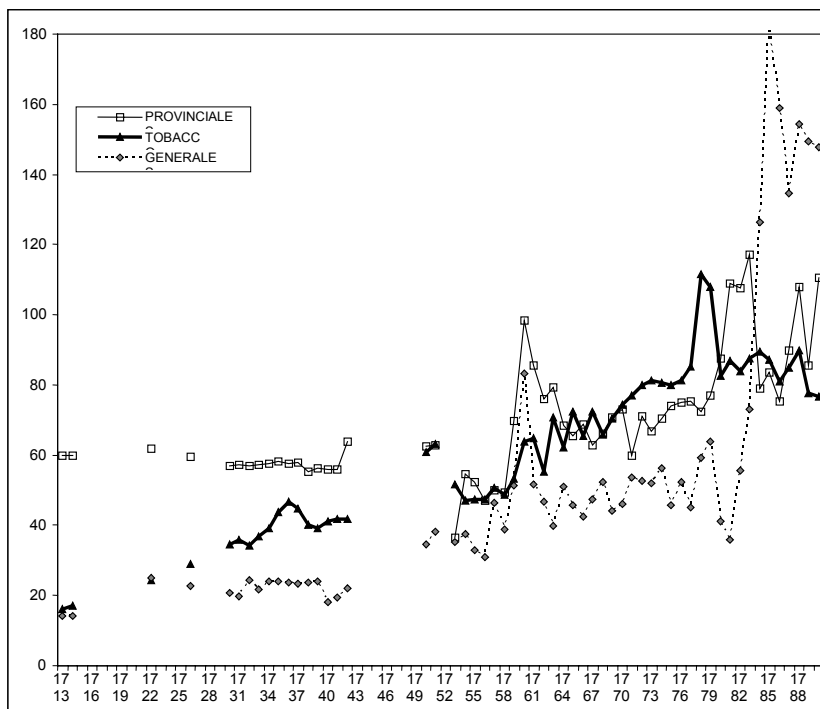
1671	114.8	million maravedis
1691	170.7	ditto
1694	201.5	ditto
1698	304.5	ditto

This increase in the value of the tobacco revenue was occurring in the aforementioned context of tax alleviation, with *rentas provinciales* at a standstill. There were also other measures of tax reform. Artola has referred, for example, to the measures taken in 1688. He comments that, rather than increasing income, these measures tended to free up existing income and make it more readily available to the exchequer, doing so on the basis of organisational reforms. In fact, he says “the only item that recorded a significant increase was tobacco revenue” (Artola: 1982:221).

The situation would be similar in the eighteenth century, tending to follow the policy lines laid down by Uztáriz and swelling the tobacco component of the *hacienda*’s income. Tobacco revenue was the first to be brought into direct administration by the *hacienda* in 1730. Moreover, this administrative change went hand in hand with a sharp hike in prices throughout the whole of the thirties. The price rises caused a fall in demand and no doubt a concomitant increase in contraband consumption but the *hacienda* raked in more: the higher price more than made

up for the fall in official sales. In all, the tobacco revenue rose from 28.9 million reales in 1726 to 44.6 million reales by 1736 (Pulido, 1998: 306, Rodríguez, 2000: 53-103).

Graph 1 *Net value trend of the tobacco, provincial and general revenue in millions of reales de vellón, according to available sources*



Source: Drawn up by the author from the figures of Kamen, 1974, Fernández Albaladejo, 1977, Pieper, 1992 and Merino, 1987. This graph suffers from the logical imperfections of having been culled from many different sources. But the point here is not to show absolute figures but rather to trace the mutual relationship of the various revenue sources. In this sense, despite the drawbacks, the graph does show nicely the long term trend of each of the revenue sources.

Graph 1 shows what we might call the fiscal success of tobacco, especially from 1680 to 1780, although here we are interested only in the first half of the century. The graph compares the net value trend of the three main revenues of the Spanish *hacienda*: *provinciales*, *generales* and

tobacco. It clearly shows the stagnation of *rentas provinciales* (tax alleviation), the fluctuations of general revenue, caused by mercantile problems, and the clearly upward trend of tobacco revenue in comparison with the other two. The rises in the three revenues from about 1740 to 1743 were largely due to the introduction of direct administration, but with clearly superior results for tobacco revenue.

For quite some time, therefore, tobacco revenue was the main leverage for raising the *hacienda's* total income. Furthermore, the sheer success of this revenue suggested that the old ways, based on state monopolies, were still efficient means of increasing revenue, so it did not seem to be essential to make any thoroughgoing overhaul of the *hacienda's* structure (González Enciso, 2006b). The pundits of physiocracy claimed that commerce should be the mainstay for increasing economic activity and hence state income, but this was no easy task. The real world called for quicker returns; experience had shown that the revenue most likely to grow in the first half of the century, and perhaps even afterwards, was tobacco, on the back of price increases. There were drawbacks to this, however. Tobacco revenue could be raised by increasing the price of manufactured tobacco but with the obvious risk of turning consumers away from the king's tobacco. This is why a different tactic was pursued from the forties onwards, consisting in freezing the price and improving the organisation of the whole revenue and product-distribution process. This policy was maintained and bore fruit up to 1779.

Neither was it a simple task to ensure a higher import of precious metal from the Americas using only political measures, apart from the general policy of maintaining the monopoly and defending the empire. But luck was also on Spain's side in this case because the colonial mines turned out huge amounts in this century, much of it then flooding into Europe, as Morineau has quite clearly demonstrated (Morineau, 1985). Be that as it may, a distinction does have to be made between what America produced and what got to Europe and, in our case, what got to Spain. Furthermore, the king could not get his hands on all the precious metal that came to Spain; much of it was for private individuals and another large share for the *hacienda*. One characteristic feature of the eighteenth century is that the share of private individuals, fruit of the mercantile activity, grew more than *hacienda's* share (García-Baquero, 1976, I: 347), although the latter sum also grew. In any case the trade upturn also produced a positive knock-on effect for the *hacienda* in the form of increased customs duties. The amounts of precious metal arriv-



ing in Spain, according to the well-researched figures recently produced by García-Baquero (García-Baquero, 2003: 55-56), were the following:

Table 5 *Precious Metal from America Arriving in Spain Five-yearly averages in millions of pesos*

22-22	6.33
27-27	10.2
32-32	10.4
38-38	10.6
43-43	4.7
48-48	6.7
53-53	23.1
58-58	17.1

*Source:* Averages calculated by the author on the basis of García-Baquero's figures, 2003.

These are five-yearly figures (six years in the first period). Of these sums the *hacienda* received about 14 percent (García-Baquero, 1976, I: 345); this was tantamount in some years to almost half the net value of ordinary revenue, as demonstrated by table 4. This shows the importance of American precious metal and the premium that governments placed on its arrival, to help offset the deficits being run up elsewhere. It was in fact possible to balance the books precisely because of this monetary input (Torres, 2006).

As can be seen, the trend was clearly upwards. From the initial fairly low position (1717-22) the imports rose steeply in the second five-year period and then held steady for a long, fifteen-year period. These figures may cloak fairly wild year-to-year swings but, year after year, the metal would arrive in the end and fulfil its function. The warfare period running from 1739 to 1748 cut down the flow, although a significant amount continued to arrive. After the war there was an upturn, accounting for the high values recorded in the five-year period 1749-53; in any case the level of activity also rose, because the following five-year period, the last of our series, also chalked up high figures.

A conclusion can probably be drawn from these figures. They show that the governors' aim of balancing the books was possible precisely due to a source of natural wealth in the form of precious metals and the

*regalía* that the king held over this trade. If this natural boon was accompanied by an improvement of the trade and a greater defence of the shipping, the picture would be even brighter; but this would have to be achieved by other methods.

#### 4. Feats and Possibilities

The picture we have painted here of the eighteenth-century Spanish *hacienda* is obviously less complex than the actual situation. Nonetheless the factors we have dealt with are the most important ones, both in terms of numbers and fiscal policy, and therefore do give, in our opinion, a fairly good idea of the stance of the governors of the time. This was without doubt a traditional stance largely shaped and determined by two salient factors: the existence of a heavy debt and the deep-seated aftermath of the financial ruin experienced in the seventeenth century by the Castilian taxpayers, the most heavily encumbered of all. Change was essential but according to this inherited mindset change consisted in avoiding as far as possible both direct and indirect taxes, with their dampening effect on the business and everyday life of the people, turning instead to the revenue possibilities offered by the king's monopoly rights, especially over tobacco and shipments of precious metal from the Americas. What can safely be claimed is that this way of working was successful in the first half of the century.

Three things can be said about this success: firstly that it was based on a carefully nurtured and deliberate idea; secondly that arbitrary action was not resorted to but rather a measured political approach weighing up all the options and, finally, that the main goals were achieved: increasing income, alleviating the tax burden and funding the wars of the period with a minimum debt, while also wiping out the historical debt.

In the middle of the century the minister of finance and instigator of some of the most important measures taken, the Marqués de la Ensenada, flaunted his success to the king in his famous *Representación* of 1751. The text echoes the same success stories as we have just mentioned above: alleviation of the tax burden, as represented by the standstill in *rentas provinciales*; direct administration of crown revenue, which more than offset this stagnation of provincial revenue; the growth of *rentas generales*, on the strength of increasing trade and, above all, the rise in tobacco revenue (Fernández, 1977: 78).

Ensenada also hoped that the situation would improve even more in the future. This forecast was not borne out by subsequent events. Graph 1 shows that the value of the *rentas generales* hardly grew at all in the seventies while the temporary growth of *rentas provinciales* came about precisely because Esquilache ditched the tax alleviation idea in the sixties. It was tobacco revenue that posted the biggest growth in this period, together with the shipments of precious metals from the Americas (not shown in the graph). The growth in tobacco revenue, however, came to a halt after 1780.

All this suggests that the tactics used in the first half of the century had their limits. It is worthwhile pointing them out. Firstly, it must be said that the tax alleviation policy was excessive. The growth in population and also in its wealth, which we know from other sources, suggests that a moderate rise in provincial revenue would have been possible. Secondly we should not forget the long-term failure of implementing the *equivalentes* in the Crown of Aragón. It was something of a flash in the pan. Much the same could be said of direct administration: at first it produced a big increase in revenue but then gave no real footing for any further development.

The fixation with tobacco and American metals had its drawbacks. Firstly, the price-hiking policy had its limits; each price rise was matched by a fall in official demand and an increase in contraband, which created other problems. In the thirties and forties this policy worked but problems were already glimpsed on the horizon, for no more price rises were brought in for the next thirty years. What happened in 1780, after a big price rise had been decreed the year before, is proof of the limitations of the monopoly-based approach.

As regards the precious metal from America, it was now a static source of wealth also laced with a certain dash of unpredictability. There was no way of increasing the mine output, and it could not be turned into tax revenue without huge transport and fleet-protection costs. Fortunately for the governors of the time, the American mines kept up a brisk output but the costs of using it kept up apace.

In short the whole financial structure, with its management and reforms, worked during the first half of the century and by about 1750 the state had managed not only to increase its revenue but also to restore Spain's status on the world stage. But there was still some way to go. Ensenada and Carvajal were well aware of this when, in the reign of Ferdinand VI, they mooted the policy of armed peace, i.e., staying out of

the theatres of war while working away behind the scenes to strengthen the economic bases of the financial system. Their successors thought likewise and Spain at first stayed out of the Seven Years' War. In the reign of Charles III, Esquilache shifted the goalposts. He understood that there was still a need to continue with the reforms but urgent political needs led to a break with the financial policies pursued hitherto, with Spain finally entering the Anglo-French conflict. This marked the start of a new era for the Spanish *hacienda*.

# The Spoils of War: U.S. Federal Government Finance in the Aftermath of the War for Independence, 1784-1802<sup>1</sup>

*Farley Grubb*

“I know no subject that is So little understood or has been less profoundly examined by the legislative Characters of America, than that of Finance...”

[William Bingham, director of the *Bank of North America*, to Alexander Hamilton, U.S. Treasury Secretary, 25 November 1789 (Syrett, 1962, 5: 554)]

The War for Independence (1775-83) left the U.S. federal government deep in debt. The spoils from winning that war also gave it an empire of land. But exactly how much and how valuable were these spoils? Were they enough to balance out the debts incurred in waging the war? In this sense, did winning the war pay for the war? The answer to this question may help explain how the U.S. federal government could achieve an excellent credit rating by the mid-1790s despite its massive debt position and poor credit history.

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In 1790, under the new *U.S. Constitution* adopted by Congress in 1789, the federal government restructured its wartime debt. In 1791 this debt totalled \$77 million dollars (face value). Prior to this, the federal government had paid no principal on its wartime debt and had paid no interest on the domestically held portion of this debt. It had been in default for almost a decade. In the late-1780s its bonds, certificates, and indents traded at 20 cents on the dollar (Garber, 1991: 91). And while the federal government made regular interest payments on its debt after it was restructured, it did not pay down the principal nor did it intend to do so anytime soon. By 1802 the federal government was still \$77 million in debt (Grubb, 2007a; *Historical Statistics*, 1975, 2: 1104).

Yet by the mid-1790s the U.S. federal government – mired deep in debt with no intention of paying down the principal of this debt any time soon and having yet to establish a reputation for never missing an interest payment – was still able to garner an excellent credit rating in Europe. John Steele Gordon (1998: 39) observed,

By 1794 it had the highest credit rating in Europe, and some of its bonds were selling at 10 percent over par. Talleyrand, who later became the French foreign minister, explained why. The United States bonds, he said, were “safe and free from reverse. They have been funded in such a sound manner and the prosperity of this country is growing so rapidly that there can be no doubt of their solvency.”

How was this turnaround possible? Many scholars point to the debt restructuring of 1790 as the reason – seeing in it a sort of miracle, a financial revolution where public debt was somehow turned into a “national blessing” (Garber, 1991; Gordon, 1998; Grubb, 2005; Syrett, 1962, 6: 106). And Talleyrand’s quote above does refer to the U.S. debt being “funded in...a sound manner,” i.e. to the debt restructuring plan. But Talleyrand also alludes to the “solvency” of the U.S. government. Solvency as used here would seem to imply a positive net asset position.<sup>2</sup> The literature on the national debt, however, seems to have forgotten this, i.e. forgotten the spoils of war.

<sup>2</sup> That Talleyrand meant by “solvency” a positive net worth position with land being the principal asset can also be deduced from the fact that in the 1790s he had flirted with speculation in U.S. western lands.

Between 1784 and 1802 the U.S. federal government acquired a treasure trove of assets – lands legally gained as the spoils of war in the Treaty of Paris that recognized U.S. sovereign independence from Britain. While initially the individual states claimed these lands based on old colonial grants and Indian treaties, one by one the states from 1781 through 1802 ceded their claims to the U.S. federal government. By 1802 the federal government possessed 220 million acres of potentially saleable land lying between the Mississippi River, the Great Lakes, Florida, and the current western borders of the original 13 states (see Map 1). The states considered that the lands they had ceded to the federal government were to be used to pay off or provide security for backing the debts incurred to gain independence. Thus, by the mid-1790s the U.S. federal government may have been seen as a good credit risk because it had acquired enough land assets and had credibly committed those land assets to fully backing its debt position.

What follows makes the case for this interpretation. First, a model is presented to show how, when, and why a government's asset position affects its creditworthiness. This model when applied to the U.S. of the 1780s and 1790s highlights the importance of land assets to the U.S. government's credit position. Second, evidence is presented to show that contemporaries considered asset-backed debt to be a crucial component of U.S. public finance, viewed the public domain and the national debt as inexorably linked, and knew the amount and approximate value of the government's land assets. Third, the time path of federal government land-asset acquisitions from 1784 through 1802, along with estimates of their value, is presented. Finally, whether the U.S. federal government had enough land assets to fully back its debt position in the 1790s and was credibly committed to so back its debt is considered.

The 1784 starting point for the data analysis is determined by the Treaty of Paris (late 1783) which recognized the U.S. as an independent entity. Without sovereign recognition, the debts incurred and lands claimed prior to 1784 lacked legitimacy. The end point of 1802 is chosen because it was when the last of the lands granted under the Treaty of Paris and claimed by one the original 13 states (Georgia) was finally ceded to the U.S. federal government, and because in 1803 the Louisiana Purchase materially changed the borders of the United States and the government's land asset position.

Map 1 Land ceded to the U.S. federal government by the 13 original states, 1784-1802



Source: Stephenson, 1934: 248. For similar maps, see Hughes and Cain, 2007: 94 and Tindall, 1988: 266.

## I

Do government assets matter to creditworthiness? A government budget constraint model shows that they do. The government's budget constraint connects its cash flows to its capital stocks. In particular, the government's yearly tax revenue ( $T_i$ ) minus its yearly expenditures ( $G_i$ ) must equal the change in its stock of net capital assets ( $A_i - D_i$ ), where  $A$  are saleable capital assets – e.g. inventories of specie and land, and  $D$



are the face value of its debt liabilities – principally callable perpetuities with the principal payable only at the government’s discretion for the U.S. after 1790.

$$T_i [(t * I_i) + O_i] - G_i [((1 - k_i) * R_g * D_i) + E_i] = \Delta(A_i - D_i)$$

Debt liabilities (**D**) include both interest-bearing bonds (**B**) and non-interest-bearing fiat paper money (**M**), i.e. **D** = **B** + **M**. The U.S. federal government did not issue new **M** after 1779 and the new *U.S. Constitution*, by convention vote in 1787, prohibited the federal government from issuing new **M** thereafter (Farrand, 1996, 2: 308-10; Grubb, 2006a: 43-4, 60-2). As such, only the **B** portion of **D** factors into **G**. Paying down or retiring any of the face value of the principal, either of **B** or **M**, without liquidating assets, however, would still require a current-year budget surplus (**T** – **G** > 0). As part of the debt restructuring plan of 1790, the federal government effectively and irrevocably defaulted on the remaining **M** issued prior to 1780 that was still outstanding in 1790 (Grubb, 2007a). As such, distinguishing between **B** and **M** in the model is not necessary.

For the U.S. federal government in this period the principal tax revenue (**T<sub>i</sub>**) came from a tariff (*t*) on current imports (**I<sub>i</sub>**), with **O<sub>i</sub>** representing all other current-year tax revenues such as from the whiskey tax. Yearly expenditures (**G<sub>i</sub>**) comprise the interest the federal government owes on the face value of its current stock of interest-bearing debt (**R<sub>g</sub>** \* **D<sub>i</sub>**) that it does not default on (1 - *k<sub>i</sub>*), where *k<sub>i</sub>* is the default rate (0 ≤ *k<sub>i</sub>* ≤ 1), with **E<sub>i</sub>** representing all other current-year expenditures, such as military expenditures.

When the government has a budget surplus [**T<sub>i</sub>** – **G<sub>i</sub>** > 0] it has excess revenue and, assuming that it is not in default on its interest payments (i.e. that *k<sub>i</sub>* = 0), it must either increase its stock of assets [**A<sub>i</sub>** + 1 > **A<sub>i</sub>**] and/or pay down and retire some of the principal on its debt [**D<sub>i</sub>** + 1 < **D<sub>i</sub>**]. When the government has a budget deficit [**T<sub>i</sub>** – **G<sub>i</sub>** < 0] then the shortfall in revenue must be covered either by selling some assets [**A<sub>i</sub>** + 1 < **A<sub>i</sub>**] and/or borrowing more [**D<sub>i</sub>** + 1 > **D<sub>i</sub>**] and/or increasing its default on its interest payments (*k<sub>i</sub>* + 1 > *k<sub>i</sub>*). If an important goal of the government is to protect its creditworthiness by keeping *k<sub>i</sub>* = 0, then increasing *k* is not an option but a last resort. If the government has no assets (**A**) then it has to increase its debt liabilities (**D**). However, increasing **D** via interest-bearing liabilities raises **G** in the future [(**R<sub>g</sub>**

\*  $D_{i+1} > (R_g * D_i)$ ] which puts increased pressure on the budget to stay in deficit [ $T_{i+1} - G_{i+1} < 0$ ], particularly given that in this period the U.S. federal government's ability to raise taxes in the near future was tightly constrained, i.e. it is likely that  $T_i \geq T_{i+n}$ . This scenario puts the government in an unsustainable long-run position and so puts increasing pressure on the government to increase  $k$ , i.e. to default in the near future (Taylor, 1950: 5). It also puts the government in a position where the likelihood of its being able to pay down or retire any of the principal of  $D$  at face value in the near future is greatly reduced. This in turn makes potential lenders reluctant to contract with the government in the near future.

This last scenario fits the United States in the late 1780s as James Madison explained it to Thomas Jefferson on 24 October 1787,

Such is the state & prospect of our fiscal department that any new loan however small, that should now be made, would probably subject us to the reproach of premeditated deception. The balance of Mr. Adams' last loan will be wanted for the interest due in Holland, and with all the income here, will, it is feared, not save our credit in Europe from further wounds. It may well be doubted whether the present Govt. can be kept alive thro' the ensuing year, or untill the new one may take its place. (Rutland, 1977, 10: 218; Swanson, 1963: 36)

As such, the government's net asset position ( $A_i - D_i$ ) should be an important factor in assessing its creditworthiness. A positive net asset position functions as a safety valve that could potentially relieve the pressure to default when the budget unexpectedly falls into deficit, and also provides a potential resource to draw on if the government's ability to pay off or retire  $D$  at face value became a concern to potential lenders. It is not the actual current revenue or contemporaneous cash flow from the sale of  $A$  that matters to assessing the government's creditworthiness but  $A$ 's potential saleability to cover or back the government's current and future debt position. As a sovereign entity the U.S. federal government could not be forced to liquidate its assets to pay off its debts when in default like a private business. Nevertheless, default is costly to sovereign entities in terms of lost reputation, a poor credit rating, and reduced access to borrowing in the future – a cost that the sale of capital assets could avert.

The government's budget constraint can be transformed into a model of its creditworthiness. The government's relatively poor credit rating

compared with the market is measured as the risk spread between the interest rate the government is charged ( $\mathbf{R}_g$ ) and the rate in the marketplace on low risk loans ( $\mathbf{R}_m$ ). This risk spread is a positive function of the government's reputation failure, i.e. its record of not paying interest on its debt – how close  $k$  is to 1 – as a weighted average ( $a$ ) over the recent past; a negative function of the government's expected budget surpluses ( $\text{Ex}[\mathbf{T}_{i+n} - \mathbf{G}_{i+n}]$ ); and a negative function of the government's net asset position ( $\mathbf{A}_i - \mathbf{D}_i$ ).

$$(\mathbf{R}_g - \mathbf{R}_m) = f[(\mathbf{A}_i - \mathbf{D}_i); \text{Ex}(\mathbf{T}_{i+n} - \mathbf{G}_{i+n}); \sum_{i=1}^{i-n} (a_i * k_i)]$$

[Where  $\sum_{i=1}^{i-n} (a_i) = 1$ ; ( $\mathbf{R}_g - \mathbf{R}_m \geq 0$ ); and  $n$  = a number of years looking into the future ( $i + n$ ) or into the past ( $i - n$ )].

Between 1781 and 1790 the U.S. federal government made next to no interest or principal payments on the domestic portion of its debt (Taylor, 1950: 2). In effect,

$k = 1$  over the recent past so that even when the federal government started paying interest in full ( $k = 0$ ) after 1790, its reputation for paying the interest on its debt would not fully recover until well after 1790.

Expected budget surpluses did not look promising even after 1790 – even after the new constitution gave the U.S. federal government an independent power to levy taxes directly on the public (Taylor, 1950: 5). The government's revenue expectations were in doubt given its inability to prevent smuggling and enforce tariff ( $t$ ) payments; in doubt given fluctuations in tariff revenues (the main source of tax revenue) due to ubiquitous fluctuations in foreign trade ( $\mathbf{I}_i$ ); and in doubt given questions about the government's ability to raise other taxes ( $\mathbf{O}_i$ ) considering the public's willingness to engage in violent large-scale tax revolts, e.g. Shay's Rebellion 1786-7, the Whiskey Rebellion 1794, and Fries' Rebellion 1798 (Bouton, 1996; Richards, 2002; Syrett, 1972, 17: 2-6, 9-58, 61-72, 77-8; Szatmary, 1980; Tindall, 1988: 320-1, 333-4).

All three rebellions were tax revolts that involved calling out the regular army on a substantial scale to confront its own citizens. The Whiskey Rebellion witnessed the only time a sitting U.S. President as commander-in-chief has taken the field at the head of an army. The founding fathers were aware that public resistance was a constraint on raising new taxes. In late 1789 James Madison, congressman from Virginia, wrote to Alexander Hamilton, the Secretary of the Treasury, that, "In my opin-

ion, in considering plans for the increase of our revenue, the difficulty lies, not so much in the want of objects as in the prejudices which may be feared with regard to almost every object. The Question is very much What further taxes will be *least* unpopular?" (Syrett, 1962, 5: 439)

Hamilton may have also doubted the government's ability to raise enough revenue to meet expenses. In late 1789 as Secretary of the Treasury he broached the possibility of quietly approaching the French to see "...if the installments of the Principal of the debt [the U.S. owed France] could be suspended for a few years, [as] it would be a valuable accommodation to the U.S." (Syrett, 1962, 5: 426, 429) Letters between Hamilton, as Secretary of the Treasury overseeing the tariff revenue tax, and his port agents often alluded to the problem of smuggling, the difficulty of enforcing the tariff, and the difficulty of collecting tariff revenues. As one customs officer put it in late 1789, "The difficulties that have occurred in the Execution of the laws respecting the Customs have been infinite, and present themselves daily. The System itself is the most complicated and embarrassing of anything that has employed my attention...[and] the Owners pay with reluctance...others not at all without compulsion; and the law provides none." (Syrett, 1962, 5: 422, 427, 459-64; 1972, 17: 6-7)

Hamilton expected revenue shortfalls from the tariff in the 1790s and suggested new taxes, such as the Whiskey Tax. This in turn sparked the 1794 Whiskey Rebellion (Tindall, 1988: 301, 320; Syrett, 1963, 7: 225-36). In addition, the yearly value of imports (the principal revenue source of the government via the tariff) fluctuated greatly during this period making tariff revenues uncertain and difficult to forecast (North, 1966: 19-32, 228). This was due in part to the problem the U.S. had, as a new nation, establishing trade treaties with foreign powers (Tindall, 1988: 316-8, 330-1). In 1786 James Madison decried "...the present anarchy of our commerce..." and Hamilton expressed a similar sentiment in 1794 in a letter to President George Washington (Rutland, 1973, 8: 502-3; Syrett, 1972, 16: 261-79).

Finally, the annual federal budget actually incurred deficits in 1792, 1794-5, and 1779, and came close to being in deficit in 1793, 1798, and 1800 (*Historical Statistics*, 1975, 2: 1104; Gordon, 1998: 206). As suggested above, these deficits were not totally unanticipated or a surprise to anyone. Creditors had to be concerned about the effects these deficits would have on the federal government's ability to meet its future debt obligations purely from current tax revenues.

As such, the net asset position of the U.S. federal government ( $A_i - D_i$ ) may have been especially important in this period for establishing and sustaining the government's creditworthiness. A positive net asset position would have been viewed as a potential safety valve to the pressure of increasing  $k$  to balance annual budget shortfalls in a world where the government's yearly tax revenue capacity was still in doubt.

## II

Were land assets viewed as backing the U.S. federal government's debt? The evidence indicates that it was. The linkage of land assets to public finance was deeply rooted in the American experience. Colonial governments formed land banks where a subject's land served as collateral for loans of government paper money. A colony's paper bills of credit were understood as being backed not by specie but by the mortgaged land assets of the colony (Grubb, 2006b; Kemmerer, 1939; Newell, 1998: 215-29; Perkins, 1994: 44-6; Ratchford, 1941: 10-2, 18, 21-2).

Similarly, states made use of land to back and pay off their revolutionary war debts. For example, in the state cessions of lands to the federal government, some states retained reserve lands for paying soldiers and war debts, e.g. Virginia and Connecticut held on to sizable chunks of Ohio as their "western and military reserve" lands. Land being used to back public debt was not a strange concept – it was the first and obvious consideration of people in this era (Donaldson, 1884: 82-5; Gates, 1968: 62; Hibbard, 1939: 10-4, 53; and Map 1 above).

In the early Congressional debates over ceding western lands to the U.S. federal government, using said lands to back or pay off the nation's revolutionary war debt was a prominent theme (Donaldson, 1884: 60-81; Gates, 1968: 61). In 1779 congressmen from Delaware and Maryland asserted that the western territories were "gained from the King of Great Britain, or the native Indians, by the blood and treasure of all, and ought therefore to be a common estate, to be granted out on terms beneficial to the United States." (Donaldson, 1884: 61-2) In 1780 congressmen from New York asserted that the "...uncultivated territory within the limits or claims of certain States ought to be appropriated as a common fund for the expenses of the war..." (Donaldson, 1884: 63) Later in 1780, Congress resolved that all lands so ceded by the states to the federal government "shall be disposed of for the common benefit

of the United States...” (Donaldson, 1884: 64) The obvious common benefit was to service the national debt.

After 1780, Congress continually linked its land assets with the national debt (Gates, 1968: 61-2, 124). On 5 September 1782 a congressional committee favoured “ceding of the western lands, to be sold to ‘discharge the national debt.’” (Hibbard, 1939: 33). Congress’ *Ordinance of 1784* pledged that the proceeds of the sale of public land now belonging or which may belong to the United States were to be used solely to pay off the national debt until said debts were fully satisfied (Hibbard, 1939: 4-5). In a 1786 report to Congress it was suggested that, “The whole product [from sales of western lands]...is [to be] appropriated for the payment of the principal and interest of the national debt, and no part thereof can be diverted to other purposes.” (Syrett, 1962, 5: 63) Tench Cox, in a pamphlet circulated at the Constitutional Convention in Philadelphia [1787], observed that “The general impost...*the sale of the lands and every other unnecessary article of public property ... would put the sinking and funding of our debts within the power of all the states.*” (Syrett, 1962, 5: 63 – italics added)

Finally, under the auspices of the new *U.S. Constitution*, Congress passed on 4 August 1790 the debt restructuring and funding act which stated (United States Congress, *The Debates and Proceedings in the Congress of the United States*, 2: 2251),

That the proceeds of the sales which shall be made of lands in the western territory, now belonging, or that may hereafter belong, to the united states, shall be, and are hereby appropriated towards sinking or discharging the debts, for the payment whereof the United States now are, by virtue of this act may be, holden, and shall be applied solely to that use, until the said debts shall be fully satisfied.

Financiers also understood the importance of a pledge of security by the government to the backing of its debts in order to foster public confidence in its debt position. For example, William Bingham, a director of the *Bank of North America*, in a letter to Alexander Hamilton, U.S. Treasury Secretary, on 25 November 1789 explained,

The Credit of the Funds [the national debt] must essentially depend on the permanent Nature of the Security; & if that is not to be relied on, they will fall in value, the disadvantage of which, Government will experience by the payment of an exorbitant Interest, whenever it is compelled to anticipate

its revenues, by the Negotiation of domestic Loans. ... If we offer a less Substantial Security, we must Submit to a consequent Depreciation in the Value of our Funds.... A Government should therefore pledge every security it can offer, to engage the Confidence of the public Creditors, which, if once impaired, the pernicious Effects can be felt in all its future Dealings. (Syrett, 1962, 5: 540-1)

Bingham's reference to "security" of a "permanent nature" would seem to mean government capital assets. And the only capital assets the U.S. federal government possessed at this time in any substantial quantities were its western lands.

Along a similar vein, Hamilton in July of 1782 wrote, "The disposal of the unlocated lands will hereafter be a valuable source of revenue, and *an immediate one of credit.*" (Syrett, 1961, 3: 105 – italic added) In a letter to Nathaniel Chipman, 22 July 1788, dealing with how the national debt might affect Vermont tax-wise if it joined the union, Hamilton said, "The public debt, as far as it can prudently be provided for, will be by the Western lands and the appropriation of some general fund." (Syrett, 1962, 5: 186) As Secretary of the Treasury he said in his January 1790 "Report on Public Credit,"

It is presumable, that no country will be able to borrow of foreigners upon better terms, than the United States, because none can, perhaps, afford so good security. Our situation exposes us less, than that of any other nation, to those casualties, which are the chief causes of expense; our incumbrances, in proportion to our real means, are less, though these cannot immediately be brought so readily into action, and our progress in resources from the early state of the country, and the immense tracts of unsettled territory, must necessarily exceed that of any other. The advantages of this situation have already engaged the attention of the European money-lenders... (Syrett, 1962, 6: 89)

That the public domain and the national debt were viewed as inexorably linked can also be seen in the many schemes to swap government land for government debt in large amounts that were in the works in the late 1780s. For example, in 1787 the Ohio Company offered to purchase one and one-half million acres and the Scioto Company another five million acres of the public domain. In 1788 Judge John Cleves Symmes made a similar offer for two million acres between the Great and Little Miami Rivers (Donaldson, 1884: 17; Gates, 1968: 70-1; Hibbard, 1938:

44-55; Robbins, 1942: 10-1; see also the land speculation schemes in Sumner, 1968, 2: 251-70).

The founding fathers were aware of and talked about these possibilities. For example, on 23 October 1787, Edward Carrington wrote to Thomas Jefferson, who was in Paris at the time, in reference to the land sale schemes just mentioned,

This mode of sale will relieve the U.S. of much expense, and the progress of the sales promise to be sufficiently rapid to give our people early relief from the pressure of the domestic debt. I am inclined to believe that some successful experiment might be made for the sale [of] a part of the territory in Europe, and have suggested a trial with a few Ranges of the surveyed Townships. (Boyd, 1955, 12: 256-7)

James Madison wrote to Jefferson on 24 October 1787 on the same issue and, after talking about the woeful state of federal government finances and borrowing prospects, said,

Upwards of 100,000 Acres of the surveyed lands of the U.S. have been disposed of in open market. Five million of unsurveyed have been sold by private contract to a N. England Company, at 2/3 of a dollar per acre, payment to be made in the principal of the public securities. A negotiation is nearly closed with a N. Jersey Company for two million more on like terms, and another commenced with a Company of this City for four million. (Rutland, 1977, 10: 218)

William Findley, congressman from Pennsylvania, claimed that proposals for large sales of the public domain were still being made in 1790, but were being ignored by Hamilton (the Secretary of the Treasury). Findley said,

Flint and Parker had agreed to purchase three millions of acres. To the second session of the New Congress, Scriba made proposals for four or five millions. And Hannibal William Dobbyne proposed to take more than all the others, and to settle it with people from Ireland. These proposals were referred to the secretary of the treasury [Hamilton], while he was privately preparing the funding system: but *he never reported on them*....If the proposals of Messrs. Parker, Dobbyne, and others, which were offered before the funding system was originated, had been accepted, it is a moderate computation to suppose that fifteen millions of dollars would have been redeemed. (Taylor, 1950: 62)



He guessed that such schemes might reduce the national debt to \$6 million. Hamilton, himself, in his 1790 “Report on Public Credit” proposed one plan (perhaps disingenuously – see below) whereby a full third of the national debt would be extinguished by swapping it for land (Syrett, 1962, 6: 91-2).

Finally, the public was aware of how much land the government had to sell and what its approximate value was. For example, in an essay published in Philadelphia on 25 April 1781 (and republished there in 1791) Pelatiah Webster (1969: 493, 497) comes surprisingly close to the amount of acres and its total value estimated here (see below). He claimed the government had about 200 million acres of good land that could be sold. He valued it at about one silver dollar per acre on average or \$200 million in total asset value. He also did not think that the “profit from our western lands, when disposed of according to my plan, so very distant as many may imagine.”

The point here is that contemporaries knew how much land the U.S. federal government had, knew its approximate value, and believed the government had pledged the public domain and had the potential to sell large chunks of it if necessary to cover and service the national debt. Gates concluded (1968: 56), “The transfer of these territories probably did more than anything else at the time to give prestige to the government.”<sup>3</sup>

### III

Estimating the U.S. federal government’s land asset position – the amount of acres possessed and their value – year by year from 1784 through 1802 is not straightforward. The cession of lands from states to the federal government was made in different years by different states. In

<sup>3</sup> For more on the land to debt linkage, see Robbins (1942: 15); Taylor (1950: 40); Syrett (1962, 5: 526); and the United States Congress, *The Debates and Proceedings in the Congress of the United States*, 1: 647-54 (13 July 1789); 2: 1345-47 (22 February 1790); 4: 1314 (15 December 1794), 1017-8 (23 December 1794); and 5: 60 (18 February 1829). Even by 1832 congressmen still referred to the requirement of applying the proceeds from the sale of public lands first to payments on the national debt and only after the national debt was paid off could they use the proceeds for some other use (United States Congress, *The Debates and Proceedings in the Congress of the United States*, 5: 1452 [27 December, 1832]; 5: 1475-8 [4 January 1832]).

addition, some state-land-claims overlapped with other states and some land had already been alienated before being ceded or was conditionally retained by the ceding state (see Map 1 and the notes to Table 1). The evidence in the original sources is not organized as a net transfer of land year by year to the federal government. As such, the evidence has to be resorted and closely interpreted to estimate the net saleable land possessed by the federal government by year over this period, see Table 1.

Table 1 *U.S. federal government land assets: the net saleable public domain, 1784-1802*

<i>Year</i>	<i>Accumulated total federal public domain (cession of western lands claimed by the original 13 states)</i>	<i>Public domain sold by the U.S. federal government</i>	<i>Total net saleable public domain in the possession of the U.S. federal government</i>
	<i>in acres</i>	<i>in acres</i>	<i>in acres</i>
	<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
1784	105,801,867		105,801,867
1785	140,361,867		140,361,867
1786	162,161,867		162,161,867
1787	165,297,867	895,874	164,401,993
1788	165,297,867	248,540	164,153,453
1789	165,297,867		164,153,453
1790	165,297,867		164,153,453
1791	165,297,867		164,153,453
1792	165,297,867	202,187	163,951,266
1793	165,297,867		163,951,266
1794	165,297,867		163,951,266
1795	165,297,867		163,951,266
1796	165,297,867	43,446	163,907,820
1797	165,297,867		163,907,820
1798	165,297,867		163,907,820
1799	165,297,867		163,907,820
1800	165,297,867	67,751	163,840,069
1801	165,297,867	497,939	163,342,130
1802	221,987,787	271,081	219,760,969

*Notes and Sources:* Column (1) is derived from Donaldson, 1884: 11; Gates, 1968: 57; Hibbard, 1939: 13. Hibbard's low number for Virginia is used as it appears to account

for some additional restrictions on land transfers that Donaldson and Gates seem to miss. North Carolina's cession of 29,184,000 acres in 1790 was not counted as most of this land, being in Tennessee, had already been alienated. The time path of accumulation of acres was organized by using the year of each state's cession for the portion of land that was undisputed by other states, and for disputed lands among several states by using the latest year of cession among the states claiming that land. Virginia's military tract and the Western Reserve were excluded. Figuring out both the total and the time path of land acquisition from these sources is not an obvious exercise. The data must be re-sorted and so these figures must be regarded as estimates. For example, between 1781 and 1802 total federal government land acquisition in acres is given as 267,730,560 by Hibbard, 1939: 31; 259,171,787 by Donaldson, 1884: 11; 233,416,000 by the *Historical Statistics*, 1975, 1: 428; 233,415,680 by Gates, 1968: 86; 224,975,200 by Gates, 1968: 57. Thus, the numbers given here could be considered a conservatively low estimate.

Column (2) is derived from Donaldson, 1884: 17 and Hibbard, 1939: 55, 100. Hibbard's adjustment to Donaldson's numbers regarding the size and dating of some sales is used. Column (3) is column (1) after netting out the lands sold in column (2).

By 1787, of the 222 million acres that would be ceded by the states to the U.S. federal government, roughly 75 percent had been so ceded. The remaining 25 percent would not be ceded until 1802 (by Georgia). The federal government also sold a small portion of the public domain between 1784 and 1802. These transfers are identified by year of sale and subtracted from the total remaining available for sale. The public domain, net of sales, that was still in the possession of the federal government and potentially saleable was 106 million acres when the Treaty of Paris recognized U.S. sovereignty in 1784. It grew to 164 million acres by 1787, the year the founding fathers crafted a new *U.S. Constitution*. It more or less stayed at that level until 1802 when it grew to 220 million acres with the completion of the land cession by Georgia.

The difficult issue is how to assign a value to these land assets for the purpose of calculating a net asset position. Table 2 uses average prices per acre of the public domain that were actually mentioned and used at the time. This yields a low-to-high range for the value of the public domain. With the exception of the lowest price reported in Table 2, discussed below, the other prices are from actual sales of large tracts of the public domain. Because land is extremely heterogeneous, only the sale of large tracts can give some reassurance that the average price observed is close to a true average price. Because these prices are reported for a specific year and given that prices fluctuated over this period, Table 2 inflation-adjusts them to get time series of average real prices per acre.

Table 2 *Inflation-adjusted nominal prices per acre of U.S. federal government land, 1784-1802*

	<i>\$0.30 an acre in 1790</i>	<i>\$0.75 an acre in 1792</i>	<i>\$1.00 an acre in 1785</i>	<i>\$1.25 an acre in 1820</i>	<i>\$1.60 an acre in 1787</i>	<i>\$2.00 an acre in 1796</i>
1784	0.34	0.81	1.06	1.17	1.79	1.22
1785	0.32	0.77	1.00*	1.09	1.69	1.10
1786	0.31	0.75	0.97	1.06	1.64	1.04
1787	0.31	0.73	0.94	1.02	1.60*	0.99
1788	0.29	0.69	0.89	0.96	1.52	0.88
1789	0.29	0.68	0.88	0.95	1.50	0.87
1790	0.30*	0.71	0.92	1.00	1.57	0.95
1791	0.31	0.74	0.96	1.04	1.62	1.01
1792	0.32	0.75*	0.97	1.06	1.65	1.05
1793	0.33	0.79	1.02	1.12	1.73	1.14
1794	0.37	0.89	1.16	1.29	1.94	1.41
1795	0.43	1.04	1.37	1.55	2.28	1.83
1796	0.46	1.11	1.45	1.66	2.41	2.00*
1797	0.44	1.07	1.39	1.59	2.32	1.89
1798	0.42	1.02	1.33	1.51	2.22	1.76
1799	0.42	1.02	1.33	1.51	2.22	1.76
1800	0.43	1.03	1.34	1.52	2.24	1.78
1801	0.44	1.05	1.38	1.57	2.30	1.86
1802	0.41	0.98	1.28	1.45	2.15	1.67

*Notes and Sources:* The nominal prices listed are inflated/deflated over time using the Bezanson, 1936: 392-3, 140-commodity price index by taking the nominal price as reported for its given year as the true value for that year of an average acre of public land. This price is then taken as equal to 100 for the price index and the Bezanson price index is renormalized to that year. By multiplying that price by its particular renormalized price index (times 0.01) this nominal price is inflation/deflation-adjusted to other years.

\* indicates the year the nominal price was observed.

The \$0.30 price is from Hamilton's 20 July 1790 "Plan for the Disposition of the Public Lands" or "Report on Vacant Lands" sent to Congress 22 July 1790, see Donaldson, 1884: 198-99; Syrett, 1962, 6: 502-6.

The \$0.75 price is from the actual sale of a large seemingly representative block of land in 1792 – the average price for the Erie Triangle land transfer to Pennsylvania (202,187 acres for \$151,640, see Donaldson, 1884: 17, 198).

The \$1.00 price is Congress' minimum price per acre set in the land ordinance of 1785 which held until it was changed to \$2.00 an acre in 1796, see Donaldson, 1884: 197; Hibbard, 1939: 37-41.

The \$1.25 price is the official minimum land sale price set by Congress in 1820, see Donaldson, 1884: 205; Gates, 1968: 127, 140-2; Hibbard, 1939: 63-4.

The \$1.60 price comes from the average price realized on the cash sale of 72,974 acres for \$117,108 in 1787 at New York City, see Donaldson, 1884: 17.

Lastly, the \$2.00 price is the official minimum land sale price set by Congress in 1796 through 1820, see Donaldson, 1884: 200-1; Gates, 1968: 125-33.

The lowest price series based on a large transfer, and what will be used hereafter as the best-guess estimate, is for the Erie Triangle land transfer to Pennsylvania in 1792 [202,187 acres for \$151,640 or an average price of \$0.75 an acre] (Donaldson, 1884: 17, 198). In the same inflation-adjusted range would be the average price of all public domain sold prior to 1800 [1,281,860 acres for \$1,050,085, i.e. \$0.82 an acre], and the proposed one million acre sale to Symmes in 1788 at \$0.67 an acre (see the quotation from Madison above; Hibbard, 1939: 51, 55, 100). By contrast, the highest overall inflation-adjusted price series comes from the cash sale of 72,974 acres for \$117,108 or \$1.60 an acre on average in 1787 at New York City (Donaldson, 1884: 17). This sale, however, was small and selective – appearing to represent only the sale of high valued acres. Thus, it cannot be used to gauge the overall value of the public domain.

The official minimum price set by Congress (which was not strictly adhered to) for purchasing the public domain, which had to be purchased in large tracts – a minimum purchase of a 640 acre lot – was \$1.00/acre in 1785, raised to \$2.00/acre in 1796, and then lowered to \$1.25/acre in 1820 (Robbins, 1942: 15-6). If these prices are inflation adjusted from the year they were enacted back, they are all pretty much identical at \$1.00/acre in 1785 dollars (see Table 2).<sup>4</sup> In 1781, Pelatiah Webster (1969: 493) also placed the average value at one silver dollar an acre. On balance, the time series of real prices based on the nominal \$2.00/acre enacted in 1796 yields the highest price series among the official minimum prices enacted by Congress.

The slowness of sales at these official prices set by Congress, however, suggests that these prices were on the high side of what the true average price of the public domain was. Part of the slowness of sales of the pub-

<sup>4</sup> Interestingly, the sale of the Chickasaw Trust Lands in the central Southern states from 1836 through 1850 (4,025,395 acres for \$3,326,404) yields an average nominal price of \$0.83 an acre which when deflation-adjusted back to 1785 would be approximately \$1.00 an acre (Gates, 1968: 186; Bezanson, 1936: 392).

lic domain early on was due to several states that had retained significant western and northern lands outbidding the federal government for settlers by pricing their lands just under that set by the federal government for the public domain (Gates, 1968: 128; Robbins, 1942: 9). As such, the 1785 price of \$1.00/acre or the 1796 price of \$2.00/acre (inflation-adjusted) should be used only as illustrative of an upper-range-estimate of the value of the public domain.

Finally, for heuristic purposes, a low estimate of \$0.30 an acre is also reported. This price does not come from an actual sale, but is the price that Alexander Hamilton, as Secretary of the Treasury, proposed for extinguishing some of the principal of the national debt by swapping it for western lands in his "Report on Vacant Lands" sent to Congress 22 July 1790 (Donaldson, 1884: 198-9; Syrett, 1962, 6: 504). Hamilton also mentioned a price of \$0.20 an acre in his January 1790 "Report on Public Credit" (Syrett, 1962, 6: 90-1). Hamilton combined two observations to deduce this land price. First, some of the public domain had been sold for \$1.00 an acre which could be paid for either in specie or in public debt at its face value. Second, the public debt, because it was in de facto default, had been trading for \$0.20 to \$0.30 per dollar of face value in the late 1780s. Thus, Hamilton deduced that the price of an acre of land was not \$1.00 as announced but was really only \$0.20 to \$0.30.

Hamilton's deduction, however, is arbitrage inconsistent. Either anyone paying specie for land at the \$1.00 per acre price was a fool or anyone selling their public debt for \$0.30 per dollar of face value was a fool. Something is not right here, and Hamilton's price should be used with caution. Hamilton may have been intentionally undervaluing the price of land in his rhetoric to dissuade Congress from using land to retire debt and to persuade them to go with his plan to turn the debt into callable perpetuities and only use land to "back" the national debt. Or Hamilton may have just been honestly in error about land prices. His rhetorical argumentation often has such a disingenuous tone that it is hard to say (Ratchford, 1941: 52). As such, it may be important to estimate the value of the government's land assets using Hamilton's land price in the off chance that he truly believed that it was the average price of an acre of the public domain – with his actions and funding recommendations as U.S. Treasury Secretary flowing from that belief.

Table 3 presents a range of estimates of the value of U.S. federal government's land assets from 1784 through 1802. Between 1784 and 1802, regardless of what price is used, the value of the public domain grew

by 2.5 to 2.8 times. Using Hamilton's low estimate of \$0.30 an acre in 1790, the value of the public domain was only \$49 million in 1790 when the national debt funding plan was being put in place by Hamilton and Congress, rising to \$90 million by 1802. Using the best-guess estimate of \$0.75 an acre in 1792, the value of the public domain was \$117 million in 1790, rising to \$215 million by 1802. Using the other land price estimates makes these numbers much higher.

Table 3 *Constant dollar value of U.S. federal government land assets, 1784-1802: various estimates*

Dollar value of the federal government land assets (net saleable public domain) evaluated at different estimated nominal average prices per acre as inflation adjusted in Table 2						
Year	<i>At</i> \$0.30 in 1790	<i>At</i> \$0.75 in 1792	<i>At</i> \$1.00 in 1785	<i>At</i> \$1.25 in 1820	<i>At</i> \$1.60 in 1787	<i>At</i> \$2.00 in 1796
1784	35,972,635	85,699,512	112,149,979	123,788,184	189,385,342	129,078,278
1785	44,915,797	108,078,638	140,361,867	152,994,435	237,211,555	154,398,054
1786	50,270,179	121,621,400	157,297,011	171,891,579	265,945,462	168,648,342
1787	50,964,618	120,013,455	154,537,873	167,690,033	263,043,188	162,757,973
1788	47,604,501	113,265,883	146,096,573	157,587,315	249,513,249	144,455,039
1789	47,604,501	111,624,348	144,455,039	155,945,780	246,230,180	142,813,504
1790	49,246,036	116,548,952	151,021,177	164,153,453	257,720,921	155,945,780
1791	50,887,570	121,473,555	157,587,315	170,719,591	265,928,594	165,794,988
1792	52,464,405	122,963,450	159,032,728	173,788,342	270,519,589	172,148,829
1793	54,103,918	129,521,500	167,230,291	183,625,418	283,635,690	186,904,443
1794	60,661,968	131,161,013	190,183,469	211,497,133	318,065,456	231,171,285
1795	70,499,044	170,509,317	224,613,234	254,124,462	373,808,887	300,030,817
1796	75,397,597	181,937,680	237,666,339	272,086,981	395,017,846	327,815,640
1797	72,119,441	175,381,367	227,831,870	260,613,434	380,266,142	309,785,780
1798	68,841,284	167,185,976	217,997,401	247,500,808	363,875,360	288,477,763
1799	68,841,284	167,185,976	217,997,401	247,500,808	363,875,360	288,477,763
1800	70,451,230	168,755,271	219,545,693	249,036,905	367,001,755	291,635,323
1801	71,870,537	171,509,237	225,412,139	256,447,144	375,686,899	303,816,362
1802	90,101,997	215,365,750	281,294,040	318,653,405	472,486,083	367,000,818

*Notes and Sources:* Price per acre indicated in each column comes from the inflation/deflation adjustments to this price in Table 2. The acres of public domain come from Table 1, column 3.

## IV

Were these enough land assets to balance the U.S. federal government debt position? For 1791 and thereafter the answer would appear to be a resounding yes. The U.S. national debt hovered between \$77 and \$83 million from 1791 through 1802 (*Historical Statistics*, 1975, 2: 1104; Gordon, 1998: 206). Thus, as long as the federal government's land assets averaged \$0.50 or more an acre during these years (only needing to average \$0.35 an acre by 1802) the federal government was solvent, i.e.  $(A_i - D_i) > 0$ . Using the best-guess estimate of \$0.75 an acre, the federal government was massively solvent after 1790 (Grubb, 2005). Thus, the federal government's excellent credit rating first achieved in the early 1790s should not be surprising or considered miraculous. The federal government had a massively positive net worth position which was credibly committed to backing its debt in case tax revenues fell short. It was also a big enough position to liquidate its entire debt at face value if so required through the swapping of assets for debt.

By comparison, at Hamilton's proposed price of \$0.30 an acre the U.S. federal government was never solvent prior to 1802 (when the actual and expected assumption of state war debts is included). Prior to the actual assumption of state war debts by the federal government in 1790, the federal government was marginally solvent from 1785 through 1787 and marginally insolvent from 1788 through 1790. Hamilton's insistence on the assumption of state war debts in his 1790 funding plan, while arguably a politically savvy move, was financially reckless given his land price estimate. It added about \$20 million to the federal debt and so pushed the federal government into a substantially insolvent position (Grubb 2005; Grubb, 2007a).

Under Hamilton's proposed land price, the government's excellent credit rating first achieved in the early 1790s is hard to explain except as some sort of miracle. However, Hamilton's land price, as argued above, seems excessively low by all the other evidence. In 1790, Hamilton may have been intentionally undervaluing the price of land in his rhetoric to dissuade Congress from seriously considering direct swaps of land for debt and instead go with his debt restructuring plan. Hamilton's plan entailed turning all debt into callable perpetuities thus requiring only that interest payments be made. Why this might have been a necessary, intentional, and clever strategy on Hamilton's part, and not just an honest mistake by him regarding land prices, is explained in Grubb (2007a).



While the U.S. federal government was massively solvent after 1790, what about the period between the end of the revolution (1784) and 1790? Table 3 indicates that, using the best-guess estimate of \$0.75 an acre, the federal government had over \$100 million in land assets between 1785 and 1790. Why wasn't this enough to make the federal government a good credit risk in this earlier period? The answer to this question has two related components. The first concerns the debt restructuring plan adopted in 1790, and the second concerns the adoption of the new *U.S. Constitution* in 1789.

Before the 1790 debt restructuring plan, the U.S. federal government had a substantial amount of paper money, called continental dollars, still outstanding. These were non-interest-bearing debt obligations issued during the revolution that the federal government had promised to redeem in specie at some future date. In 1784 the face value of this outstanding debt totalled \$120 million, declining through retirement to \$81 million by 1790. The disposition of this debt prior to 1790 – whether it would be honoured at face value or at what rate below face value if honoured at all – was kept an open question and in a continual state of uncertainty by the federal government (Grubb, 2005; Grubb, 2007b). Thus, before 1790, this debt was still on the books, potentially at face value, and it weighed heavily against the government's creditworthiness.

Between 1784 and 1790, the total face value of the national debt – combining the U.S. federal government's non-interest-bearing paper money, interest-bearing bonds, and to-be-assumed state war debts – ranged between \$152.8 and \$183.5 million. As such, the federal government was substantially insolvent when using the best-guess-estimate of \$0.75 an acre from 1792 (inflation-adjusted to other years) for the price of the public domain. In fact, the average price of the public domain would have to be over \$0.90 an acre for the federal government to be solvent, an average land price which seems unlikely for this period. Even using the high estimate of \$2.00 an acre set in 1796 inflation-adjusted to other years (see Table 2) would still leave the federal government insolvent in 1784, 1785, 1788, and 1789. Overall, the assumption of state war debts was not the big issue (\$20 million). The federal government's debt position was overwhelmed by the size of its non-interest-bearing debt (\$81 million), i.e. the amount of continental paper dollars issued during the revolution that were still outstanding in 1790 (Grubb, 2005).

The continental dollar was the “gorilla in the closet.” The federal government by necessity had to irrevocably default on it – which it fi-

nally did as part of the debt restructuring of 1790 (the funding act of 4 August 1790, United States Congress, *The Debates and Proceedings in the Congress of the United States*, 2: 2245). In 1790, Hamilton, as U.S. Treasury Secretary, advised reaffirming the default rate of 40 continental dollars to 1 specie dollar initially set by the U.S. Congress in 1781 as a temporary wartime measure, but in 1790 Congress opted for reaffirming the default at an even higher rate, namely at 100 to 1. Before this Congress had left the impression that the continental dollar might be redeemed in the near future either at face value, or at a much better rate than 40 to 1, in specie. In 1790, citizens holding continental dollars hoping that said dollars would be un-defaulted and paid off at face value or at a better rate than was current, as Congress was about to do with the domestic interest-bearing debt, were mightily disappointed (Grubb, 2007b; Taylor, 1950: 62).

Paying off this non-interest-bearing debt in specie at 40 to 1 or at 100 to 1 probably didn't matter to the U.S. federal government's creditworthiness. It was a massive default in either case. And the 100-to-1 exchange was not for principal, but for interest-bearing bonds only, one third of which paid no interest until 1800. Thus turning in 100 continental dollars in 1791 did not yield \$1 in specie, but only \$0.04 at that year's end. Continental dollars not turned in for these bonds would afterwards be unredeemable. As such, this redemption method also made the default on the continental dollar irrevocable – effectively removing it from the government's balance sheet.

At 40 to 1, the face value of the \$81 million non-interest-bearing debt still outstanding in 1790 would be reduced to \$2 million and, at 100 to 1 to \$0.81 million, thus adding little to the government's interest-bearing debt total of \$77 million. Even if all the outstanding continental dollars were turned in, the U.S. federal government would become instantly and substantially solvent with either default algorithm. The decision to reaffirm and make irrevocable the default on the continental dollar in 1790 was necessary to put the U.S. federal government back into a solvent net worth position thereafter.

But how could the U.S. federal government permanently default on this particular class of debt without hurting its overall creditworthiness, and why did it wait so long to irrevocably default on this debt? This is where the second component to the answer comes into play, namely the adoption of the new *U.S. Constitution*. It wasn't until Congress adopted this new constitution in 1789 that the power to issue non-interest-bear-

ing debt (paper money) was constitutionally taken away from it. At the 1787 constitutional convention the founding fathers explicitly voted to remove granting that particular power to Congress in the new constitution (Farrand, 1966, 2: 308-11; Grubb, 2006a: 44, 59-64). Defaulting on a class of debt that the government was constitutionally disbarred from ever issuing again mitigated the cost of such a default.<sup>5</sup>

The new *U.S. Constitution* did something else important. It gave the U.S. federal government the power to directly tax the public and so raise its own independent revenue. Prior to 1789 the federal government had no power to directly tax the public. It requested monies from the states, which the states failed to provide. As such, the federal government did not have the yearly revenue to make yearly interest payments on its debt nor anywhere near the amount of revenue it would need to redeem or liquidate its obligations at face value. As such, the federal government stood in default on most of its obligations prior to 1790. The adoption of the *U.S. Constitution* solved this yearly cash-flow problem by giving the federal government an independent power to directly tax the public and so provide for itself and meet its obligations as they came due. This was quickly done with the implementation of the Hamiltonian tariff in 1790.

With this new tax revenue the federal government after 1790 could potentially meet yearly interest obligations on its debt out of current tax revenues, something it could not yet do using only revenue from land sales. Land provided the safety valve to cover current budget deficits in the presence of temporary revenue shortfalls and it provided the possibility of liquidating the entire debt or at least substantial portions of it if necessary in the near future. But land sales alone were not counted on to cover interest payments year-in and year-out. As explained in Grubb (2007a), direct swaps of land for debt principal also had to be curtailed during this debt-restructuring period in order to default on the continental dollar with impunity.

<sup>5</sup> At the 1787 constitutional convention, in the debate that took the constitutional power away from Congress to issue non-interest-bearing debt (paper monies which were also called bills of credit), several founding fathers stressed the difference between issuing paper money and issuing interest-bearing debt. They argued that “Paper money can in no case be necessary – Give the Government credit, and other resources will offer –”; “If the United States had credit such bills [paper money] would be unnecessary...”; and “The power as far as it will be necessary or safe, is involved in that of borrowing [at interest].” (Farrand, 1966, 2: 308-10; Grubb, 2006a: 61).

## V

In conclusion, the U.S. financial revolution of the 1790s was anchored by the solvent net worth of the U.S. federal government. It was not some miracle created by founding father super heroes. For example, Alexander Hamilton's contribution to solving the federal government's financial situation was somewhat trivial – merely solving the immediate cash-flow revenue problem by meeting yearly interest payments on the debt via the Hamiltonian tariff, something that would have been done in some fashion after the adoption of the new *U.S. Constitution* regardless of who was Secretary of the Treasury.

The long-run solvency problem was solved by the *spoils of war* – the U.S. federal government's acquisition of land assets. With the adoption of the *U.S. Constitution*, and the separation of interest-bearing from non-interest-bearing debt, the federal government was finally in a position by 1790 to reap the financial benefits of these spoils – an interest-bearing debt position fully backed by assets. The result was that the U.S. garnered an excellent credit rating in Europe soon after 1790 because its ability, in terms of actual tariff revenue and potential revenue from saleable land assets, to meet the interest payment on this debt, and to eventually retire all this debt, was well in excess of what was needed. It was substantially solvent net asset-wise post-1790.

# **The Ideology and Organisation of Maritime War: An Expedition to Canada in 1746**

*Richard Harding*

The rise to global predominance of Great Britain during the eighteenth century is a phenomenon of major importance in the development of the modern world. From a small politically insecure island state in 1688, it had, by 1800, developed into a global power capable of sustaining major wars in Europe and conducting operations in most parts of the world on a scale unmatched by any other European power. Why this happened is a huge question, but clearly one of the steps in the process was the effective mobilisation of financial resources in the service of the state. However, while raising money was vital, it had to be converted by effective administration into real military resources, and research over the last twenty years has demonstrated an equally impressive capability by the British state in this domain (Brewer, 1989; Roger, 2004).

In the final analysis the outcome of state activity in military affairs was determined when its military resources came into violent conflict with those of the enemy. It was during the Seven Years War (1756-1763) that the British state reaped the rewards of changes that had gone on in the complex infrastructures of European states. All military events are capable of explanation ranging from the analysis of macro-factors such as economic and governmental infrastructure, through to micro-factors such as individual decision-making on the field of battle. In between the two, and equally valid as potential explanatory factors, lie a complex range of features such as the composition of the armed forces, their professional capability, the morale of their members and the technology with which they work. The network of factors that translate military resources into effective military power are usually dense and constantly in a state of flux (Harding, 2006).

The purpose of this paper is to examine one aspect of the network that supported British amphibious operations in the 1740s; that is the

reciprocal relationship between ideology and operational capability in a plan to attack Canada in 1746: how it emerged from a firm conviction in the efficacy of amphibious warfare in the Americas, how the plan was implemented and what impact its organisation and failure had on that conviction.

Mid-eighteenth century Britain was not a society rich in information about its military capability. The first element in assessing capability is an understanding of the quantity, quality and disposition of one's own forces. There was no repository of general current knowledge that developed in the later part of the nineteenth century with the growth of the General Staff systems. It was possible for ministers to have a crude understanding of the quantity of ships, seamen and soldiers paid for in any given financial year, but the figures were fraught with problems and a rapid move from peace to war uncovered operational problems that were not exposed in data generated over years for financial purposes. In 1739 the problem of manning the fleet carried over into 1741, having a major impact on planning and operations. In 1770 the mobilisation of the fleet during the Falklands Crisis, exposed a level of decay in the ships that was entirely unexpected (Wilkinson, 2004). During a war, the quality of data reaching ministers about the state of ships, their numbers and dispositions was patchy, so that as the war progressed errors gradually accumulated. When a new Board of Admiralty, under the Earl of Winchelsea, took over after the fall of Sir Robert Walpole in February 1741/2, it instructed the Navy Board to provide it with an updated list of the state and dispositions of the King's ships.

Another element in assessing capability is the ability to judge the quantity, quality and dispositions of potential enemies. Despite a well-developed diplomatic and consular structure, such information was rarely complete and easily disrupted. The stopping of the post from Brest in 1741 closed down all information to London from the British representative in Paris, Andrew Thompson. Diplomatic correspondence was generally good, but that did not stop ministers seeking information at critical times from private letters which arrived on the regular packet boats from Europe.

A third element in assessing capability was knowledge of the local conditions in which the army or navy would operate. The King's map collection in the chapel of the Tower of London was accumulated during the century as a result of operations, rather than as a resource to inform decision-making before operations (Harding, 2001). With respect

to other papers, there was a great deal of ambiguity as to whether “official” papers were the property of the Crown or individual ministers. In 1739, when the Secretary of State for the Southern Department, the Duke of Newcastle, was seeking precedent for orders sent to commanders of expeditions to the Americas, he found them not in his office, but among the private papers of the Earl of Sunderland, his predecessor. After using them, Newcastle kept the copies in his private papers. On the whole, the kind of knowledge that was vital for effective assessment of operational capability was understood to lie with individual advisers. In the early stages of the war against Spain, during 1739–40, the First Lord of the Admiralty, Sir Charles Wager, the Admiral of the Fleet, Sir John Norris, and a member of the Board of Trade, Colonel Martin Bladen, played vital roles in planning the expedition to the West Indies. These advisers gained their knowledge by long service and exposure to the problems of the state. Such a process had intrinsic weaknesses. By mid-1742 both Wager and Norris were out of office, leaving a large gap in knowledge and expertise within the Admiralty that was not closed until 1746.

The impact of this paucity of information and knowledge should not be overstated. Britain had a relatively sophisticated bureaucracy compared to her European rivals. It was extremely capable in raising money, both in taxes and credit and, by effective contracting systems, converting those funds into physical military and naval resources. The British diplomatic service was as effective as any in Europe at the time. Both the bureaucracy and the diplomatic service had been systematised over the preceding one hundred and fifty years. However, the preservation of operational knowledge had not been so effectively systematised, and was to remain a weakness in operational planning for many decades to come.

One of the consequences of this lack of information was that ministers were often only as well informed as the diligent, educated layman, which included many MPs. While it was never contested that the conduct of foreign policy was the prerogative of the monarch, the need to finance that policy by Parliamentary grant necessitated its discussion and comment within both Houses. MPs were often anxious to have papers laid before them relating to the conduct of foreign affairs and the ministry equally anxious to limit this, and in the absence of detailed information much debate on both sides of a question revolved around assumptions of principle. The parliamentary opposition was seldom able to provide detailed factual information to support its case, but neither

were ministers able to refute those claims with evidence of their own. In this situation, debate and ideas about military and naval affairs reflected long held assumptions verging on general truths or ideology rather than informed decisions about current capability. Although anachronistic, it seems appropriate to use the term ideology to describe the dominant mode of political discourse<sup>1</sup>.

While a lack of information on current capability was apparent throughout the debates on policy during the first half of the eighteenth century, it is equally clear that, during the Seven Years War, the ideological belief as to how war should be conducted was effectively aligned with the capability of conducting such a war. By 1759 the ideology of maritime war matched the results. From 1756 William Pitt played a vital role in expressing the vision of global war and convincing Parliament at critical periods that it was both feasible and likely to be crowned with success. This ensured that the funds to conduct the war were forthcoming. However, capability requires far more than a full purse. It requires an administration that can convert that money into real military and naval resources, a political, service and administrative leadership that can ensure that the right resources are in the right place at the right time and an army and navy that can apply those forces to defeat whatever is sent against it. The key question is – what had happened to bring these real resources into line with the political vision of the conduct of the war? The expedition to Canada seems to have played at least a small role in this process.

When Britain went to war with Spain in October 1739 it was partly in response to pressure from the political nation at large. By mid-1739, two important factors had converged that made resistance to war politically untenable – that the war was seen as necessary and that it was practicable. The dispute with Spain over British trade in the Caribbean had been rumbling on since 1713. Successive plans to resolve the points at dispute had come to nothing and in June 1739 the Spanish failure to honour the Convention of Prado was seen by many as the final straw.

<sup>1</sup> The term is very slippery and defies uncontested definition. As a working definition here it is only intended to imply that MPs were forced to draw very heavily upon a deep-rooted set of assumptions to explain any given contemporary situations, rather than construct explanations from rich sources of current information. It is not intended to mean that MPs were rationalising situations based on hidden or unconscious assumptions. See, Eagleton, 1991; Larrain, 1979; Held, 1995.



War was the only way of resolving the problem. It was also necessary as it was believed that Spanish disruption of British trade in the region would be fatal to the economy and thus a direct threat to her freedom and power in the world. It was not that Spain was seen as a direct challenge to British commercial and political stability, but that France was feared as growing in power both politically and economically through the growth of its overseas trade. None of these propositions could be tested in detail, but they gained their authority from long repetition and the fact that they could not be disproved. Subsequent research indicates that Britain stood to lose as much by war through the disruption of trade to Old Spain as it might gain by securing its commerce in the New World, but at the time it was an argument overwhelmed by fears for British trade to the Americas.

If the war was necessary, it was also practicable. The belief in the effectiveness of naval power had been a powerful element in British political rhetoric since the 1690s. The contrast of a war fought at sea, which protected trade, garnered colonial conquests, and disrupted the trade and credit of Britain's enemies, was contrasted with a war in Europe, which expended treasure, brought no direct advantages to British commerce, and did little to threaten enemies like France, whose land forces were a match for a number of allies. Although employed in party debates during King William's and Queen Anne's reigns, neither Whig nor Tories ministries employed exclusively land or sea campaigns in the wars against France. However the abrupt withdrawal from the war in 1713, which necessitated abandoning Britain's European allies, left a bitter legacy of political debate that used the distinction between a maritime war (which was in Britain's interests) and a land war (which was presented as primarily to the advantage of Britain's Continental allies). It was a rhetorical difference reinforced in 1714 with the succession of the Elector of Hanover to the Crowns of Great Britain. Despite the passion with which the different strategies were expressed in the period between 1714 and 1739, the evidence to support either proposition did not go beyond the knowledge that Britain's army was relatively small compared to potential enemies, while her navy was large and that this intuitively suggested advantage lay with the latter. Both land and sea wars were expensive, and there was no decisive evidence that either one or the other was generally more efficient or effective. However, in the case of Spain, there was strong feeling that here was a particular state that was vulnerable to the effects of seapower. Spain's West Indian defences were thought to be

weak, but she had a great dependence on the silver from the mines of Peru and Mexico. It would, therefore, be a relatively easy task to take and hold some part of the Spanish empire to pose a permanent threat to the Spanish silver trade, which would guarantee her acquiescence to lawful British trade in the region. When war broke out in October 1739, the assumption held by ministers and public alike was that, aside from a coastal raid on Ferrol, the war would be fought in the West Indies where Britain's naval advantage would be most effective.

The expedition that was sent to the West Indies in 1740 was a major disappointment. In two years it achieved almost nothing except the capture of the small island of Rattan in the Gulf of Honduras. The mounting of such a large trans-Atlantic expedition was a major organisational challenge, which proved that Britain was capable of undertaking large-scale, long-term offensive operations in the Americas. By the time the remnants of the expeditionary force returned home, the political focus of the war had shifted to Europe. However, even if this had not been the case, it is highly unlikely that any form of enquiry would have seriously examined underlying causes of the failure. Contemporary enquires by parliament or courts martial were more usually concerned with establishing blame or innocence of individuals, rather than the wider questions of operational capability. In practice, contemporaries discussed and explained success or failure not in terms of operational capability, but instead focussed on individual competence, be they ministers, generals or admirals.

This had an important impact on the way events during the war were viewed and interpreted. What is interesting is that in the bitter political debates over the conduct of the war from the end of 1742 to the outbreak of the Jacobite rebellion in the summer of 1745, the Caribbean failure did not feature as crushing evidence against a maritime war. The Battle of Dettingen (June 1743), on the other hand, which was at least a nominal victory in Germany, was treated as an example of the futility of the continental war. Furthermore, the capture of Louisbourg in June 1745 was greeted with enthusiasm and became a factor of political importance that far outweighed its military or commercial value. The reaction to the failure of the 1746 expedition is likewise an important indicator of political attitudes.

The plan to capture Quebec followed on from the capture of Louisbourg. On 23<sup>rd</sup> January 1745/6, in the midst of the Jacobite Rebellion, the Secretary of State for the Southern Department, the Duke of

Newcastle, received a plan to take the city, from the two commanders of the successful Louisbourg operation – the Governor of Massachusetts, William Shirley, and Commodore Peter Warren. He passed this on to the First Lord of the Admiralty, the Duke of Bedford. Bedford and his colleagues, the *New Whigs*, had come into government at the end of 1744 on the dismissal of Lord Granville. The final struggle between the Old Corps Whigs and Grenville saw the latter finally being forced out of government in January 1745/6 as an accommodation was reached at last with Lord Cobham and his Boy Patriots, among whom was counted William Pitt. These *New Allies* had been committed to a maritime view of war, in distinction to what they saw as Granville's European/Hanoverian strategy, and part of the price they demanded for supporting the European war was the retention of Louisbourg at the peace.

Bedford may not have been personally interested in Canada, but he had received a good deal of praise for the navy's role in the capture of Louisbourg, and a Canadian expedition, offered the possibility of further kudos and reinforcement of his credibility among the *New Whigs* and *New Allies*. During the late winter and early spring of 1745/6, the Dutch had been conducting peace negotiations with France on the basis of a reciprocal return of conquests. If this should come close to a conclusion it would place the British ministry in an impossible situation. France would not accept peace without the return of Louisbourg, which was politically impossible for the ministry to concede. On the other hand if the Dutch made a separate peace, the likelihood of Britain being able to maintain the war in the Austrian Netherlands was slight. Britain would be unable to make war or peace. In these circumstances the conquest of Canada began to look like an attractive proposition – Canada would balance French conquests in Flanders and Louisbourg might be retained. Against this was the knowledge that two previous expeditions to Quebec in 1690 and 1711 had ended in ignominious failure. At some point between late January and 24<sup>th</sup> March, a decision was taken in principle to attack Canada. It was probably in the second week of March as on the 14<sup>th</sup> Newcastle wrote to the governors of the Northern Colonies to be ready to raise a body of troops if an expedition to Canada was approved<sup>2</sup>. Even at this point it is clear that the experience gained by

<sup>2</sup> TNA, CO5/44 (Louisburg Papers), f .18, Newcastle to the Governors of the Northern Colonies, 14th March 1745/6.

the planning and organisation of the recent West Indian expedition had been absorbed. In the event, the Americans raised in 1740 reached the rendezvous for the expedition at Port Royal Jamaica, before the expeditionary force from Britain, but the delays experienced and the state of the Americans when they arrived left much to be desired. Early warning was essential, and even before the expedition had been set on foot.

Unlike the 1711 expedition, the West Indian operation had been considered by a committee of experts and a committee met on 28<sup>th</sup> March 1746, consisting of Bedford, Field Marshal Wade, attending in his capacity of Lieutenant General of the Ordnance and Lieutenant General James St Clair, formerly Quartermaster General to the army in Flanders, who had been appointed commander of the expedition on the 26<sup>th</sup> March<sup>3</sup>. The meeting appears to have been well prepared. Before the committee were placed copies of the papers relating to the 1711 expedition. The committee were confident that Warren's force at Louisbourg would be enough to deter a French counter-attack and on that assumption they estimated the naval forces required for the operation and the impact any detachment would have upon the defence of home waters. They concluded the victuals, stores and transports could be assembled within a month. Although it is impossible to be certain, the confidence with which the report was made suggests that the Admiralty and the Ordnance had gathered information to inform the committee through their respective representatives. The committee concluded that an expeditionary force of 3500 regulars was required, and additional forces must be recruited in North America to augment the existing American regiments at Louisbourg and to create another garrison regiment for the town to release them for service against Quebec. What had taken three months in 1739-1740 had been achieved in one meeting with four days formal notice in 1746.

Newcastle received this report on 31<sup>st</sup> March and arranged for a meeting of ministers to consider it on 3<sup>rd</sup> April at the house of the Secretary of State for the Northern Department, the Earl of Harrington. Newcastle and his close confidant, Lord Chancellor Hardwicke, were more circumspect than the committee. They had been closely involved in the planning of the West Indian expedition and in spite of knowing that King George II approved the operation, that it had the implicit support

<sup>3</sup> TNA, SP 42/98, f. 27.

of the Admiralty, the professional army officers, the Ordnance and Harrington, Newcastle asked Hardwicke and his brother, the Chancellor of the Exchequer, Henry Pelham, to meet with Harrington to discuss the plan before Bedford arrived for the main meeting on 3<sup>rd</sup> April. Hardwicke's correspondence suggests that although they were all willing to accept the report, they suspected that Bedford's enthusiasm was at least partly caused by his wish to please the *New Allies*, Cobham and Pitt. The details of the discussion both in the pre-meeting and the main meeting are unknown, but the result was a complete endorsement of the committee's proposal. The political imperative was clearly significant. The Jacobite Rebellion was dying in the north of Scotland, the Allied army in Flanders was growing again for the next campaign, and the latest news from Italy was good. There was no reason to oppose the expedition and politically, as Newcastle later wrote to the Lord Lieutenant of Ireland, the Earl of Chesterfield, "Canada and Quebec will keep all things right"<sup>4</sup>.

The need for speed was fully recognised. The committee had concluded that the expeditionary force must be at Quebec by the middle of July to have any hope of success before ice closed the St Lawrence. Anson, at the Admiralty, insisted that the force would have to leave Britain by 10<sup>th</sup> May to meet this deadline – not impossible according to the committee's initial projections. While the organisation of the expeditionary force and its escort from Britain could be organised immediately, almost exactly on the precedents of the operation in 1740, one of the key conditions was the raising of additional forces in North America (Harding, 2002, 37). This had also been done in 1740, but not without some delays. Newcastle had alerted the governors on 14<sup>th</sup> March and on 9<sup>th</sup> April detailed orders were despatched. Lessons had been learned. Raising American troops presented two distinct problems – the recruitment of the soldiers and the provision of arms and uniforms. The decision in 1740 to have the field officers and some company officers appointed from England, and then to limit the number of commissions that the colonial governors could give to local gentlemen, led to the loss of a number of American companies, which would not serve unless they did so under local officers. The decision to send out a uniform pattern and arms from Britain

<sup>4</sup> BL, Add Ms 32707 (Newcastle Papers), f. 26, Newcastle to Chesterfield, 6th April 1746.

had delayed the regimenting of the American levies until after their arrival in the West Indies. In 1746, it was agreed to allow the governors to fill all the commissions, provide all the arms and uniforms, which would be paid for by the Crown<sup>5</sup>. Within a week the instructions for the entire expeditionary force had been signed and despatched.

While the planning process had been a great success, the assembling of the expeditionary force was to prove more problematic. The Ordnance Board, so often criticised for its inefficiency, had its storeships ready to leave the Thames by the end of April, although late requests for additional stores from St Clair forced the Board to fit out another store ship which was not ready until 6<sup>th</sup> May. There was a delay in appointing an Agent of Transports, who entered into his task inadequately briefed about the charter parties and without a boat to get around his flock. It was not until the 22<sup>nd</sup> May that the transports were assembled at Spithead and not until the 15<sup>th</sup> June that the army was fully embarked. Even then, the stowage of the army's baggage was incomplete. As the expeditionary force awaited a fair wind, weaknesses in manning the transports became apparent. Some transports were found to be not as sound as expected and substantial quantities of victuals had to be condemned. Some transports lost their anchors and drove in on one another, but nevertheless, if the wind turned the expeditionary force was ready to go.

Suddenly, on 27<sup>th</sup> June St Clair received a despatch from Newcastle. The expedition was not to depart. The troops were to be disembarked. One of the key assumptions was that the French would not mount a counter-offensive at sea that year. The validity of this assumption was suspected almost immediately. Between late April and mid-May the ministry had been disturbed by repeated rumours of the Brest squadron being at sea. With the final defeat of the Jacobites at Culloden only known in London on 26<sup>th</sup> April, fears of a French invasion were still strong. In Flanders Brussels had fallen during the winter to the French and the assembling of the allied army was slow. The Dutch were showing hesitation to commit themselves to a new campaign in the light of renewed French peace proposals. In Parliament these concerns were turning towards pressure to prevent the ministry from sending troops abroad. The ministry itself was divided on how best to use the forces

<sup>5</sup> TNA, CO5/44 (Louisbourg Papers), f. 18, Newcastle to the Governors of the Northern Colonies, 9th April 1746.

embarked for Canada. Newcastle feared that if the Dutch pulled out of the war, Cape Breton could not be held, so it might have been better to send the troops to Flanders to encourage the Dutch to keep fighting. Bedford was for continuing with the Canadian enterprise. On 12<sup>th</sup> June, a vote in the Lords, designed for the very purpose, rejected a motion to prohibit troops from being sent abroad. Newcastle saw this as a barometer of political opinion which gave the ministry confidence to stay with the expedition. Two days later worrying news arrived that the French fleet which had been at Aix Roads was gone. Over the coming days numerous reports confirming that the French fleet was at sea in force arrived. No additional ships could be provided for the escort, and in the absence of Bedford, who was at Berwick disbanding his volunteer regiment of foot, the ministry cancelled the expedition.

As the situation developed in the next few weeks, the possibility of the French having gone to retake Cape Breton grew. The need to secure this prize led to new instructions being sent on 17<sup>th</sup> July for the expedition to go to Cape Breton. The expeditionary force might be able to retake Louisbourg in the autumn or at least be in North America to do the job in the spring of 1747. During August two factors began to play on the King's mind. Anson had conceded to George II on 17<sup>th</sup> July that naval forces in Europe would be very stretched once the expedition had departed. Doubts about the Dutch continuing in the war continued to raise concerns. At the King's insistence a meeting was held on 21<sup>st</sup> August at Lord Harrington's house to discuss if the expeditionary force ought to be sent to Flanders to bolster Dutch resolve. The Duke of Cumberland was to go to Flanders and if he could achieve something before winter, this would enable Britain to participate in the negotiations that would go on in the autumn with a stronger hand at the bargaining table. Those present unanimously agreed that it was too late to achieve anything in America to influence the autumn negotiations. On the other hand they were also agreed that to disband the expeditionary force would have a bad effect both domestically and abroad. It would signal the abandonment of the colonial offensive. Instead they agreed that the expeditionary force should be used to raid the French coast in the late summer and be kept together for an early departure to North America in 1747.

This was the origin of the attack upon Lorient in September 1746 and in the event the expedition never did set out for Quebec. What does it tell us about the ideology and organisation of maritime war at this time?

In terms of organisation, the British ministerial and administrative systems were generally able to cope with demands of preparing the expedition. The planning was broadly realistic. The size of the expeditionary force from England was within the bounds of practicability both in terms of finding the troops and preparing their movement to North America. Except in one area, the ability of the administrative departments to deliver the resources required was generally good. The movement of troops to the embarkation points was smooth. The provision of ordnance stores was timely and only upset by late additional demands from St Clair. The victualling seems to have met expectations, although with the usual levels of condemned stores when inspection was made. The main weakness lay in the provision of transports. Despite the experience of 1740 and the constant employment of transports for moving forces to and from Europe since 1741, negotiating the charter party, converting and inspecting the vessels took longer than anticipated. This, combined with the need to wait on winds to move them from the Thames to Spithead, produced a real delay to the expedition of over a month. Whether this was really critical is open to question. Anson certainly believed that the expeditionary force had to leave Britain by 10<sup>th</sup> May to allow itself time to carry out operations in the St Lawrence, but in the succeeding weeks there is no indication in the correspondence that ministers thought that the window of opportunity had closed. Eighteenth century governments were perfectly capable of building contingencies into their planning for aspects of operations over which they had no control. In 1740 the decision not to make the usual stop at Madeira for wood, water and wine in order to bring the expeditionary force quickly into action with as much surprise as possible reflected the adaptation of methods to the situation. Likewise, expeditions since the 1690s had proved often enough that they were not in control of winds and tides, nor, except in the case of manpower, did they have the power to command resources from the merchant community. Hence, time lags were almost certainly expected and a deadline was something to be aimed for, but not the critical feature of planning.

Another factor over which the ministry had little control at this time was the action of the French fleet. When the assumption that the French would not sally out from the Atlantic ports was proved to be false, the ministry quickly adjusted the expedition. With a heavy commitment in the Mediterranean, ships were simply too scarce to increase the size of the escort, as had been done in the autumn of 1740. The threat posed to



Louisbourg meant that the objective had to be changed to a counter-attack on the French expedition to Cape Breton. This sudden violation of expectations is particularly interesting, because it immediately preceded the establishment of a Western Squadron as a central feature of British naval policy. Although the evidence is inconclusive, it is tempting to think that, given the responsive nature of British planning in other aspects of expeditions, the breakout of d'Anville's squadron from Brest and the shock it had on those planning the Canadian expedition were critical factors in this major development of the British maritime system.

On the whole, therefore, it seems that the British ministry could assume that their domestic military and naval resources and systems measured up to the demands of mounting trans-Atlantic amphibious operations. However, this did not amount to the ability to undertake effective operations in the Americas. Some things were beyond their control, principally the weather which remained a force of uncertainty until the age of effective steam power over one hundred years later. However, the mobilisation of American resources was central to the idea of an effective campaign in Canada. On 19<sup>th</sup> March Newcastle wrote to Governor William Shirley of Massachusetts telling him to raise land forces in America if he thought they were necessary and offering to appoint him General of Foot if he thought that this would assist. Meanwhile "*His Majesty will expect with impatience to receive your's and Admiral Warren's Opinion upon this point which is of the greatest importance to His Majesty's service*"<sup>6</sup>.

The capture of Louisbourg in July 1745 had been undertaken by seven Massachusetts regiments and one each from New Hampshire and Connecticut, under the overall command of Shirley and Colonel William Pepperell of Massachusetts<sup>7</sup>. The supply network was also locally provided from New England. The Royal Navy on that station, under Admiral Peter Warren, played a critical role in the defence of the sea communications and the waters around Louisbourg. It also provided services to the Americans ashore. The immediate British response to the appraisal

<sup>6</sup> TNA, CO5.45, (Expedition to Canada), f. 336, Newcastle to Shirley, 19th March 1745/6.

<sup>7</sup> TNA, CO5/44, (Louisbourg Papers), f. 73, Registry of Commissions in the army under Pepperell. Rhode Island sent three companies of 50 men to join the army after the town had fallen. (Kimball, 1912, 2: 359, Partridge to Wanton, 22nd May 1745).

of the defensive requirements sent by Shirley and Pepperell was to provide a permanent garrison. Two regular regiments were ordered from Gibraltar and Shirley and Pepperell were ordered to create two complete regiments from their American forces, which were to be incorporated into the British Army. These two new regiments reflected the organisation of an earlier American regiment incorporated into the British Army in 1740 with one critical difference. The colonels were to be Americans, but the other field officers, half the captains, all the lieutenants and half the ensigns were to be provided from Britain<sup>8</sup>. In 1740, all the captains had been appointed locally. It was then well-known that the captain was the key officer in recruiting Americans. They were willing to serve under local gentlemen, but not under strangers. When in 1740, too few commissions arrived for the local officers, companies disbanded rather than serve under other officers<sup>9</sup>. During the expedition to the West Indies an important change took place. The Americans had served well in the West Indies, but as their captains died, the British commander, Major General Wentworth, promoted old British soldiers, who were serving as lieutenants or in other regiments in their place. He did this in order to discipline them more as regular troops. In 1745 the use of Wentworth's policy of appointing British captains was ill-judged. It is not clear why this was done. Perhaps it was considered that as nine New England regiments were already raised and that it was only intended to maintain two on the British establishment, the virtues of regular discipline could be allowed to outweigh the preference of local officers. However, as Shirley noted to Newcastle in December 1745, it was unlikely the men would agree to serve, and with disappointed American officers and discontented men returning to New England it was doubtful that the new officers from Britain would be able to raise 100 in America<sup>10</sup>.

This message seems to have hit home. When orders were despatched to raise the new regiments for the Canadian expedition on 9<sup>th</sup> April 1746, the organisation was different. They were to be provincial regiments not on the regular establishment and the 1740 model was used. The governors were at liberty to fill up the commissions as they saw fit. The officers and men would be paid by the Crown. Unlike 1740, when the colonial

<sup>8</sup> TNA, CO5/45, (Expedition to Canada), f.320, Newcastle to Shirley, 11th Sept. 1745.

<sup>9</sup> *The Belcher Papers*, (1894), Boston, Boston Historical Society, vol.2, 337, Belcher to Newcastle, 29th Oct. 1740.

<sup>10</sup> Hamilton, 1912, 1: 293, Shirley to Newcastle, 14th Dec. 1745.

governments were expected to pay for the raising, victualling, clothing, billeting and transporting of the troops to the point of rendezvous with royal forces, the Crown would pay for all necessaries. Arms and clothes were to be provided locally, but St Clair was to pay all reasonable costs. This concession to pay for all the necessaries was vitally important in the colonies. The money supply was a consistent problem and some of public debts incurred for the abortive Canadian expedition of 1711 were still outstanding in 1740. Although the Crown had recognised this, the practicality of ensuring the inward flow of money to pay for the levies was to remain a problem through to the Seven Years War.

While French claims in North America were extensive, based upon the navigation of the Mississippi, the St Lawrence and adjoining waterways, the dependence of French Canada on the St Lawrence as the main artery of its settlements and trade into the interior and the Great Lakes was a major weakness and determined the plan of attack on Canada since 1690. In that year the English northern colonies combined in an attempt to conquer the French settlements. An advance was to be made up the Hudson from New York towards Montreal, while a force from Boston would go up the St Lawrence to attack Quebec. This failed, but the same plan was revived in 1711 in conjunction with a force of British regulars, who were to provide the main force going to attack Quebec (Harding, 1996). This operation met with shipwreck in the mouth of the St Lawrence and was abandoned, but the plan was revived again in 1746. Troops raised in Massachusetts, New Hampshire, Rhode Island and Connecticut were to rendezvous with St Clair's expeditionary army at Louisbourg and proceed up the St Lawrence to Quebec<sup>11</sup>. Troops raised in New York, New Jersey, Pennsylvania and Maryland were to rendezvous at Albany, under Colonel William Gooch of Virginia, the colonel of the American regiment which had served in the West Indies. When news arrived of the fleet being in the St Lawrence, they were to march on Montreal<sup>12</sup>. It seems that the ministry understood the conditions in America. Even when despatched to join the regulars, there would not be a repeat of the West Indian situation with the British

<sup>11</sup> TNA, CO5/45, (Expedition to Canada), f. 346, Newcastle to Governors of New Hampshire, Rhode Island, and Connecticut. 9th April 1746.

<sup>12</sup> TNA, CO5/45, (Expedition to Canada), f. 350, Newcastle to Governors of New York, New Jersey, Maryland and Pennsylvania, 9th April 1746; f. 35, Newcastle to Shirley, 9th April 1746; f. 364, Newcastle to Gooch, 9th April 1746.

commander in chief appointing to vacancies. St Clair was to appoint the officer to command the American forces, but the colonels retained the power to appoint to the vacancies of the Americans<sup>13</sup>.

In practice raising the troops proved more difficult than the New England experience of the previous year suggested. Partly this related to inter and intra-colonial politics. While Massachusetts, New Hampshire and Connecticut worked fairly harmoniously in the Louisbourg enterprise, Rhode Island only belatedly contributed 150 men to the expedition and had sent them to join a New Hampshire or Connecticut regiment rather than their larger neighbour at Boston. The friction between Boston and Rhode Island continued during the year, but in response to instructions from London the latter slowly raised 300 more troops for the Canadian expedition. In October they were diverted to Annapolis, which it was feared was in danger from a French counter-attack<sup>14</sup>. They set sail in November, but unfortunately some of the vessels were wrecked on the voyage and about half of the force was drowned. The rest had to be sent to Martha's Vineyard to recuperate<sup>15</sup>.

An expeditionary army moving from Albany to Montreal demanded action from New York, New Jersey, Pennsylvania and Maryland, none of which until this point had been called upon for support and in which there was less agreement on the necessity of such expeditions. Only in Maryland was the response broadly positive. By the end of July three companies had been raised in that province and were ready to depart for Albany<sup>16</sup>. New York was still suffering from a long-running struggle between the governor, George Clinton, and the Assembly over the prerogative powers of the former (Katz, 1968). Clinton could only get "*a trifle in money*" from the Assembly and in response Clinton dissolved it. Clinton sent 10 18lb cannon to Boston and set up a subscription to raise money for supplies for the New England troops, but could not induce the Assembly to vote any funds for the expedition<sup>17</sup>. When the orders arrived for the raising of troops for Canada, the Assembly expressed its loyalty, but in Clinton's view did precious little to assist. To

<sup>13</sup> TNA, CO 5/45 (Expedition to Canada), f.343, Newcastle to Pepperell, 9th April 1746; Hamilton, 1912, 1: 326, Shirley to Wentworth, 2nd June 1746.

<sup>14</sup> Bartlett, 1859, 5: 192, Shirley and Warren to Governor Greene, 14th Oct. 1746.

<sup>15</sup> Kimball, 1912, 2: 34, Shirley to Greene, 5th Jan. 1746/7.

<sup>16</sup> *Archives of Maryland*, (1908) Baltimore, vol. 28, 362.

<sup>17</sup> O'Callaghan, 1855, 6: 284, Clinton to Newcastle, 18th Nov. 1745.

ease recruitment, Clinton had been instructed to use the four independent companies in the province for the expedition as well as recruiting new levies. He was also to bring out the Six Nations against the French if at all possible. Clinton managed to raise sixteen companies to join the Independent Companies at Albany, but not without some difficulty. Albany refused to raise any men and an act was passed to compel them to do so. Clinton was forced to compromise on the bills for financing the expedition or risk losing other acts to encourage the expedition<sup>18</sup>. The financial burden on Clinton was exceptional as the rendezvous for the expeditionary force was in his province at Albany. As the forces from the other provinces arrived, the governors of those provinces declared that their financial responsibility to the levies had now ceased. Colonel Gooch, who was expected to take up command of that force, declined, which meant that Clinton, by virtue of his commission as Captain General of the province of New York, was forced to take both financial and military responsibility for them, but the New York Assembly completely rejected any support for the troops from other provinces<sup>19</sup>.

New Jersey was suffering similar internal problems. Governor Morris had been ill for some time and died on 21<sup>st</sup> May 1746. Morris left a province in turmoil. Like Clinton he had been in a struggle with the Assembly over powers and government officers of New Jersey had not been paid since September 1744. A dangerous power vacuum had developed and although the Council feared a civil war, the Assembly “*cheerfully made provision*” for 500 troops. The forces were successfully raised and the Assembly continued to vote support for the troops quartered at Albany over the winter of 1746/7<sup>20</sup>.

In Pennsylvania Governor Thomas received the order to raise troops in early June. Thomas got the Assembly to agree to raise a single company of 100 men under John Shannon<sup>21</sup>. Even this small number revived a long-standing quarrel over monetary policy – to fund by taxation or by emission of paper bills of credit. The governor refused the emission of more bills and had to settle for a sum that was inadequate to pay for all necessities. Governor Thomas was forced to rely on his per-

<sup>18</sup> O’Callaghan, 1855, 6: 316, Clinton to the Lords of Trade, 9th Dec. 1746

<sup>19</sup> O’Callaghan, 1855, 6: 340, Clinton to Newcastle, 11th May 1747.

<sup>20</sup> O’Callaghan, 1855, 6: 326, Alexander and Morris to Newcastle, 23rd Nov. 1746. See also Sheridan, 1981.

<sup>21</sup> Hazard, 1852, 1: 688, Commission for John Shannon, 25th June 1746.

sonal credit to raise money to clothe and arm the troops. Very quickly the public funding ran out and payments to innkeepers for the troops' subsistence fell into arrears. Thomas arranged further personal credit to pay for the troops to leave Pennsylvania for Albany, fearing that with his credit reaching exhaustion, the troops would soon become mutinous and plunder the local inhabitants. Shifting the problem to Clinton in New York solved the immediate crisis until the spring, when the victuals provided by Clinton began to run out. A further appeal to the Assembly to provide new supplies fell on deaf ears as the Assembly claimed that if Clinton wanted to keep the troops together he must pay for them himself<sup>22</sup>.

In London, the decision not to hold St Clair's forces in readiness for an early departure to North America in the spring of 1747 did not mean that the enterprise had been abandoned. Events in Europe dominated ministers' thinking, but the opportunity of gains in Canada was not forgotten. It was only at the end of May 1747 that news was sent to the governors that the expedition would not be undertaken and orders were given to disband the American forces at Louisbourg and Albany<sup>23</sup>. This was not in response to a loss of interest in the theatre, but the receipt of a new appreciation of the situation from Shirley and Warren. In October, with the news that the expedition would not come out in 1746, they were ordered to review the forces needed to attack Canada. They concluded that at least 8,000 regulars supported by 22,000 Americans, 18 line of battle ships, 5 frigates, four bombs and fireships would be needed for the task. Warren had arrived in back in Britain to discuss the huge expansion of forces demanded. Warren would not budge on his analysis and the ministers were forced to accept that the plan was now impracticable<sup>24</sup>. Attention would now be focussed on securing Cape Breton and Nova Scotia and paying off surplus American troops.

<sup>22</sup> *Minutes of the Provincial Council of Pennsylvania*, (1851), Harrisburg, , vol. 5, 52-53, Thomas to the Assembly, 22nd Aug. 1746; 54-57, Thomas to the Assembly, 15th Oct. 1746; 57, Thomas to the Assembly, 6th January 1746/7; Assembly to Thomas, 12th January 1746/7.

<sup>23</sup> TNA CO 5/45 (Expedition to Canada), ff. 67-76, Shirley and Knowles to Newcastle, 28th Nov. 1747. The total number of Americans raised in 1746 appears to have been about 7000.

<sup>24</sup> TNA, CO 5/45 (Expedition to Canada), ff. 376-386, Newcastle to Shirley, 30th May 1747.

The disbanding of the troops posed problems. The example of the New York Assembly refusing to provide credit for the raising of the troops until Parliament had voted funds to repay them was soon followed by other provinces. The disbanding of the troops was the signal for the clearing of debts. It was not clear whether the troops should have the cost of their provisions stopped from their pay as in the regular army. Clinton, at Albany, decided not to do so, but Shirley did make the stoppages, until the anger of the troops forced him to relent. The question of whether the troops should retain their arms and accoutrements also divided the Albany and Louisbourg camps, which again had to be settled in favour of the soldiers. How the troops were to receive their pay was also undecided. Shirley recommended that the governors raise credit to pay the men until Parliament made good the payments as promised. This could entail further emission of paper money in places like Rhode Island and New Hampshire, which threatened devaluation of the currency or giving the men bills on the Paymaster General which they could either hold until the money arrived from Britain or sell on at a discounted rate to merchants. Shirley strongly advocated the latter, but even then it would take time to gather the money and the discount rate might not be good for the men. Shirley felt that Massachusetts had a strong enough money supply to do it successfully, but the smaller colonies might struggle.

Some things were learned from this experience of raising and disbanding large forces in North America. The American troops were clearly perceived as being separate from the regular army, under their own officers and appointments determined by the provinces. Delays were minimised by using local sources of arms and clothes, although the effectiveness of the former was questionable as Shirley concluded that a large number of firelocks were so poor at the beginning of the campaign that they were worthless at the end. Aside from this, the critical factor was financial. The British government assumed full responsibility for financing the provincial regiments, but the system for ensuring that the money arrived in North America broke down. As in 1740, a senior officer, in this case St Clair, was supposed to provide bills of exchange and when he did not arrive there was no mechanism to redeem the debts incurred. Ensuring the payments system worked was to be an important factor in the massive expansion of the provincial regiments raised during the Seven Years War. It is impossible to judge how effective these troops would have been, but in terms of putting them

on foot, the ministry could be sure that the system worked well enough in North America.

Overall, British ministers and public could assume that the colonists of North America were capable of contributing to large scale operations on that Continent. On the other hand, the failure to mount the expedition after all the effort might have suggested that the practicality of such operations in the military conditions of 1746/7 were more doubtful. Two failed British trans-Atlantic expeditions (1740-3, 1746) and one failed French expedition (1746) during the war might have given cause to rethink the attractiveness of such operations. It does not appear to have done so and it is in this that the role of ideology is interesting.

Ideology provides a mind set by which to filter and organise information. One of the most important features of British politics was the institutional deflection of criticism of either monarch or governmental system to the ministers. The accountability of ministers through Parliament produced a debate that was focussed upon personal competence and a broad assumption that events flowed directly from conscious decision-making at the highest level. This was consistent with contemporary attitudes to personal honour and the attributes and role of leadership in society. The failure of the 1740 expedition to the West Indies was variously attributed to Walpole or to Major General Wentworth. The failure of the Canadian expedition was laid at the door of Newcastle. The disaster at Fontenoy in May 1745 was attributed to the actions of General Ingoldsby or the Dutch. The question then becomes; if success or failure could be explained satisfactorily by the decisions of identifiable individuals, how susceptible was ideology to the outcome of military events? Certainly, the shock of crises could have an impact. The disastrous attack on Brest in 1694 silenced the advocates of maritime war for the rest of the Nine Years War. The Jacobite Rebellion of 1745/6 greatly diminished the vigorous press campaign against Hanover and the war in Flanders. However, these were not long term effects. In both instances the advocates of maritime war had revived within ten years. The belief that Britain had the capability to achieve significant results in the Americas was tested twice in the war, and the failures of the expeditions of 1740-3 and 1746 produced neither crises, nor suggested that there was anything intrinsically impracticable about such operations. The failure to go to Canada 1746, therefore, posed no challenge to the assumptions of ministers or public. Ministers, senior officers and administrators learned something about the problems of carrying out



such operations which remained an option for the future. Ministerial opposition to, or support for, the expedition was not primarily based on principle but on appreciations of the immediate circumstances of operations – the attitude of the Dutch, the tempo of peace negotiations and the threat from France. One does not see quite the same ideological resilience in the face of bad news from the war in Flanders, where the sluggishness of the Dutch and the obstinacy of the Austrians are constant themes throughout the war. Although there was never the clear ideological divide between Continental and Blue Water policies among ministers that the intense pamphlet war suggested, it seems that during the 1740s the ideological underpinning for a European war weakened relative to the maritime war.

Thus, in conclusion, it might be suggested that, despite heated debates over military policy, the six years of campaigning in Europe and the general lack of success in the amphibious war, Britain's maritime focus was consolidated in the 1740s. The expedition to Canada demonstrated that the ideology of maritime war was by then highly resistant to failure. It did not stimulate serious political repercussions, or a reaction in inverse proportion to the enthusiasm that the capture of Cape Breton had caused the year before. The capability of the British state to mount significant trans-Atlantic expeditions was also developing and understood. From the mobilisation of military units to the organisation of American forces, a British expedition could be put on foot in a matter of weeks. It is even possible that it played a role in resolving the key naval weakness of such expeditions – vulnerability to the escape of French squadrons – by stimulating the creation of the Western Squadron. This ideological strength, ability to change and the upward drift of capability was to be important as Britain had to absorb four more years of indifferent results of maritime war from 1755 to 1759 before its fruits became self-evident.



# **Mobilising resources for war. The Dutch and British Financial Revolutions compared<sup>1</sup>**

*Marjolein 't Hart*

The outstanding performance of the seventeenth century Dutch Republic is a well-known established fact. Recent historiography has stressed the powers and the relative efficiency of the decentralised Netherlands (Glete, 2002; Van der Ent et al. 1999). Above all, the power of public credit allowed the Dutch to maintain a status as a major power in wars. The ease with which massive loans could be contracted, at relatively low rates of interest, has been labelled a “financial revolution” (Dickson 1967; Tracy 1985). Thanks to this public credit system troops were paid relatively on time, giving the United Provinces a significant leverage over most of its competitors on the continent. The flow of funds also allowed for victories at sea. The navy secured the Dutch international trade routes for decades to come.

However, to what degree the system was actually still efficient in the eighteenth century is unclear. Historians have stressed the difficulties of the Dutch in maintaining their major-power status, in particular after the War of Spanish Succession (Aalbers, 1977; De Vries and Van der Woude, 1997: 118). Yet wars also eroded the power of the other belligerents. Throughout most of the eighteenth century, the Dutch managed to maintain their credit during warfare. Actually, the 1720 burst of financial bubbles in Paris (John Law’s system) and London (South Sea

<sup>1</sup> I would like to thank Wantje Fritschy for her critical remarks. Oscar Gelderblom and Joost Jonker (Utrecht University) allowed me to use their data on the Rotterdam obligations in the 1690s. My thanks also go to Richard Bakx (National Archives, The Hague) for approving my consulting of a damaged book of the Holland obligations-accounts. This paper also profited from the comments by several participants at the Second Low Countries Conference, April 20-21, Antwerp 2006.

Company) disrupted the French and English public credit systems more as compared to the Dutch (Schubert, 1988; Harris, 1994: 610).

This contribution addresses the central question of how far the merits of the earlier financial revolution in the Netherlands were continued in the eighteenth century. Was the way of raising loans for warfare still an efficient system, as it had been in the previous century? And to what degree had the British financial revolution of the eighteenth century become superior to the Dutch? Detailed information as to the kind, the number and the size of the bonds are compared to data provided by Dickson's study on England and to data concerning the Dutch Golden Age. Yet first an overview of the concept and scope of the financial revolution follows.

## 1

The English financial revolution provided the model that inspired a generation of historians on this subject. The installation of William of Orange as King after the Glorious Revolution of 1688 was followed by a series of structural innovations in the English state's finances. With the Declaration of Rights in 1689, Parliament strengthened its position as the real focus for the major interests in the country. The Crown's revenues were henceforth revenues of the nation. Government loans were "uplifted" from being loans to the King to loans to the Nation and a true National Debt emerged.

Peter Dickson was the first to describe the development from (predominantly) short-term loans in the 1690s to regular long-term arrangements in public finance by the middle of the eighteenth century. New institutions like the Bank of England (1694) were established. In the decades to come this Bank proved to be of tremendous importance as an intermediary between government and potential investors in the state's debt. The number of public creditors rose spectacularly and the stock market itself received a major boost as the numerous new government bonds were traded freely. Dickson's analysis showed that the financial revolution had a relatively slow start, but from the 1740s onwards, the British state proved most successful in mobilising massive and cheap loans for war (Dickson, 1967: 243-5). In the long run, techniques of the financial revolution were copied by other states again. Comparable

institutions became a hallmark of the nineteenth century nation-states (Kindleberger, 1996: 96; Sylla, 2002; Neal, 1990).

Dickson's financial revolution model on eighteenth century England underwent an adaptation by James Tracy. He asserted that the English financial revolution had been inspired by earlier Dutch institutional settings: in fact, a comparable financial revolution had occurred there in the sixteenth century. Tracy focussed on three aspects, each following the other in time. First, in 1515 the provincial Estates of Holland (in fact, the six major cities) accepted common and mutual responsibility for the service of interest payments on *renten* (as the long-term public loans were called). Second, in the 1540s the Estates started to levy efficient provincial taxes to be able to serve the financial costs of *renten*. Third, in the 1550s all forced loans were done away with and a voluntary, free market for public loans emerged. As a result, the province of Holland became an efficient entity to mobilise funds for the long and expensive wars of the Habsburgs monarchs (Tracy 1985).

Tracy's interpretation of the financial revolution bears some different emphases from Dickson's. The first aspect of Tracy ("Estates/ provincial responsibility") is more or less comparable to the new claims of Parliament after the Declaration of Rights in Dickson's England. The second aspect ("efficient taxation") received hardly any attention by Dickson itself, but constituted a prerequisite for the whole financial revolution, as only a regular flow of taxes allowed for a funded debt system.<sup>2</sup> Holland's voluntary loans and free trade in government bonds corresponded again with Dickson's emphasis on the impact of the financial revolution on the stock market, yet in contrast to Dickson, Tracy hardly studied the actual impact on the stock market itself. Indeed, it would be quite anachronistic to speak about a mature stock market in sixteenth century Holland.

The tradition of the previous financial revolution in Holland as described by Tracy was of tremendous importance for the Dutch Republic in the seventeenth century, after the Revolt against Habsburg Spain. Thanks to the enormous trust by the investing public (interest payments on Holland bonds had only been suspended during the most distressing period in the 1570s) the Dutch state could rely upon massive and cheap

<sup>2</sup> Funded debt: a certain portion of the state revenues is reserved for the future payment of the interest on the loans. On British taxation, see Brewer, 1989; O'Brien and Hunt, 1999.

loans which allowed the United Provinces to assume major-power-status in a relatively short time-span ('t Hart 1993). John Munro continued the debate on the Dutch financial revolution, pointing to the earlier medieval roots of the financial revolution (Munro, 2003). In analysing the resources for the Holland government in the first decades of the Revolt, Wantje Fritschy stated that a tax revolution had been much more important than a financial revolution with long-term loans. Only after 1600 the domestic capital market started to play a role, whereas the rise in tax revenues had been spectacular in the 1570s and 1580s (Fritschy 2003). Oscar Gelderblom and Joost Jonker argued that in the early seventeenth century the bonds of the East India Company caused the major boost to the Dutch stock market. Not government bonds, but the company bonds "completed" the financial revolution (Gelderblom and Jonker, 2004).

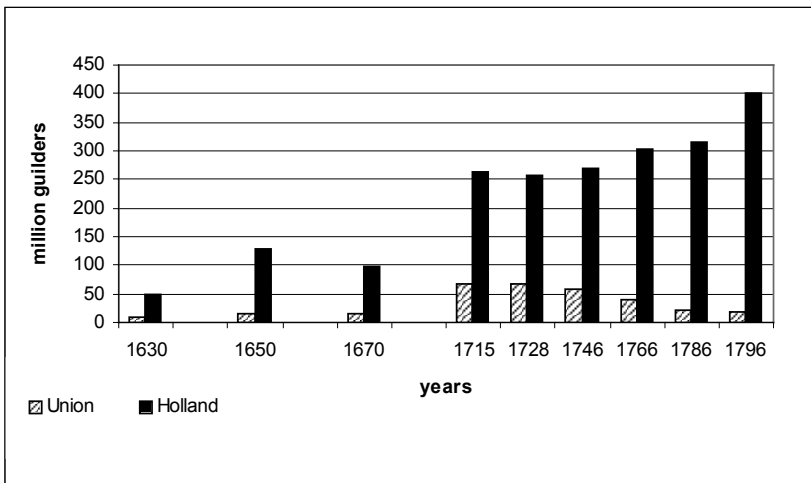
Leaving all possible interpretations and amendments to the concept aside for the moment, Holland's enormous borrowing power was indeed astounding in seventeenth century Europe. Dutch public credit was maintained by an institutional web, which included an efficient tax system (based on excises, taxes on consumer goods), voluntary public loans (managed by a set of tax receivers through which funds of potential investors were mobilised) and a mature stock market (supported by the Bank of Amsterdam). Thanks to the high security in debt servicing (unequalled in early modern Europe) interest rates were low, declining from 8.33 and 6.25 per cent in the beginning of the seventeenth to 4 and 3 per cent in the second half of the seventeenth century (Van der Ent et al., 1999: 267). And indeed, the example of Dutch public loans impressed contemporaries in England and schemes were drafted to copy the system.

However, it is of interest to establish to what degree the eighteenth century financial revolution of Holland was still as efficient as in the previous century. Seventeenth century Dutch public funds had been characterised by a large number of creditors; small-scale contracts dominated. Did the managers of the state loans (the tax receivers in the towns) still open their doors to the numerous small-scale investors and to those with only moderate funds? Were creditors still dispersed over all Holland towns or was a considerable concentration noticeable? A comparison with the English eighteenth century loans will reveal how far the Dutch still held the edge in mobilising funds for war. Yet first it is worthwhile comparing the eighteenth-century Dutch loans to those of the seventeenth century.

## 2

The Dutch Republic relied above all upon the credit of the province of Holland. The next important source of credit was the Receiver General of the Union (the Generality, representing the United Seven Provinces) in The Hague, and only third came the credit of the other six provinces and of the five admiralties. In this analysis I will focus on the public loans of Holland and the Generality only; they were by far the most important. Figure 1 shows the debts of the Holland receivers and the Union receiver.

Figure 1 *Public debt of Holland and the Union, 1630-1796*



Source: Dormans, 1991: 139-140, 156, 165.

Holland's credit was quite resilient as it rested upon a network of local tax receivers, operating from the larger towns. The urbanized character of the province allowed a high yield in the duties levied upon consumer goods. This base secured the interest payments upon the loans again. Due to the decentralised institutional setting, the tax officers could tap funds from all parts of the province. This proved quite efficient in periods of warfare: the credit system was not dependent upon one major town or upon a limited social stratum (like Jewish financiers).

Some details of these loans reveal the broad base that yielded the funds for warfare. Table 1 presents the mean and median investments in the Holland provincial loans at the tax offices of Amsterdam, Rotterdam, and The Hague, as well as the loans of the Union Receiver in the seventeenth century.

Table 1 *Mean and median investments in public loans issued by the Holland provincial tax receivers in Amsterdam, Rotterdam and The Hague, and the Union Receiver in the seventeenth century, in guilders*

	<i>Mean</i>	<i>Median</i>	<i>Smallest bond</i>
Amsterdam, annuities 1578-1625	1200	700	100
Rotterdam, annuities 1628-50	1500	1200	100
The Hague, annuities 1628-50	2400	1600	100
Amsterdam, obligations 1625-65	4000	1500	200
Rotterdam, obligations 1625-37	2700	2000	600
Rotterdam, obligations 1690-92	1600	1000	200
The Hague, obligations 1625	4600	2500	412
Union Receiver, obligations 1649-50	2300	1200	50

Sources: National Archives, The Hague, *Financie van Holland 3.1.29*: Rentenboeken nos. 245, 246, 249, 250, 251, 307, 328, 343, 367, 371, 379; Municipal Archive, Rotterdam, *GLC Obligaties 1672-1692*; 't Hart, 1989a.

This table shows how the different offices managed to draw funds in varied ways. Annuities (perpetual or life-annuities) were generally sold in smaller amounts as compared to obligations. The annuities had been the main tool for raising public funds on the medium and long term in the Netherlands for centuries. The public regarded these loans as highly secure – the debt service was backed up by urban excises before the 1540s, thereafter by provincial excises. Moreover, the provincial government had granted interest-payment costs the highest priority of all expenses. Obligations were of a more recent character. Originally, they constituted a short-term loan. From the beginning of the seventeenth century the official term was six months, but as they were renewed on a regular basis, obligations served in the medium and long term as well.

Investors had the choice of buying a life-annuity, a perpetual annuity, or an obligation. The latter were the easiest to transfer and could be



converted into cash more easily as compared to the annuities. Annuities were always sold to a name and, in case of the life-annuity, the name of the nominee was noted in the records. Payment of the interest halted after the nominee had died. Obligations could be sold to bearer, yet the practice of anonymous buyers was still rather restricted.

The amounts varied strongly, leaving it up to the public to decide whether to invest 50 guilders or 5,000. As can be seen in table 1, the Union Receiver in The Hague allowed quite small bonds. His credit was less solid, as the interest-payments upon his loans were not secured by regular taxation, but by varied resources ('t Hart, 1993: 166). Amsterdam, Rotterdam and the provincial receiver of Holland in The Hague demanded higher minimum sums. Their offices were secured by the regular flow of provincial excises. The total amount of the Union loans was therefore also considerably smaller as compared to those raised by Holland (see also figure 1). Still, these amounts were often of critical importance during wartime. As can be seen from the mean and medians, all tax officers received quite substantial sums from a relatively small group of investors. Above all, a couple of very rich investors stood out among the obligations issued by Amsterdam and The Hague. Many of the smaller investors typically preferred to buy annuities.

An analysis concerning the names of the bond-buyers yielded some information as to the background of the investors. The provincial receiver in The Hague, and the Union Receiver, obtained more often funds from people with a noble status and/or with a high position in the central or regional governments ('t Hart, 1989a). Also, institutional investors (Church Boards, Orphanages and so on) preferred these The Hague loans, above all the perpetual annuities. The Amsterdam office depended more often upon individual buyers. The Rotterdam office sold few obligations, yet those that were sold were usually in large sums. In all offices, women constituted around 30 per cent (for the Amsterdam obligations for example) to 40 per cent (for the Union obligations) of the buyers. Their proportion was usually larger among the annuity buyers. Widowers often furnished higher amounts as compared to single or married women, yet they did not dominate the group of female investors.

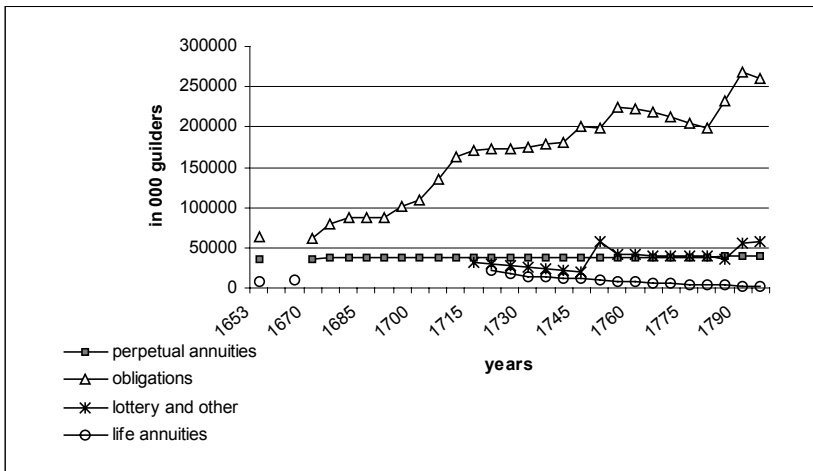
Apart from this general outline, it is remarkable to note that investors came from all social strata – of course, officeholders were prominent investors, but also artisans and servants bought annuities. Also, the tax receivers managed to attract funds from the countryside, for example 30 per cent of the capital for Amsterdam perpetual annuities came from

villages in the neighbourhood. The wide distribution of government bonds over society and strata had a Keynesian effect: Dutch war-spending stimulated economic growth during the Dutch Golden Age, by spreading the gains from interest payments over large sections of the Holland population.

## 3

To what degree did the raising of war loans in the eighteenth century differ from the seventeenth-century practice? How strong and how broad was the basis of Dutch credit in the eighteenth century? First of all, it is of interest to look at the debt instruments used (see figure 2).

Figure 2 *Public debt of the Holland offices, according to type of loan, 1653-1796*



Source: Dormans, 1991: 66, 80-81, 110-111.

Figure 2 shows the increased prominence of the obligation bonds. Annuities were still sold, but to a lesser extent. New types emerged, like lottery loans or twenty-year bonds, yet these could not oust the obligations from first place.

Unfortunately, data concerning the sale of obligations in the eighteenth century are scarce. Only the records of the Union Receiver since

the 1780s survived. As to annuities, more accounts could be consulted. Table 2 summarises some of its main findings.

Table 2 *Mean and median investments in public loans issued by the Holland provincial tax receivers in Amsterdam, Rotterdam and The Hague, and the Union Receiver in the eighteenth century, in guilders*

	<i>Mean</i>	<i>Median</i>	<i>Smallest bond</i>
Amsterdam, life annuities 1733-34	4000	2000	500
Rotterdam, life annuities 1720-30	1400	1000	200
The Hague, life annuities 1628-50	2000	1600	500
The Hague, perpetual annuities 1720-90	86000	4000	1000
All other Holland offices, perpetual annuities 1720-1790	8000	2800	400
Union Receiver, obligations 1781-82	3200	2000	1000

Sources: National Archives, The Hague, *Financie van Holland 3.1.29*; Rentenboeken nos. 292, 293, 328, 343, 371, 379; Idem, *Generaliteitsrekenkamer 1.01.43*, Rentenboek no. 1413.

The data on obligations showed that, compared to the seventeenth century, the individual amounts had increased. The smallest bond was now 1000 guilders, against 50 guilders in the mid-seventeenth century. The proportion of women investors investing in these bonds had remained remarkably constant: around 40 per cent. Yet in the eighteenth century a strong diversification was noted: the mean investment among the females was 3700 guilders, the median was 1000; males, by comparison, invested at a mean of 3000 and a median of 2000 guilders. The rising participation of a rather small group of very wealthy women was thus remarkable.

An even stronger augmentation had occurred among the perpetual annuities. They had ceased to be an open choice for investment opportunity: obviously, that place had shifted almost totally to the obligations. All Holland state bankers issued less perpetual annuities, and the Amsterdam officer had even ceased to issue them altogether: from the 1640s onwards almost all funds came from the life annuities and the obligations. Almost solely institutional investors bought the perpetual annuities that were still sold. As for the Holland Receiver in The Hague, institutional investors furnished almost all funds (97 per cent). The largest, most regular and recurrent investor was the Receiver of Church Goods in Delft. Far smaller sums came from hospitals, orphanages, bailiffs and

churchwardens from the surrounding villages. Among the very few individual investors one woman came to light: Elisabeth van der Waeyen, widow of Jean de Neufville, related to the famous merchant-banking house of that name in Amsterdam.

Regarding the perpetual annuities sold by the other Holland offices, most sums (82 per cent) came from institutional investors too, for example from the Deacons for the Poor in Rotterdam, the Gouda Regents of the Poor House, and also the poor wardens of the villages of Reeuwijk, Godschalk, and Slingeland were noted among the other institutional investors. Remarkably, as compared to the seventeenth century, the investing institutions were more heavily located in the Holland countryside and villages: 53 per cent, higher as compared to the perpetual annuities in the seventeenth century.

Looking at the data concerning life annuities, the significantly higher investments in Amsterdam are noticeable. Rotterdam, by comparison, sold even smaller bonds as compared to the seventeenth century. Its smallest individual life annuity was only 200 guilders, against 500 guilders both in the The Hague and Amsterdam offices. Likewise, the largest single investment also occurred in Amsterdam: 20,000 guilders, much more than the highest for the receivers in The Hague (6400 guilders) or Rotterdam (6000 guilders). Obviously, Amsterdam now managed to attract the largest average investments in these bonds.

As in the previous century, the three offices continued to rely upon a varied investing public. The Holland Receiver in The Hague, for example, sold a bond of 6000 guilders to Adam van der Smalingh (1658-1743). The latter was a member of the The Hague council and government, a notary and attorney at the High Court of Holland, Zeeland and Friesland (Fölting, 1985: 1999). The life annuity was placed upon the lives of his daughters Anna and Jacoba.

Amsterdam attracted much more from its own local officeholders (see table 3). They also invested the highest amounts (see table 3).

The high-category officeholders (almost all burgomasters of Amsterdam at some time) comprised 19 persons. Almost all owned a country house and were addressed by the title of *Heer*. The majority lived on the most fashionable Herengracht and Keizersgracht in Amsterdam. On average their income was estimated at 20,000 guilders a year; and at least eight of them belonged to the wealthiest 100 *Amsterdammers* of the time (based upon Oldewelt, 1945). Invariably, they bought bonds at a high average: 8000 guilders and more.

Table 3 *Details of Amsterdam life annuities (1733-4) according to occupational category of the investors (in guilders and in percentages)*

	<i>Estimated income (average)</i>	<i>Mean investment</i>	<i>Median investment</i>	<i>% of amount invested</i>
High officeholders, top political leaders, burgomasters	20,000	8300	8000	36
Combination high officeholders and merchants	16,000	5900	5000	18
Merchants	14,000	4300	3000	13
Low officeholders, lower regents, lawyers, professions	10,000	3200	2000	16
Rentiers (predominantly women)	4,000	3000	2000	12
Others (captains and skippers)	n.a.	4600	2000	5
All (N=60)	n.a.	4000	2000	100

Sources: National Archives, *Financie van Holland 3.1.29*: Rentenboeken nos 328, 371; Oldewelt, 1945.

Those belonging to the category of high officeholders with also an occupation as a merchant (the second category in table 3) were not typically the wealthiest. Their income was estimated at 16,000 guilders per year. A majority in this category (seven out of nine) occupied the position as director of one of the major colonial companies, the VOC or WIC, or even both. The merchants buying bonds, but with no position as burgomaster or the like, were less wealthy: an average income of 14,000 guilders annually. None of them was a director of a colonial company. The bonds bought were usually smaller, yet still larger as compared to the next category, those of low officeholders and professions (average income 10,000). The rentiers were generally people of more modest means, with an average income of 4,000 guilders, but differences were large. For example, Elisabeth Jacoba Bors van Waveren had an estimated income of 12,000, whereas Maria de Wit was reckoned to have enjoyed an income of 600 guilders a year only.

Looking at the life annuities in table 1 and those in table 2, it is noteworthy that the investing public had undergone a significant shift: both means and medians had increased substantially. This points to an aristocratisation of the bondholders. The shift can be confirmed by a com-

parison with existing data concerning the late sixteenth and early seventeenth century (see table 4).

Table 4 *Investors in life annuities at Amsterdam, broken down by percentage share of known occupations (1584-1604 and 1733-4)*

	1584-1604	1733-1734
Artisans, industrial entrepreneurs	21	2
High officeholders, top political leaders, burgomasters	5	15
Combination merchants/high officeholders	13	15
Professions, lower offices (lawyers)	7	23
Merchants with no high office	50	20
Rentiers	0	20
Others	4	5
Total excl unknown	100	100
N=	206	60

Sources: see table 3; Van der Burg and 't Hart, 2003.

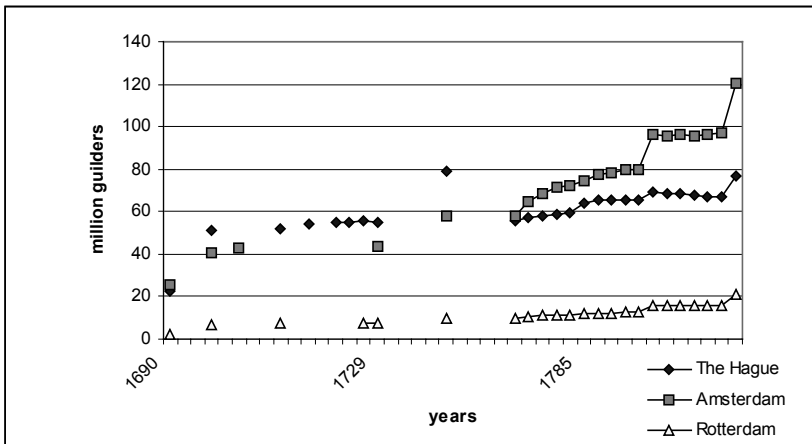
The comparison revealed a clear development: much more than in the previous centuries, investors in life annuities had become a close and restricted group. The category of “merchants” had been driven back and the high officeholders had become the dominant group. Their possible side interests in trade or handicrafts were negligible, apart from the position in one of the colonial companies. Furthermore, in the 1733-1734 annuities, no artisans were traced at all. The group of lower professionals had expanded and the rentiers had become a new category.

At the same time, the tax receiver did not close his doors on those with moderate funds. Someone with only 100 guilders could still buy a life annuity. Yet the opportunities to invest in these highly desired bonds had decreased for those that did not belong to the ruling elite. Life annuities thus served in particular the interests of the local political officeholders by the early eighteenth century. These bonds enabled the investors to take care of their beloved ones for the future. As such, the debt policy served above all the heads of oligarchic households who furthered their family-interests through state institutions (Adams, 2005). This had not been different in the seventeenth century, yet the degree

of elite participation had increased considerably at the expense of the middle and lower classes with more moderate means.

It is a pity no data survived on the Amsterdam obligations. Nevertheless, it is clear that the office of the Amsterdam tax receiver gradually dominated the field in Dutch finance (see Figure 3).

Figure 3 *Public debt in obligations of the Holland offices of The Hague, Amsterdam and Rotterdam, in million guilders, 1690-1796*



Source: National Archives, *Financie van Holland* 3.1.29, nos. 863-867

For much of the seventeenth century, the Holland Receiver at The Hague had been the most important state banker. By the later eighteenth century, Amsterdam took the prime position. Among the Holland state bankers, Rotterdam was the only other office that increased next to Amsterdam; all other Holland offices declined in this regard. More than in other towns, the Amsterdam elite was thus able to invest in the public bonds sold in the eighteenth century.

The growing dependency upon Amsterdam was not such a problem as long as the credit of the Union and of Holland stood high, which was still the case up to the 1770s. Throughout the eighteenth century, Dutch public credit had maintained a strong position. New loans were usually rather easily subscribed and Holland and Union bonds were generally sold above par on the free market, as the price lists for bonds on the secondary market show (*Maandelijkse Nederlandsche Mercurius*, 1760s-1770s).

But in the 1780s Holland's credit started to falter, as reflected in the prices an ordinary 1000-guilder Holland/Amsterdam obligation made on the public market (Van Zanden and Van Riel, 2004: 39). After the sudden decline of status caused by the loss of the Fourth Anglo-Dutch War (1780-1784) a political movement arose that criticised former oligarchic rule (Schama, 1977). Order was restored only in 1787 with support of Prussian troops, sent by the in-laws of Stadholder William V of Orange. This invasion had a disastrous effect upon public credit, and above all in Amsterdam. Some of the most powerful Amsterdam banking houses (like Stadnitski) were unwilling to support the Orangist government (Fritschy, 1988: 197, 291; Riley, 1980: 56). They demanded the full amnesty and free return of a couple of Patriot rebel leaders before they were willing to come to the rescue of the Dutch state (Van der Meulen, 1905: 337).

The political factor was not the only problem. The decision-structure of the province was still heavily dependent upon the towns (Price, 1994). In the Holland Estates, no less than eighteen individual towns (and the nobility) had to agree before a loan could be issued. In 1788, new loans were urgently needed. As the traditional voluntary arrangements had not yielded sufficient funds, a forced loan was proposed. But Gorinchem (one of the smaller towns) refused to agree. This problem could be solved, as usual, through "*persuasio*". Yet a far more serious problem was the opposition by Amsterdam. This mighty town only wished to agree on condition that a significant part of the loan was used to support the Dutch East India Company, the VOC that was heavily indebted. The central authorities in The Hague had other priorities: the payment of the troops and the support for the admiralties. In the end, there was no other way than to comply with Amsterdam. From the 57 million guilders that came in, 21 million guilders was granted to the VOC as a subsidy (Van der Meulen, 1905: 351-2).

The loans were of little help to the sinking ship of the company. Yet Amsterdam's political leadership had become increasingly entangled with the VOC. The directors of that company had always been strongly represented in Amsterdam's ruling elite. That was not such a problem for the Union as a whole in the seventeenth century, as long as the colonial enterprise expanded, yielding enormous riches that could be taxed and invested again in public debt (Gaastra, 1989: 255-258). In fact, the numerous networks in trade and power that existed allowed for a relatively efficient way of organising (colonial) warfare. Yet the same



close-knit networks proved a stumbling block for an efficient allocation of the funds when the VOC lost ground in international competition in the later eighteenth century. Next to the obvious entwining of interests, the Amsterdam economy was quite dependent upon the VOC too. The threat uttered by the VOC-leadership that they had to close their workshops and wharves alone raised the motivation to demand state loans to support the company. In fact, this multinational managed to dictate much of Amsterdam's political decisions (and hence indirectly the policy of Holland and the Union). Thus the growing orientation of public credit on the Amsterdam market turned out not to be an efficient asset for the Dutch Republic as a whole in the 1780s.

Funds were increasingly difficult to find in the wealthy Netherlands. Other options might have supported Holland's credit in the difficult times of the 1780s. One of the possibilities was the levy of a duty upon the numerous bonds that had been sold by *foreign* governments in the Netherlands. In fact, the Holland and Union annuities and obligations yielded a nominal 4 per cent, yet after taxes only 2.5 per cent remained (Liesker and Fritschy, 2004: 371, 382). The bonds of France, Sweden, Denmark, Russia, Mecklenburg, Poland, Austria and the United States yielded at least 4 per cent and often even more. Dormans has calculated that Dutch investors received annually about 27 million guilders from these investments (Dormans, 1991: 127, 179). These bonds were not subject to taxes. An imposition of a tax upon these bonds could easily have improved Holland's credit – if only to serve for the interest payments of new loans. Yet again, new taxes also had to be agreed upon in the Estates of Holland before they could be implemented – and as Amsterdam refused to agree, this option was a dead-end street again. The result was devastating: when French troops attacked the Republic in 1795-5, Dutch military forces failed to offer any serious resistance.

#### 4

It is time to turn to the comparison across the North Sea. In several respects, both the Dutch and the English financial revolutions shared important characteristics. Both were able to draw upon massive loans in order to find the means for the ever-increasing war-costs in the eighteenth century. Both were able to do so without a structural damage to public credit. The trust of the investing public in government bonds was

extremely large. Both systems were supported by a large number of domestic creditors. Both enjoyed a considerable participation of female investors (somewhat higher in the Dutch Republic). Both could serve the interest-payments out of an efficient tax-system. And both had stock markets that supported the system of public credit again by stimulating the free trade in government bonds.

As noted before, the model of seventeenth-century Netherlands caused English policy-makers to look at the Dutch example. The obvious advantages of the Bank of Amsterdam led to several proposals to introduce a Bank for England too, yet that had to wait to the 1690s (Roseveare, 1991: 10-1). One of the earliest crucial innovations were the excises of 1643 that had proved such a powerful fund for the Holland interest payments. Later, the British excises would become a firm foundation for the financial revolution as described by Dickson ('t Hart 1989; O'Brien, 1988). Next, in the 1660s Sir George Downing introduced a funded debt system that resembled the Dutch one. This was successful until the Stop of the Exchequer in 1672, caused by imminent warfare. In certain respects the English state finances improved in the decades before 1688, yet, by and large, public credit remained haphazard and uncertain and interest rates remained high (8 per cent was not uncommon, compared to 4 per cent in the Netherlands) (Roseveare, 1991: 78; Carlos, Key and Dupree, 1998: 333; Wheeler, 1996: 461). The range of investors was restricted and quite a number of the most important state creditors went bankrupt due to uncertainties and failures in the service of the debts.

The Glorious Revolution of 1688 caused a renewal in the institutional settings, which allowed the introduction of new measures, inspired on the Dutch example (Schubert, 1988: 300). But the English reforms went significantly further, or rather in another direction, in a number of respects. Above all, the Bank of England of 1694 was different from the Amsterdam Bank of Exchange of 1609.<sup>3</sup> The Amsterdam Bank was a municipal bank and its revenues supported the local burgomasters. Like-

<sup>3</sup> Peter Dickson assumed that the Bank of England was a copy of the Bank of Amsterdam, yet he noticed: "...[the Bank of England, MtH] quickly showed that in the quality of its management it could challenge comparison with the Bank of Amsterdam, hitherto the cynosure of European eyes" (Dickson, 1967: 58). Its institutional settings (not restricted by a local government) enabled the English Bank to become superior to the Amsterdam Bank.

wise, there were local— but less important - banks in Delft, Rotterdam and Middelburg. The Amsterdam Bank was not a credit institution: its main task was to deal with the deposits of major traders and to take care of the major bills of exchange.<sup>4</sup> Accounts among traders were settled at the Bank through a *giro* system without the need of cash transfers. Loans were only supplied to the municipal government and to the East India Company. From 1683 onwards, with the issue of *recepissen* notes (*recepis* = proof of a coin deposit) the Bank supported the trading community with the creation of numerous bills that could be traded freely on the market, which raised the actual money supply.

The Amsterdam Bank thus served primarily the interests of the local trading community, only secondarily the local government, and only indirectly the central or provincial government. The burgomasters had established the Bank because they feared the uncontrolled activity of the numerous cashiers in the town (Spufford 1995: 322). After 1609, all major bills of exchange had to be discounted through the Bank. Also, the Bank took care of a secured transaction system by regulating the money of account (bank guilder) through the *agio* (premium) levied upon the exchange with current money. For the local trading community, these advantages can hardly be overestimated.

The Bank of England (initially called Bank of London) was first and foremost an instrument to raise funds for the government as a joint-stock company. The establishment of the Bank of England led directly to an increased activity on the stock market; the establishment of the Bank of Amsterdam had no such effects at all. The Bank of England also discounted bills, yet as it was controlled by the central government, the bank was later in a position to assume nation-wide tasks such as issuing paper notes and managing new government loans. By expanding the money supply through a fractional reserve system, the Bank could act with a high degree of elasticity during times of crises. By comparison: the Bank of Amsterdam had no elasticity at all. In the later eighteenth century, the Bank of England came to act as a lender of last resort, a bank for banks. At the same time, the London mayors imposed fewer restrictions upon the financial community, leaving more elbowroom for

<sup>4</sup> Credit was provided by another municipal bank, the Amsterdam Bank van Lening, as from 1614, yet this was generally small-scale credit (Jansen, 1964). Larger loans were provided by private traders/banking houses.

private banking houses and the stock market. Meanwhile the Bank of Amsterdam remained strongly geared to the interests of the trading community, yet could not serve the individual banks that got into distress during financial crises such as in 1763 and 1773.

Furthermore, the English revenue-raising machine continued to use joint-stock companies to mobilise funds for war. The English East India Company and the South Sea Company served to finance the war efforts of the state. Again, these numerous new bonds had an immediate impact on the stock market. In the Netherlands, neither the East India Company nor the West India Company was used to finance the Dutch Republic or its wars in Europe. The capital raised was used primarily for the colonial ventures themselves (which did involve warfare in the Indies, of course). Their bonds thus had no close relationship to the system of public credit, the investors did not become state creditors, and the Dutch colonial capital remained “private” capital. Moreover, East India stock remained restricted.<sup>5</sup>

Another difference concerned the fact that the whole English financial revolution was set in a much more centralised polity (Carruthers, 1996; see also Carlos and Neal, 2006, 522). London housed c. one-tenth of the population and a disproportionate amount of the taxable wealth of the country. Even though the London stock market remained of immense importance, the government could draw upon nation-wide resources too, in particular nation-wide tax revenues to support the debt service that served mainly London-based creditors. The Holland financial revolution had been based upon the decentralised, strong financial tradition of the towns that had managed large-scale loans through annuities at least since the fourteenth century. Although in the sixteenth century that tradition had been upgraded to encompass the whole province (drawing upon provincial taxes to service the predominantly urban-based loans), the Dutch financial revolution remained restricted to the provincial level. Yet Holland was just one of the seven sovereign provinces that constituted the States General of the United Provinces. Most financial policies were strictly provincial oriented. In no way could tax revenues from other provinces be used to service the creditors in –

<sup>5</sup> In 1612 some 830 stock-holders were noted (Gaastra, 2002, 34.) This calls into question whether these relatively few bonds (compared to English colonial stock 830 is a very low amount, see Dickson, 1967, 249 ff.) could perform the task of “fulfilling” a financial revolution (cf. Gelderblom and Jonker, 2004; see also Fritschy, 2006).

mainly – the Holland towns. The decentralised setting may have constituted an advantage during the early stages of the Revolt, as the networks and the mutual trust between the local/regional war-establishments and the local/regional fund-raising institutions were strong; in the long run it proved to be a disadvantage.

There are also notable differences in the relationship between issued loans and the investing public. In the previous sections (tables 1 and 2), I have presented data concerning the Dutch loans, which can be compared to the average amounts subscribed in the English loans (see table 5).

Table 5 *Average amounts of investment in bonds in England, eighteenth century, in guilders*

<i>Type and year</i>	<i>Amount</i>
99 years annuities 1709	11,000
Bank of England 1709	20,000
Bank of England 1709	11,000
East India 1709	30,000
Annuities 1719	7,000
Annuities 1719	8,000
South Sea 1723	13,000
Bank of England 1724	19,000
East India 1724	17,000
3 per cent loan 1742	32,000
South Sea 1744	12,000
East India 1748	15,000
4 per cent loan 1750	15,000
Bank of England 1753	22,000

*Sources:* Dickson, 1967: 261, 274, 287.

The comparison is revealing: virtually all loan types in England drew upon significantly larger amounts as compared to the Dutch Republic, apart from the perpetual annuities issued by the Holland Receiver in The Hague. Yet the latter had become extremely rare and were usually not open for investments to the “general public”. The lowest English bond had been 10 pounds (=100 guilders), in the lottery loans of the 1690s, yet the smallest denomination in the later stock emissions was

usually 100 pounds (=1000 guilders). At the same time, the number of institutional investors was somewhat higher in England: varying between 9 and 18 per cent, depending upon the type of loan (Dickson, 1967: 287). As women tended to invest smaller amounts than men, the proportion of female investors in England was lower – usually around 20 per cent, against 30 to 40 per cent in the Netherlands (Dickson, 1967: 268, 281, 287; Carlos and Neal, 2004).

On the whole, the English system seemed more efficient in raising sizeable war funds from fewer (predominantly male and more often institutional) investors. Moreover, the English state relied more upon financial consortia and upon financial intermediaries to get the loans subscribed (Dickson, 1967: 217, 220). This might have helped to get the funds in quicker. The role of the Bank of England and of the colonial companies must be mentioned again in this regard. Whereas in England the colonial companies served the interests of the state at war, the previous section has shown that in Holland they had grown into millstones around the Republic's neck. Even though in England investors came from all sectors of society (Carlos and Neal, 2006: 514), the English financial revolution must have depended more upon the wealthier groups in society. With the growing dependency upon the funds of the Amsterdam oligarchy, the investment options for the wealthier groups of society outside Amsterdam declined. Furthermore, with the reduction in the variety of the loan base, the possible profitable distributional effects of the Dutch public loans disappeared.

Another crucial difference was the degree of foreign investors. Dutch public credit was owned totally by domestic investors. Furthermore, the town receivers relied upon their own local networks. The English system profited much more from investors from abroad, above all from the Netherlands. Dickson assumed that around 15 per cent of the English public debt was in hands of Dutch investors (Dickson, 1967: 304 ff.). That portion has been debated by other historians; nevertheless, whatever the exact size, thanks to the continuous flow of funds from the Netherlands the British managed to weather the storms caused by the soaring expenses during the Seven Years' War: it held down interest rates on the long-term debt (Neal, 1977: 35). Also the crisis of the South Sea Bubble was reduced thanks to foreign investments (Carlos and Neal 2006: 500). In that respect the English financial revolution could profit more from the rise of the international stock market (Carlos, Neal, and Wandschneider 2005). The Dutch public credit continued on the line

which had been quite profitable in the seventeenth century, the local networks of the numerous tax receivers annex state bankers, yet it failed to grasp the opportunities of the expanding international financial markets. In the case of the financial crisis of the 1780s, when the Dutch public itself was unwilling to buy bonds, even a small portion of foreign investors might have made a significant difference.

The aforementioned aspect of centralised control in the English case should be stressed. The British financial revolution was strongly oriented on the London market, but that market also expanded, not least because of favourable developments in the colonies overseas. In contrast, the growing dependence of the Dutch system upon Amsterdam coincided with a weakening of the position of the colonial companies, combined with the severe political crisis caused by the anti-oligarchic Patriot movement.

Yet the performance of the Dutch financial system remained impressive. The number of creditors in the British case lingered around some 60,000 in 1750 (Dickson, 1967: 285). The Dutch financial revolution had already involved a similar number by 1650 ('t Hart, 1993: 173). By the late eighteenth century, assuming a total debt of around 500 million guilders, this number must have built up to about 100,000 domestic creditors<sup>6</sup>. This was a substantial portion of the Dutch population, which numbered around 2 million. Holland was definitely a larger borrower on per-capita-basis as compared to England around 1750, even three times as much (Sussman and Yafeh, 2006: 924). Yet the advantages gradually faded out. By the 1780s, the Dutch still had a larger per capita burden of loans as compared to Britain, but the gap had become much smaller (30 pounds against 40 pounds). British loans thus gained significantly in efficiency after 1750.

Even then, the British financial system remained oriented on the Dutch one for most of the eighteenth century. British interest rates followed the Dutch developments, not vice versa (Sussman and Yafeh, 2006: 924). But also in this respect the domination of the Dutch gradually faded: in the second half of the eighteenth century the influence of the British financial market increased. By the 1780s, the role of the Am-

<sup>6</sup> The total debt of 500 million guilders, divided by the average amount of investment, resulted in some 200,000 bonds. Taking account of the growing concentration of the bonds in the hands of the oligarchy, a fair estimation would be some 100,000 domestic creditors.

sterdam financial market was finally overshadowed by London (Neal, 1990).

## 5

For almost two centuries, the institutions of the Dutch public debt had served the interests of the Republic well. Through good management and an elastic revenue-raising system the United Provinces became one of the first powerful fiscal-military states. The financial revolution, with roots dating right back to the sixteenth century, proved to be of enormous advantage in mobilising funds for war. The close-knit network of the local tax receivers, who acted as the same time as state bankers, created an enormously credible commitment towards the investing public. At the same time, the broad loan base and the great variety of investors entailed a distributional effect in war expenditure that served the economic growth of the Republic again in the seventeenth century.

Yet this contribution showed that the revenue-raising system as a whole was gradually overtaken by a more superior financial revolution of the British. The latter was set in a more centralised polity, could depend upon a nation-wide Bank, used companies and consortia to raise war funds, profited from the rising international stock market, and proved more efficient in dealing with individual investments. In the Netherlands, the trend towards constantly lower interest rates was even reversed in the 1780s. By then, the willingness to invest in the state bonds had eroded. The defeat in the Anglo-Dutch War, coupled to a political crisis, weakened the fund-raising networks. The growing dependence upon the Amsterdam office proved a dead-end street as the policies of this mighty town had merged too closely with the interests of the Dutch East India Company. This caused the unhealthy continuation of support to the debt-ridden multinational, funds that did not further state interests at large. Blinded by the successes of the past, the existing oligarchic networks prevented a reform of the revenue-raising system, and the Dutch Republic became an annex to Revolutionary France.



# **The Spanish National Budget in a Century of War. The Importance of Financing the Army and the Navy During the Eighteenth century\***

*José Jurado-Sánchez*

## 1

During the early modern period, the main function of European States was military. The most important financial task of the Exchequer was to obtain resources to pay for military spending. Not only did the Army and the Navy always account for the largest share of public spending, but also the majority of taxes were levied in order to fund both military items, and government debt was issued mainly for the same purpose. These factors largely explain why the study of military expenditure and the financing of warfare and its consequences has such a long tradition in works of European Economic History and History (Dickson, 1971; Tilly, 1975; Harris, 1976; O'Brien 1988; Brewer, 1989; Bonney, 1995; Hoffman, 1997; Cuenca, 2001; Bowen 2006). The same can be said for the Spanish bibliography, where the examination of the military items of budget has an importance place in the works on Public Finance (Domínguez, 1960; Kamen, 1969; Barbier, 1985; Thompson, 1992a, 1992b).

To measure the treasury prominence of military expenditure in Spain we have used a new set of statistics relating to the volume and structure of Treasury spending. These series have been constructed from a single reliable primary source, the accounts of the Central Treasury of the Spanish Treasury which were audited by the auditors of the Ex-

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chequer (*Contaduría Mayor de Cuentas*). Having studied the fluctuations and structure of the series, we have come to several main conclusions. First, total expenditure and the per capita expenditure increased notably during the eighteenth century. Economic growth, tax reforms and the issue of National Debt were the main factors that contributed to the increase in public revenue which financed the growth of expenditure. Secondly, the structure of expenditure reflects the main function of the Spanish State, given the importance of military items in the budget and the relatively little weight which civil items had, especially Investment and Pensions (Jurado, 2006). The new statistics tell us with reasonable certainty the volume, fluctuations and structure of Spanish Treasury spending, a fundamental macroeconomic indicator of the Public Sector. In this research work we seek to improve quantitative data currently available, since up to now we had at our disposal six very different series made by several Treasury scholars during the second half of the twentieth century. Henry Kamen constructed the first series for volume and structure of the public expenditure for the years 1703-13, during which period the War of the Spanish Succession took place (Kamen, 1969). Didier Ozanam made another estimate, in this case for seven years of the period 1723-60 (Ozanam, 1978). José Patricio Merino constructed two series, one of them for the years 1788-97 and another for the whole of the second half of the eighteenth century and the two first decades of the nineteenth century (Merino Navarro, 1981 and 1987). Jacques Barbier and Herbert S. Klein estimated the volume of Spanish public expenditure for the reign of Charles III (1759-88) (Barbier, 1985). Lastly, Renate Pieper constructed the sixth series, in which she estimated the volume and structure of Spanish Treasury spending for the period from 1753 to 1780. (Pieper, 1988). There is no doubt that better statistics for public expenditure, in view of the connections between public expenditure and other main macroeconomic variables, will increase our understanding of the evolution of the eighteenth century Spanish economy. Also it is to be hoped that the new statistics of the volume and structure of public expenditure will be useful for understanding whether public finances were a factor that stimulated or slowed down economic growth and, vice versa, if economic growth promoted expansion in Public Finance. In addition, with the series which we have constructed, we will determine with greater accuracy the aims and role of Spanish Public Finance, analyse its economic effects, and lastly make international comparisons.

In order to achieve the specific aim of this work, that is to say to measure more accurately and systematically the budgetary importance of military spending in eighteenth century Spain, we have estimated the influence military spending had on the trend of public expenditure, an issue which is studied in sections 2 and 3 of this work by exploring several periods in which public expenditure grew and others in which expenses of the Spanish Exchequer fell. We have also calculated the part of the per capita expenditure allocated to finance the military items of the budget (section 4). Thirdly, we have estimated the percentage of total expenditure that the military items absorbed. In section 4 we also have calculated the correlation matrices of military items. Finally, in the section 5 we have summed up the main findings of these pages. With these estimates, we will be discussing in this work the following issues:

1. What impact did the numerous wars of the eighteenth century have on the Spanish National Budget?
2. Was military spending the only budget item that increased total expenditure or did other categories of expenses contribute to the increase? What proportion of the rises in expenditure was generated by the financing of the Army and the Navy?
3. What influence did the trend of the military items of budget have on the falls in expenditure?
4. Were the Army and the Navy the items on which the Spanish National Treasury spent more sums per head of population? Were these items increasing through the eighteenth century?
5. Did military spending, and per capita military spending, increase over the eighteenth century and, if so, what were the causes of the increase? Did the Army and Navy become increasingly costly institutions, representing an ever-growing burden for the Treasury?
6. The structure of the military spending. On what items did the Army and Navy spend their money?
7. The budget priorities of Spanish rulers

## 2

The sums of money spent by the Spanish Exchequer during the eighteenth century rose considerably. At constant prices, and at a cumulative growth rate, expenses grew by a factor of 0.46 between 1714 and 1800.

In the years 1714-20, expenses amounted to 189 million *reales* of *vel-lón* and in the next twenty years they reached more than 200 million. Expenditure passed the 220 million mark between 1741 and 1760, topping 240 million in the 1760s, and 260 million in the 1780s. Finally, in the last decade of the century expenses exceeded the 330 million mark, 76 per cent more than in the second decade (see Table 1 and Figure 1). As we can see from the Appendix, the rise in expenditure was particularly acute in five periods of the century: 1717-20, 1742-46, 1759-62, 1780-83 and 1793-1800. In the first of them, expenses reached almost 40 million *reales* more than in previous years, an increment of 23 per cent. A little less than a quarter of this increase was caused by the civil items of budget, according to the following breakdown: Central Administration (7.5 per cent), Extraordinary Civil Expenses (6.5 per cent), Pensions (5 per cent), Royal Household and Investment (less than 1 per cent each item). Hence the major portion of the rise in expenses was due to military items, whose cost grew by 52 per cent and contributed more than three-quarters to the total increase of expenditure. Army spending grew by 16 per cent and made up more than the half of the rise, while the percentages of the Navy were 87 and almost 25 per cent respectively (see Appendix). The increase of 1717-20 and the others that took place in the first half of eighteenth century, were caused by the wars that ensued after Philip V (1701-46) rejected the treaties of Utrecht by which Spain lost Gibraltar, Minorca, Milan, Naples and Sardinia. Philip V led Spanish foreign policy in an attempt to regain these territories, especially the Italian ones. To achieve this objective, the royal governments tried all the diplomatic options during the first years after the Treaties of Utrecht were signed. But this plan was unsuccessful. Then Philip V chose warfare to regain the territories lost during the War of the Spanish Succession. So, in 1717 and 1718 the Spanish troops conquered Sardinia and Sicily, but Britain, France, Austria and the Netherlands formed an alliance and ejected Spain from them, and by the Treaty of The Hague (1720) the Spanish government renounced both islands (Domínguez, 1981: 49-69; Ozanam, 1996: 586-93, 625-44).

Between 1728 and 1736 public expenditure also grew notably, since the Spanish Exchequer spent during this period, as an annual average, almost 17 per cent more than in the seven preceding years (more than 32 million *reales*). Military spending made up almost two-thirds of this increase, which was due to the involvement of Spain in the War of Polish Succession and the building up of the fleet, a policy implemented by

Table 1 *Expenditure in the Spanish Treasury, 1714-1800*  
(figures in reales of vellón)

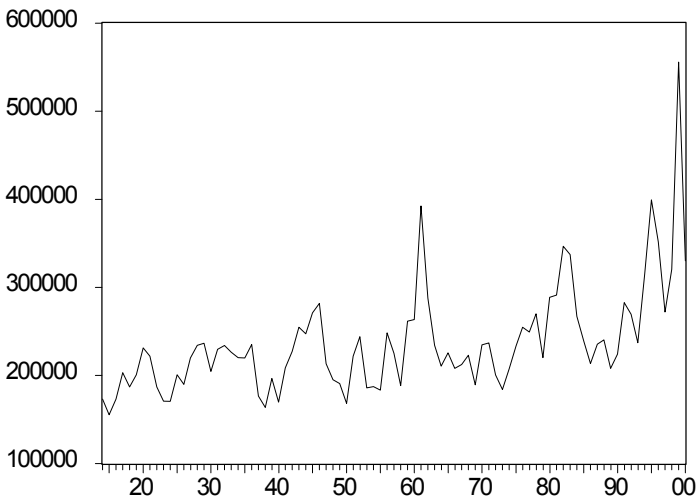
<i>Period</i>	<i>Expenditure<sup>a</sup></i>	<i>Index Numbers</i>	<i>Expenditure<sup>b</sup></i>	<i>Index Numbers</i>
1714-1720	230,742,501	100.00	189,024,847	100.00
1721-1730	250,518,972	108.57	203,537,445	107.68
1731-1740	294,002,178	127.41	207,081,127	109.55
1741-1750	325,175,478	140.92	225,701,194	119.40
1751-1760	370,550,973	160.59	220,803,304	116.81
1761-1770	492,866,497	213.60	241,720,187	127.88
1771-1780	504,212,521	218.52	234,370,017	123.99
1781-1790	645,828,917	279.89	260,182,726	137.64
1791-1800	1,027,559,818	445.33	333,269,307	176.31
R			0.46	

<sup>a</sup> Average annual expenditure at current prices <sup>b</sup> Average annual expenditure at constant prices

R Cumulative growth rate

Sources: The author's own calculations based on references cited in Appendix

Figure 1 *Expenditure in the Spanish Treasury, 1714-1800*  
(annual values in 000 reales of vellón)



Source: The author's own calculations based on references cited in Appendix.

José Patiño, the prime minister. For these reasons, Navy expenditure increased fivefold and made up almost 87 per cent of the rise, while Army spending was reduced by more than 5 per cent and accounted for a negative percentage. The amount of civil items grew by 18 per cent and made up 35 per cent of the increase (see Appendix), especially the service of the government debt, the cost of which grew by more than two-thirds, and made up 17 per cent of the total increase. Pension spending trebled and accounted for 11 per cent of the rise. The amount of Investment expenditure more than doubled and contributed a little over 8 per cent to the increase. As for Central Administration, costs grew by a factor of 1.5, making up 5 per cent of the total increase. Lastly, the Royal Household and the Extraordinary Civil Expenses accounted for negative percentages (more than 3 per cent and more than 2 per cent respectively).

The death of Charles VI, the Austrian emperor, in 1740 triggered the War of Austrian Succession, which carried on for the following seven years. Spain's involvement in this war was due to Philip V's desire to regain the lost Italian territories. Spanish intervention started at the beginning of 1742, when the Spanish fleet disembarked in the Cape of Orbetello, in Tuscany. By the end of 1745, Spain had conquered, with the support of French troops, Milan, Piamonte, Parma and Piacenza, but after the Peace of Aachen (1748) Spain retained only the last two territories. The cost of this war brought about another rise in Spain's treasury spending between 1742 and 1746, since the payments of the *Tesorería General* rose two-fifths in relation to the previous five years. Military spending grew by more than two-fifths and contributed more than three-fifths to the increase, even though Army expenditure was reduced by 18 per cent and subtracted more than one-fifth of the increase. Navy expenditure more than doubled and made up 83 per cent of the increase. Civil items, the cost of which grew by 38 per cent, contributed less than two-fifths to this increase. The Royal Household contributed almost 14 per cent of the rise, the Central Administration more than 13 per cent, and the service of the National Debt almost 10 per cent, the Extraordinary Civil Expenses making up the rest. Lastly, Investment and Pensions accounted for negative percentages.

The reign of Ferdinand VI (1746-59) meant a new stage in the Spanish foreign policy. Unlike Philip V, who rejected the Treaty of Utrecht, Ferdinand VI accepted its provisions and Spain was at peace for more than a decade, that is to say, between the Peace of Aachen (1748) and

its participation in the Seven Years War (1761). As a consequence, military spending was to fall between 1748 and 1758. The cost of the Army and Navy was 32 million *reales* lower in these years than in the previous five-year period, decreasing more than one-fifth. Navy expenditure, with a fall of 44 per cent, was the budget item contributing most to this fall in total spending (more than 72 per cent), while Army expenditure contributed almost 12 per cent to the reduction of expenses. The cut in the military items of the budget was a key factor in the fall of total public expenditure, cut by more than one-fifth on the previous five-year period. Also civil items notably influenced this fall in expenditure (of almost two-fifths), especially the service of the National Debt, which was reduced by 88 per cent and contributed 50 per cent to the decrease. The Royal Household also influenced in the fall, costs falling by 32 per cent which made up almost 16 per cent of the total, together with Central Administration expenditure, which was cut by one-quarter and accounted for almost 11 per cent of the fall. As for the rest of the civil items, all contributed to the fall in total expenditure: the Extraordinary Civil Expenses (17.5 per cent), Investment (12 per cent), and Pensions (almost 8 per cent) (see Appendix).

### 3

The Spanish Exchequer had to fund another notable rise in expenditure in 1759-62. This was the first peak during the second half of the eighteenth century and, as in the case of the preceding rises, was also caused largely by the wars in which Spain participated as a consequence of the tense international situation. The reign of Charles III (1759-88) meant a turnaround of the Spanish foreign policy in relation to that of Ferdinand VI. Unlike this monarch, who opted for peace, Charles III decided to involve Spain in the conflicts generated by the complexity of the international situation. After eight years of armed peace in Europe from 1748 on, military conflicts returned to both the Old and New World because of the Seven Years War, in which Britain and France fought after 1756. Spain entered this war five years later, in 1761, after it made a pact with France (the *Tercer Pacto de Familia*). In this year, the war came to a climax, with Britain having the upper hand after conquering Quebec. Britain used the intervention of Spain to extend its victory, its troops occupying Havana and Manila. In the Peace of Paris (1763) Britain handed

back these cities to Spain in exchange for Florida and Sacramento. In spite of the brief period of involvement of Spain in the Seven Years War, its Treasury paid out 48 per cent more than in the preceding eleven years. Two-fifths of the increase was due to military spending, which grew by almost one-third. At that time, Army expenditure, which grew by 37 per cent, was the military item which contributed most to the increase (almost 28 per cent), while Navy expenditure, which rose by 24 per cent, made up more than 12 per cent of this increase. Civil items grew by almost three-quarters and contributed almost three-fifths to the total increase (see Appendix). The most influential civil item in this expenditure trend during 1759-62 was the Extraordinary Civil Expenses, the cost of which was multiplied by a factor of 2.3 and made up 30 per cent of the increase in total spending. The civil items which also contributed to the increase were the service of the government debt (with almost 16 per cent), which rose fivefold because Charles III decided to repay the *créditos de testamentaria* which Philip V had left and that Ferdinand VI (1746-1759) had not paid off. Twelve per cent of the increase in expenditure was due to the Royal Household, the cost of which grew by more than two-thirds owing to the payment of arrears and the enthronement expenses of Charles III<sup>1</sup>. The influence of the rest of the civil items on the increase was less significant: the Investment accounted for 1.35 per cent, and Central Administration and Pensions made up less than 1 per cent.

During the period from 1770 to 1779 the annual average expenditure of the Spanish Exchequer grew by more than 14 million *reales* (almost 7 per cent more) in relation to the previous seven years. This increase was a lot less on this occasion than in other periods because of two factors. In the first place, Spain only participated in a short war against Algeria in the summer of 1775. In the second place, the total amount dedicated to civil items fell sharply. For this reason the contribution of the Army and the Navy to the increase in expenditure was more important than that of the civil items. The increase in military spending, which reached almost 40 million *reales* and grew by almost two-thirds, greatly exceeded the growth of total expenditure. The cost of the Army rose almost one-fifth, a little more than that of the Navy, both military items contribut-

<sup>1</sup> For the expenditure of Spanish Royal Household during the early modern period, see Jurado-Sánchez (2005), 151-55.



ing more than 135 per cent to the increase of total expenditure. On the other hand, the amount spent on civil items fell by almost one-quarter and subtracted 174 per cent from the total increase in public expenses (see Appendix). This was due to the trend of the Extraordinary Civil Expenses, the cost of which was reduced by 76 per cent and subtracted 225 per cent from the increase. The rest of the civil items contributed to the increase, except the Royal Household, which subtracted 3 per cent. Investment made up one-fifth of the increase. The service of the National Debt, which grew by almost one-third, accounted for almost one-fifth. Central Administration made up 10 per cent, and Pensions accounted for 4 per cent.

One of the main facts which contributed to the increase in Spanish Treasury spending during the first years of the 1780s was the involvement of Spain in the War of Independence of the United States of America. Other influential facts in the upward trend of public expenses were the war against Algeria and a considerable rise in civil items. As for the military factors in the increase, the involvement of Spain in the War of Independence took place in two stages. Between 1776 and 1778 Spain supported the colonists by supplying them with weapons, munitions and money. From 1779 to 1782, after Spain declared war on Britain, she participated directly in the conflicts in America and Europe. In America, the objectives of the British troops during the summer of 1779 were the taking of New Orleans, the expulsion of Spain from the Gulf of Mexico and to attack the rebel colonists from the north and the south of mainland. The response of the Spanish command consisted in two strategic operations which contributed to hasten the victory of colonists over the British troops. First, to capture several British forts placed in Mississippi River and to return to New Orleans. And second, from this city to conquer several British enclaves, such as the Pensacola Peninsula and New Providence Island, taken in 1781 and 1782 respectively. The Peace of Versailles (1783) proclaimed the Independence of the United States and Spain kept the territories conquered, including Florida. The another military fact that influenced the upward trend in expenditure was the shelling of Algiers by the Spanish Navy. Spain bombarded Algiers between 1783 and 1785 to prevent Algerian raids on Spain's southern coasts. The funding of this military conflict and the War of Independence of the United States contributed considerably to raising expenditure between 1780 and 1783. In this period, the Spanish Treasury spent two-thirds more than in the previous ten years. A little over half of this

increase was due to the financing of the Army and Navy, especially the latter, the cost of which grew by more than two thirds because of the naval nature of the majority of battles and contributed 43 per cent to the increase. A little less than half of the rise was due to the civil items, which grew by 55 per cent. This heavy contribution of the civil items was caused to a large extent by the Extraordinary civil expenses and the service of the National Debt, since the cost of the first item was multiplied by a factor of 3.64 and contributed almost 31 per cent to the rise in total expenditure and that of the second increased by a factor of 2.65 and contributed more than one-fifths to the increase. The considerable influence of government debt on this increase was caused by the first repayments on the *vales reales*, a kind of debt issued from 1780 to fund the war against Great Britain, which increased the amount of this budget item by a factor of 1.5 in the next three years, when it reached 9 per cent of total expenditure, more than twice as much as in 1780<sup>2</sup>. Other civil expenses had scant importance in the increase of Spanish Treasury spending during 1780-83. For example, Investment expenditure grew a little over 10 per cent and contributed less than 2 per cent to the increase. The rest of the civil items accounted for negative percentages: the Royal Household subtracted 3 per cent from the increase, while Pensions subtracted more than 1 per cent and Central Administration less than this percentage.

Also during the reign of Charles IV (1788-1808) the international situation was very conflictive. We can distinguish two separate stages in Spanish foreign policy. The first was determined by the French Revolution of 1789 and enmity with France during the next seven years. The Spanish opposition to this Revolution caused the Pyrenees War, fought between Spain and France during the period 1793-1795 and Spain was gradually defeated. The Peace of Basel made the end of war official and Spain and France signed the Treaty of *San Ildefonso* (1796) and formed an alliance. The second stage of the Spanish foreign policy, was characterized by a friendly relationship with France and rivalry with Great Britain, which meant war between this country and Spain from 1797 on. The wars against France and Britain caused the major part of the rise in Spain's treasury spending for the period between 1793 and 1800. In

<sup>2</sup> Accounts of the Central Treasurers of Spanish Exchequer (AGS, DGT, Inventario 16, Guión 24, leg. 49). For *vales reales*, see Tedde (1987), Herr (1978) and White (1989)

these years the sum paid by the Spanish Exchequer was, as an average annual rate, 55 per cent greater than the sum paid in the five year period of 1786-90, an increase of 123 million *reales*. Almost three-quarters of this increase, 90 million, was due to the military items of the budget. The Pyrenees War, a war on land, was the main reason for the Army's spending rising more than four-fifths, making up more than half of the total rise in expenditure. As regards to battles against Britain, these were largely naval, which caused Navy expenditure to grow by almost 50 per cent, making up more than one fifth of the increase (see Appendix). Spain tried to redress its disadvantage with Britain, which enjoyed great naval power, by spending from time to time more money on the Navy than on the Army, especially on the occasion of naval wars. In 1794-95, on the eve of the aforementioned wars against Britain, Navy costs, as an average annual rate, rose by 8 per cent more than the Army, increasing its total amount by 91 per cent, while the Army's grew by 36 per cent. The same thing had happened on the occasion of other previous naval wars. So, in 1742-46 Navy costs 30 per cent more than the Army, a period in which the amount of the former doubled and that of the latter was cut by almost a fifth. During the War of Independence of the United States of America the cost of the Navy increased by 67 per cent, while the Army's grew only 7 per cent. (see Table 2). Thus, by means of increasing the Navy's spending during the naval wars, Spain compensated for a structure of military expenditure in which the Army was on average twice as costly as the Navy in the period running from 1714 to 1800. Nevertheless, this difference diminished throughout the eighteenth century. In 1714-1720 the Army absorbed almost 70 per cent of total expenditure, and the Navy almost 9 per cent, but in the 1740s both military items reached 30 per cent.

Table 2 *Expenditure on the Army and the Navy in naval wars*

	<i>Army</i>		<i>Navy</i>	
1742-1746	67,80	18.72	87,80	228.59
1780-1784	97,24	7.09	89,77	67.43
1794-1795	120,03	36.18	129,61	90.80

Left row of each item, expenditure in millions of *reales* of *vellón* at constant prices  
 Left right, increase in percentages between annual averages of cited periods and 1737-1741, 1770-1779 and 1792-1793 respectively

Sources: The author's own calculations based on references cited in Appendix

As for civil expenses, they grew more than one-third between 1793 and 1800 and contributed more than a quarter to the increase in total expenditure, a percentage far less than during the two previous peaks (1759-62 and 1780-83), the Extraordinary Civil Expenses and the service of the National Debt being once again the civil items that contributed most to the increase. The first item rose by a factor of more than 2 and accounted for 17 per cent of rise, while the cost of the latter grew 70 per cent and made up 14 per cent. As regards the service of the government debt, it was once more the repayment of *vales reales* which increased considerably (more than two-thirds) the level of this item. The *Tesorería General* repaid *vales reales* to the value of 17 million *reales*, as an annual average, in 1786-94, and 83 million in 1795-1800, especially after the *Caja de Amortización* was established<sup>3</sup>. Central Administration and Pensions and other transfers, whose costs rose by 10 and 22 per cent respectively, added to an expenditure increase of around 1 per cent each item, while Investment and the Royal Household subtracted respectively from the increase in expenditure more than 5 per cent and almost 1 per cent.

Between 1714 and 1800, three-fifths of the increase in expenditure, in the five periods in which the rise was higher, was brought about by the need to finance the Army and Navy. This average annual percentage was lower in 1759-62 and 1780-83, when military spending contributed two-fifths and more than half to the increases, but it was exceeded in 1717-20 and 1793-1800, when the Army and the Navy made up about three-quarters of the rises in expenditure. The impact of military spending on the budget was even greater, as the National Debt, the servicing of which was responsible for 13 per cent of the rise in expenditure, was issued almost in its entirety to finance the Army and Navy. Therefore, we can say that the service of the Spanish National Debt, as in other European countries, was a deferred military expense. Civil spending contributed a lot less to the increase, a little less than two-fifths. This average percentage was exceeded in 1759-62 and 1780-83, precisely when military spending contributed less to the increases. Only two civil items were important, the service of the government debt, if we consider it to be, at least in part, a civil item, and the Extraordinary Civil expenses.

<sup>3</sup> Accounts of the Central Treasurers of Spanish Exchequer (A.G.S., D.G.T., Inventario 16, Guión 23, leg. 49).

The first item made up almost 13 per cent of the increase if we consider jointly the five abovementioned periods, but in 1759-62 and 1780-83 the contribution of government debt reached more than 15 and 21 per cent respectively. As for the Extraordinary Civil Expenses, it made up a 18 per cent of the increase, exceeding considerably this average over the same periods. The Royal Household and Central Administration contributed with small percentages, less than 5 per cent, although in 1742-46 they reached almost 14 and 10 per cent respectively. Pensions accounted for less than 1 per cent of the increase, except in 1717-20, when they contributed more than 5 per cent. Lastly, the negative Investment percentages are significant. This item subtracted, on average, from the rises in expenditure around 1 per cent, reaching its highest percentage in 1780-83 (a little over -1.5 per cent) (see Table 3 and Figure 2).

Table 3 *The influence of military spending on the expenditure trend, 1717-1800*

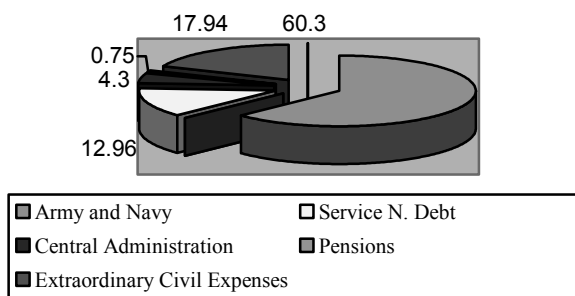
	<i>Total Expenditure<sup>a</sup></i>	<i>Military spending<sup>b</sup></i>	<i>Army<sup>b</sup></i>	<i>Navy<sup>b</sup></i>	<i>Civil Items<sup>b</sup></i>
1717-1720	38,38	75,64	50.86	24.77	24.36
1728-1736	36,90	64,89	-21.99	86.88	35.11
1742-1746	73,47	61,87	-21.26	83.13	38.12
1759-1762	97,86	40,10	27.84	12.25	59.90
1770-1779	14,33	274,25	138.73	135.52	-174.25
1780-1783	86,95	50.78	7.82	42.95	49.22
1793-1800	123,45	73.15	51.49	21.67	26.84
1717-1800	471,34	91.53	33.36	58.17	8.47
1721-1727	-11,15	254.88	134.08	120.81	-154.88
1737-1741	-43,77	98.70	79.78	18.94	1.30
1748-1758	-52,98	60.55	-11.81	72.37	39.45
1763-1769	-86,60	58.69	29.27	29.42	41.30
1784-1792	-73,83	74.02	30.80	43.21	25.98
1721-1792	-268,33	109.37	52.42	56.95	-9.37

<sup>a</sup> Increases and falls in millions of *reales* of *vellón* at constant prices in relation to the following periods: 1714-1716, 1721-1727, 1737-1741, 1748-1758, 1763-1769, 1770-1779, 1784-1792, 1717-1720, 1728-1736, 1742-1746, 1759-1762 y 1780-1783.

<sup>b</sup> Contribution to the increase or fall in expenditure (in percentages).

Sources: The author's own calculations based on references cited in Appendix.

Figure 2 *The influence of budget items on the expenditure trend, 1717-1800 (in percentages of the increase)*



Source: The author's own calculations based on references cited in Appendix.

The influence of military items on the trend in expenditure was higher in the periods in which public expenditure fell than in the years in which it grew. If we consider jointly the several periods in which Treasury spending was cut, all the reductions in expenditure were due to the Army and the Navy, while the civil items subtracted almost 10 per cent from the fall in total expenses. This was due to the major contribution of military items to the fall which took place during the period between 1721 and 1727, when they accounted for 255 per cent (134 per cent the Army and 121 the Navy) and in 1737-41, when these items made up almost 99 per cent of the decrease. The civil items subtracted 155 per cent in the whole of the abovementioned five periods, but in 1748-58 and in 1763-69 they contributed around two-fifths, an average percentage similar to that of the periods in which public expenditure rose more steeply, and in 1784-92 they contributed more than one-quarter to the cut. Pensions and the Extraordinary Civil Expenses were the items which contributed more to the fall in expenditure (more than 5 per cent each item). In 1784-92 the Extraordinary Civil Expenses made up one-fifth of the decrease, and in 1721-27 this item accounted for 17 per cent, and Pensions made up 28 per cent. The Royal Household and Investment were the items which subtracted more from the decrease (11 and 8 per cent respectively), especially in 1721-27, when the former made up 87 per cent and the latter accounted for 27 per cent, and in 1748-58, when Investment subtracted 12 per cent (see table 3).

## 4

We also can see the great burden that military items imposed on the Spanish National Budget through the study of the expenditure trend per head of population and the structure of expenditure. The Spanish population grew between 37 and 50 per cent in the eighteenth century: in 1712-17 it amounted to seven and a half or eight million inhabitants and had risen to 10.5/11.5 million by 1797. The expenditure of the Spanish National Treasury increased by 76 per cent between 1714 and 1800. Therefore, we can say that per capita expenditure grew in the above-mentioned century, but the rise only took place in the last decade of the century. In the period 1712-17, the *Tesorería General* and the *Tesorería Mayor* spent a little over 24 *reales* for each one of seven and a half or eight million inhabitants. This ratio varied little in the period 1752-1768 and in 1787, but had risen to more than 30 *reales* in 1797. So, per capita expenditure grew by almost 25 per cent between 1712 and 1797, above all during the last decade of the century (see Table 4).

Table 4 *Per capita expenditure, 1712-1797*

	<i>Treasury Spending<sup>a</sup></i>	<i>Index Numbers</i>	<i>Population<sup>b</sup></i>	<i>Index Numbers</i>	<i>Per Capita Expenditure<sup>c</sup></i>	<i>Index Numbers</i>
1714-1720	189,02	100.00	7,75	100.00	24,41	100.00
1751-1770	231,26	122.34	9,46	120.06	24,47	100.24
1781-1790	260,18	137.65	10,75	138.71	24,21	99.18
1791-1800	333,27	176.31	11,00	141.93	30,34	124.29

Annual average in millions of *reales* of *vellón* at constant prices. <sup>b</sup>Average in millions of inhabitants, according to several estimates made for 1712-17, 1752-68, 1787 and 1797.

<sup>c</sup> Average in *reales* of *vellón*.

*Sources:* The author's own calculations based on Accounts of the Central Treasuries of the Spanish Exchequer (see Appendix) and Estimates of Spanish population by Livi-Bacci (1978), Nadal (1984), Eiras-Roel (1990), Bustelo (1993) and Pérez-Moreda (1997).

The Spanish Exchequer spent the greatest part of expenditure per head of population on military items of budget. In 1712-17, 19 out of 24 *reales* of the per capita expenditure were spent on the Army and Navy, almost four-fifths of the total. This sum fell to a little over 14 *reales* in 1752-68 and 1787, accounting for almost two thirds of the total, while in 1797 it again reached 19 *reales*, more than two thirds. The Army was the

military item on which Spanish Treasury spent most money per head of population, the sums spent on it being a lot less in the second half of the eighteenth century than in 1712-17. In this period the Army absorbed almost 17 *reales*, more than two-thirds of per capita expenditure, while in 1752-68 and 1787 it did not reach one-third and in 1797 accounted for almost two-fifths. On the contrary, the weight of the Navy spending in the total expenditure per head of population rose from 1712-17 onwards. In this period it did not make up 10 per cent, whereas in the middle of the century and in 1787 it surpassed one-quarter and by 1797 reached 30 per cent. In contrast with the large sums spent on military items per head of population, the Spanish Treasury spent, on average, small amounts per capita on civil expenses (a little over nine *reales*, more than one-third, on annual average). Less than 2 *reales*, on an annual average rate, in each of the following items: Royal Household, the service of the National Debt and Central Administration, and less than one *real* in Investment and Pensions and other transfers. However, the trend of the per capita expenditure on civil items was to rise, while the trend for military expenses was to fall. In 1712-17 the first absorbed 5 per cent and in 1752-68 and 1787 around 10 per cent, topping 11 per cent in 1797 (Table 5 and Figure 3).

Table 5 *Per capita expenditure in the Army and the Navy, 1714-1800*

	<i>Army</i>		<i>Navy</i>		<i>Civil Expenses</i>	
1714-1720	130,03	16.79	16,32	2.11	42,67	5.51
1751-1770	75,46	7.97	59.56	6.31	96,24	10.18
1781-1790	85,39	7.94	69,78	6.49	105,01	9.77

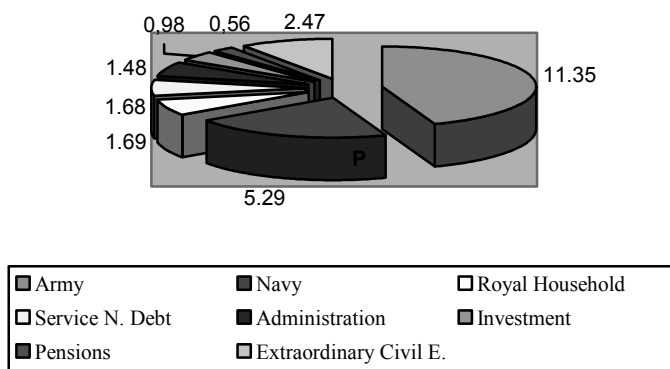
Left row of each item (average annual expenditure in millions of *reales* of *vellón* at constant prices). Right row (average per capita expenditure according to several estimates of population made for 1712-1717, 1752-1768, 1787 and 1797).

*Sources:* The author's own calculations based on references cited in Table 4.

In the period 1714-1800, the military items of the budget were the most important in the structure of Spain's treasury spending. More than three-fifths of expenditure were allocated to finance the Army and the Navy. For this reason, military spending had a high positive correlation with total expenditure. Nevertheless, its correlation with time is not sig-



Figure 3 *Per capita expenditure in budget items, 1712-1797 (in percentages of total)*



Sources: The author’s own calculations based on references cited in Table 4.

nificant, which is due to the fact that the weight of military spending in the budget decreased over the eighteenth century. In the second decade of the century, it absorbed between three-quarters and four-fifths of total expenditure, while in the next two decades it accounted for two-thirds and in 1741-1800 reached three-fifths. The Army, which made up more than two-fifths of expenditure between 1714 and 1800, was the most important item of the budget, but the trend of its budgetary weight was to fall, as is shown by its negative average annual rate of growth and its negative correlation with time. Between 1714 and 1740, the amount spent on the Army, on annual average, exceeded three-fifths of Spain’s Exchequer spending and was 16 per cent higher than its average annual expenditure. In the next three decades, Army spending fell by more than one third, a percentage much lower than in the first decades of the century and than the average annual figure. The major factor in this fall was the armed peace that took place between the end of the Austrian Succession War (1748) and the participation of Spain in the Seven Years War (1761). The Army recovered part of its lost importance in the 1770s and in the last decade of the century, when it reached two-fifths of total expenditure (see Tables 6 and 8 and Figures 4 and 5).

The Army was the most expensive budget item in every decade of the century, in spite of the considerable reduction in its treasury weight between 1714 and 1800. That is why the Army’s spending has a strong

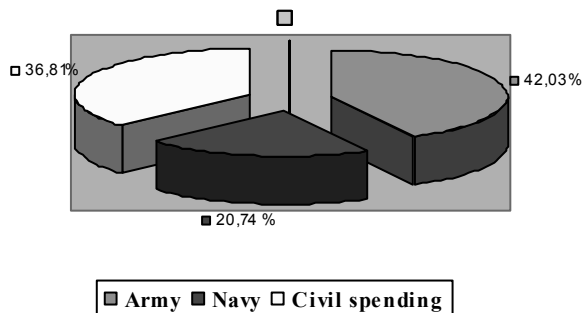
Table 6 *Weight of military items in the structure of expenditure, 1714-1800a*

	<i>Military Spending</i>	%	<i>Army</i>	%	<i>Navy</i>	%	<i>Civil Spending</i>	%
1714-1720	148,35	78.48	132,03	69.85	16,32	8.63	40,67	21.52
1721-1730	135,67	66.65	120,86	59.38	14,81	7.28	67,87	33.35
1731-1740	137,39	66.35	107,86	52.09	29,53	14.26	69,69	33.65
1741-1750	136,29	60.43	68,35	30.28	67,89	30.08	89,41	39.57
1751-1760	133,81	60.60	82,58	37.40	51,23	23.20	86,99	39.40
1761-1770	127,31	52.67	82,40	34.09	44,91	18.58	114,41	47.33
1771-1780	152,97	65.27	94,03	40.12	58,94	25.15	81,40	34.73
1781-1790	155,17	59.64	85,39	32.82	69,78	26.82	105,01	40.36
1791-1800	209,91	62.98	131,44	39.44	78,47	23.54	123,36	37.02
1714-1800	148,54	63.19	99,46	42.03	49,08	20.74	86,54	36.81
R	0.28		-0.15		1.84			

<sup>a</sup> Average annual in millions of *reales* of *vellón* at constant prices (left row of each heading) and percentages of total expenditure (right row). R Cumulative growth rate.

Sources: The author's own calculations based on references cited in Appendix.

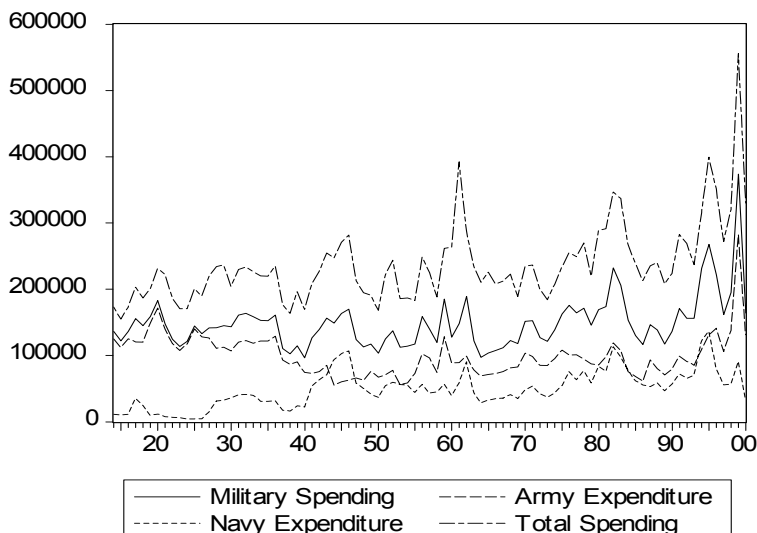
Figure 4 *Weight of military items in the structure of expenditure, 1714-1800 (in percentages of total spending)*



Sources: The author's own calculations based on references cited in Appendix.

correlation with total expenditure. The weak or negative correlations that exist between Army and civil items of budget is also noteworthy. Army expenditure has negative correlations with the whole of civil items and with Investment, Central Administration and Royal House-

Figure 5 *Amount of military spending, 1714-1800 (annual values in 000 reales of vellón)*



Source: The author's own calculations based on references cited in Appendix.

hold, and very weak correlations with Pensions and other transfers and Extraordinary Civil expenses (see Table 7). This was due to the permanent situation of penury of the Spanish Exchequer, which caused transfers of funds between the different budget items. As expenditure always exceeded revenue and large increases in expenditure, especially military, often took place without the resources for financing them, rulers cut back temporarily on several budget items. Given the priority of military spending for the kings and their ministers, civil items were usually cut during the time necessary for allocating more resources to military spending. The permanent situation of penury of the Spanish National Treasury was also the fact that caused the negative correlation between Army and Navy spending, making it impossible in many periods to finance simultaneously large rises in several budget items, including military ones.

As Table 8 and Figure 6 show, 87 per cent of Army expenditure in the period between 1714 and 1800 was allocated to finance the Corps, the Staff and the Service Corps and Logistics. The rest was spent on

Table 7 *Correlation matrix of military items, 1714-1800*

<i>Budget Items</i>	<i>Military Spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
Military spending	1.000	0.711	0.609	0.208
Civil spending	0.208	-0.129	0.439	1.000
Central Administration	0.230	-0.175	0.521	0.381
Extraordinary Civil Expenses	0.159	0.012	0.210	0.890
Royal Household	0.017	-0.230	0.283	0.331
Service of the National Debt	0.528	0.271	0.439	0.250
Army	0.711	1.000	-0.128	-0.129
Investment	0.107	-0.313	0.505	0.459
Navy	0.609	-0.128	1.000	0.439
Pensions	0.222	0.132	0.164	0.317
Total Expenditure	0.874	0.481	0.689	0.610
Time	0.375	-0.107	0.650	0.503

*Source:* The author's own calculations based on references cited in Appendix.

extraordinary expenses, which absorbed 10.5 per cent of the total cost of the Army, and the payments of several military treasurers. The cost of those military units at the battle front came to, on average, almost 100 million *reales*, more than the half the total amount of the Army (with the exception of 1790s) and more than three-fifths in 1730-60. The increase in this period was probably caused by the rise in the number of military forces from the middle of the 1730s onwards. In 1716, for example, the infantry and cavalry had 66,000 men; by the period running from 1734 to 1748 they had more than 100,000 (Ozanam, 1996: 521). The Infantry was the most costly corps of the Army. Its costs amounted to almost 62 million *reales*, 59 per cent of the Corps, and its budgetary importance grew between 1727 and 1800. On the contrary, the weight of the next most costly unit, the cavalry, amounting to almost 18 million *reales*, less than 20 per cent, fell during the abovementioned period. The budgetary weight of the Royal Guards also declined, since in 1727-50 it represented more than 6 per cent of the Corps and in the next decades fluctuated between 2 and 4 per cent, which was due to the decrease in the number of forces from 1740 onwards. The cost of the artillery showed an upward trend, as in 1727-60 it constituted 2 per cent of the Corps of Army and in the last four decades of eighteenth century fluc-

tuated between 4 and 6 per cent. This increasing trend was due to the creation of two new battalions at beginning of the reign of Charles III. As for the Army engineers, they never cost more than one million and a half *reales*, less than 2 per cent of the Corps. The amount allocated to paying the Army's high-ranking officers came to more than 11 million *reales*, about 6 per cent, including the Staff and the generals, of which there were 180 in the middle of the eighteenth century.

The Service Corps and Logistics cost, as an annual average, almost 80 million *reales*, one third of the Army expenditure. Its trend was upward; in the first half of the eighteenth century it amounted to 27 per cent and from 1751 to 1800 it made up almost 38 per cent of Army expenditure. Almost three-fifths of this item (48 million) was spent on the feeding of personnel and horses. Clothes for troops and household items reached 11 million *reales*, 14 per cent of the Service Corps and Logistics. This military unit was a major source of income for several large firms and individual entrepreneurs whose business was to supply the Army. For example, in 1763 almost two-thirds of the total cost of the Service Corps and Logistics (16,5 million *reales*) was paid to the *Cinco Gremios Mayores*, one of the most important Spanish commercial companies, for the bread, barley and straw that it provided for the infantry and other units. In the same year, the *Compañía Guipuzcoana de Caracas* received more than one million *reales*, 11 per cent of the total amount of clothes and household items provided for the Army<sup>4</sup>. Fortifications absorbed 17 per cent of Logistics and their cost grew from 5 million in 1727-39 to 33 million in 1790-1800. This increase was probably due to Ensenada's improvement program of fortifications, which began in the middle of the eighteenth century. As for military hospitals, the average annual amount spent on them was almost 9 million *reales*, a sum that represented more than 10 per cent of the total cost of the Service Corps and Logistics. Lastly, the Extraordinary military expenses made up 9 per cent of military spending in the first half of the eighteenth century and 11 per cent in the second half. So its trend was also upwards, especially during the two last decades of the century, when it absorbed a little over 15 per cent.

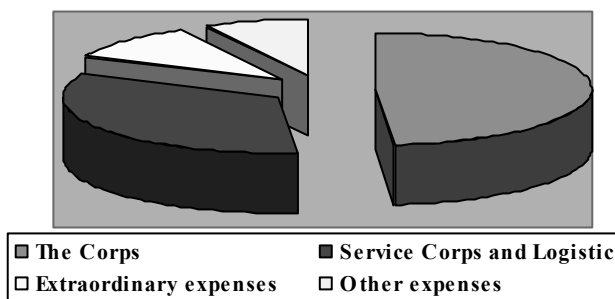
<sup>4</sup> Account of the *Tesorería General* corresponding to 1763 [AGS, DGT, *Inventario 16, guión 24, legajo 49*].

Table 8 *Army's spending breakdown, 1714-1800*

	<i>Corps</i>	<i>%</i>	<i>Service Corps and Logistics</i>	<i>%</i>	<i>Extraordinary</i>	<i>%</i>	<i>Other Expenses</i>	<i>%</i>
1714-1720	83,199,979	52.39	39,263,931	24.84	16,413,660	10.55	19,440,586	12.22
1721-1730	84,941,731	54.93	39,593,049	25.55	12,276,311	10.26	3,234,495	2.83
1731-1740	94,185,454	60.04	50,673,891	31.86	12,408,004	8.10	-----	-----
1741-1750	67,946,198	64.19	30,228,417	27.41	8,216,392	8.40	-----	-----
1751-1760	154,143,126	62.13	75,525,564	31.09	16,446,272	6.78	-----	-----
1761-1770	93,080,086	54.66	62,246,963	36.38	15,084,872	8.95	-----	-----
1771-1780	103,367,584	51.75	76,987,811	38.34	19,885,339	9.91	-----	-----
1781-1790	107,055,329	50.04	75,866,642	35.59	29,707,792	14.37	-----	-----
1791-1800	146,980,592	36.69	197,010,760	46.62	66,950,199	16.69	-----	-----

Figures in reales of vellón at current prices (left row of each heading) and percentages of military spending (right row).

Sources: The author's own calculations based on references cited in Appendix.

Figure 6 *Army's spending breakdown, 1714-1800 (in percentages)*

Sources: The author's own calculations based on references cited in Appendix.

Unlike the Army, Tables 7 and 8 show that the Navy, which consumed one fifth of total expenditure, gained in budgetary importance over the eighteenth century, which has to do with its high correlation with time, the second most significant of the budget items. Its cost grew rapidly, as shown by its high cumulative growth rate. Its average annual amount came to 49 million *reales* at constant prices, which was exceeded from

the 1740s onwards, except in the 1760s. In the second and third decades of the century, the Navy did not make up 9 per cent of total expenditure, but from the 1740s on it accounted for more than 20 per cent, with the exception again of the 1760s, and over one-fourth in the decades of 1740, 1770 and 1780, especially during the first decade, when the Navy costs were almost on the same level as the Army's. This increase meant that the Navy was the second most important budget item and that it reached a high correlation with total expenditure. The growth of Spanish Navy spending was due to the building of large fleets. According to Ardant (1975), this was usual in Europe during the eighteenth century and another demonstration of the growing financial strength of European States brought about by increased tax and financial revenues. In Spain, two ministers, Patiño and Ensenada, pushed forward the building up of the fleet during the first half of eighteenth century in order to make Spain again, as in the sixteenth century, a major world power. As a consequence of the policies of both ministers dockyards launched one hundred boats between 1717 and 1752. The building of the fleet was continued during the second half of the century, which meant that the Spanish Navy had more than two hundred ships at the end of the century, one hundred and thirty more than in the preceding forty years (Ozanam, 1996: 457-66; Merino Navarro, 1981b: 151). Owing to ship building during the age of Ensenada, the total amount of Navy expenditure exceeded that of Army's by 70 per cent in 1744-46 and by 25 per cent in 1747, both military budget items being almost equally expensive in the 1740s, the only decade in which this occurred.

Which items made up the Navy's spending? The most important of them was the financing of the naval departments of Cádiz, Cartagena and El Ferrol, which, on average, cost more than 87 million *reales* a year, more than three-quarters of the total amount of the Navy's budget. The cost of this item was to rise, since in 1727-39 it absorbed more than three-fifths of total Navy expenditure, by 1740-70, especially during the Ensenada's dockyard improvement program, it exceeded four-fifths, and in the three last decades of the century made up three-quarters of this expenditure (see table 9 and figure 7). In the thirty four years following 1763, more than two-thirds of the cost of the naval departments was absorbed by the Atlantic departments, a percentage which reflects the strategic importance of this area for Spain. The department of Cádiz represented almost two-fifths of the item, while sums spent in El Ferrol amounted to up to 30 per cent and in Cartagena less than

one-third. At constant prices, the cost of the three departments grew rapidly, especially that of Cadiz, which increased by a factor of 2.5 between 1763 and 1796. As for the departments of El Ferrol and Cartagena, their costs grew by an approximate factor of 2<sup>5</sup>. The other item of Navy expenditure was made up by the wages of employees and the supply of foodstuffs and raw materials. The average annual amount of this item came to almost 28 million *reales*, more than one-fifth of the Navy's total spending. The trend of this item was downwards, since between 1727 and 1750 it accounted for more than one-quarter of the wages and supply, while in the second half of the eighteenth century it made up one-fifth, reaching its highest percentages in 1727-39 and the 1770s and its lowest in the 1750s.

Table 9 *Navy's spending breakdown, 1727-1800*

	<i>Naval Departments</i>	<i>%</i>	<i>Wages and supply</i>	<i>%</i>
1727-1739	24,518,641	61.25	15,508,870	38.74
1739-1750	70,453,481	86.41	11,077,315	13.59
1751-1760	76,265,497	88.94	9,477,524	11.06
1761-1770	74,341,409	82.45	15,819,156	17.55
1771-1780	90,139,050	70.71	37,342,253	29.29
1781-1790	133,301,965	77.87	37,870,577	22.12
1791-1800	184,715,188	78.95	49,238,142	21.04

Figures in annual averages in reales of vellón at current prices (left row of each heading) and percentages of the Navy's spending (right row).

*Sources:* The author's own calculations based on references cited in Appendix.

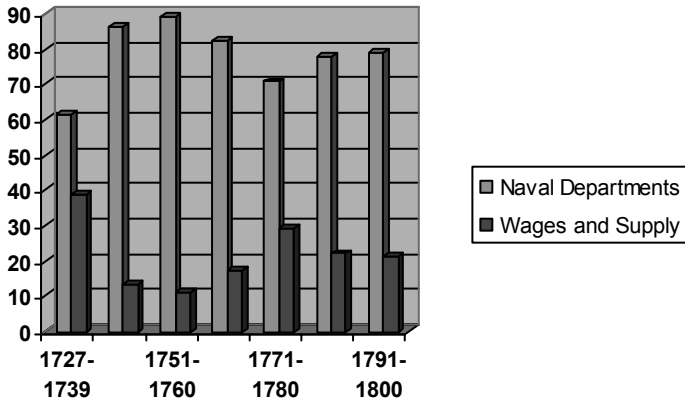
## 5

Thanks to the new estimates of Spain's Treasury spending, as built up herein, we can obtain more accurate calculations of the volume and structure of public expenditure during the eighteenth century. In addition, these new statistics will help us to determine more accurately the

<sup>5</sup> Accounts of the Central Treasures of Spanish Exchequer (AGS, DGT, *Inventario 16, guión 23, legajo 49*)



Figure 7 *Navy's spending breakdown, 1727-1800 (in percentages)*



Sources: The author's own calculations based on references cited in Appendix.

importance that military spending had in the Spanish National Budget. Expenditure grew by 76 per cent between 1714 and 1800, the increase being funded by the increase in public revenue caused by economic growth, tax reforms and the issue of government debt. Most of the expenditure rise (more than three-fifths), was caused by military spending (73 per cent if we include the service of the National Debt, which was issued in the main for financing the Army and Navy). The growth of military spending was due to the financing of the most important wars which took place from 1714 on, that is to say, the wars carried out by Philip V to reconquer the Italian territories lost after the treaties of Utrecht, the War of Austrian Succession, the Seven Years War, the War of Independence of the United States and the French Revolutionary Wars. Military items also were very influential in determining the trend of total expenditure when it fell, since when the cost of the Army and the Navy was reduced, the sums spent by the National Treasury also was normally cut back.

The Army and the Navy absorbed about 70 per cent of per capita expenditure, an indicator which rose by about a quarter between 1712 and 1797. What is more, military spending was the main item of the structure of the budget, as 63 per cent of expenditure was allocated to fund it (70 per cent if we include the service of the National Debt). The major impact that Army and Navy expenditure had on the Spanish National

Budget was due to the top priority given by the kings and their ministers to the defence of the Empire and to keeping Spain a world power. The cost of this priority had to increase because of the complexity of the international situation during the eighteenth century. This complexity was due to the transformation of Britain into the top world power, the irruption of Russia on the European scene, the ascent of Prussia into the group of great military powers, and the expansion of Europe both eastwards and westwards (Mousnier, 1981: 324-50; Domínguez, 1981: 49-64.). This was why the impact of military spending in many European countries (Great Britain, France, Austria, Sweden, Prussia, Russia, Poland, Denmark...) was similar to that of Spain. Nevertheless, it appears that Spain was different from most of these countries if we consider the service of the National Debt as a deferred military expenditure, since between 1714 and 1800 the Spanish Exchequer spent a lot less money on debt servicing than other countries. So, while Spain allocated a little over 7 per cent of total expenditure to fund the service of the government debt, Britain spent on this item almost 35 per cent between 1700 and 1800, France 37 per cent in four years of the period between 1726 and 1788, and Austria 28 per cent in 18 years of the period 1729-84<sup>6</sup>.

Appendix *The Influence of military items on the expenditure trend, 1717-1800*

1. *Periods of increase in expenditure 1717-1720*

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1714-1716 <sup>a</sup>	167,09	131,75	120,87	10,88	35,34
1717-1720 <sup>a</sup>	205,47	160,78	140,39	20,39	44,69
1714-1716/1717-1720 <sup>b</sup>	38,38	29,03	19,52	9,51	9,35
1714-1716/1717-1720 <sup>c</sup>	22.97	22.03	16.15	87.41	26.46
1717-1720 <sup>d</sup>		75.64	50.86	24.77	24.36

<sup>6</sup> For Great Britain, Mitchell and Deane (1962). For France, Morineau (1980) and Riley (1987). For Austria, Dickson (1987).

## 1728-1736

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1721-1727 <sup>a</sup>	194,32	132,36	125,44	6,92	61,96
1728-1736 <sup>a</sup>	226,65	153,34	118,33	35,01	73,31
1721-1727/1728-1736 <sup>b</sup>	32,33	20,98	-7,11	28,09	11,35
1721-1727/1728-1736 <sup>c</sup>	16.64	15.85	-5.67	405.92	18.32
1728-1736 <sup>d</sup>		64.89	-21.99	86.88	35.11

## 1742-1746

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1737-1741 <sup>a</sup>	182,88	110,14	83,42	26,72	72,74
1742-1746 <sup>a</sup>	256,35	155,60	67,80	87,80	100,75
1737-1741/1742-1746 <sup>b</sup>	73,47	45,46	-15,62	61,08	28,01
1737-1741/1742-1746 <sup>c</sup>	40.17	41.27	-18.72	228.59	38.51
1742-1746 <sup>d</sup>		61.87	-21.26	83.13	38.12

## 1759-1762

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1748-1758 <sup>†</sup>	203,37	123,52	74,06	49,46	79,85
1759-1762 <sup>†</sup>	301,23	162,76	101,31	61,45	138,47
1748-1758/1759-1762 <sup>b</sup>	97,86	39,24	27,25	11,99	58,62
1748-1758/1759-1762 <sup>c</sup>	48.12	31.77	36.79	24.24	73.41
1759-1762 <sup>d</sup>		40.10	27.84	12.25	59.90

## 1770-1779

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1763-1769 <sup>a</sup>	214,63	111,93	75,96	35,97	102,70
1770-1779 <sup>a</sup>	228,96	151,23	95,84	55,39	77,73
1763-1769/1770-1779 <sup>b</sup>	14,33	39,30	19,88	19,42	-24,97
1763-1769/1770-1779 <sup>c</sup>	6.68	35.11	26.17	53.99	-24.31
1770-1779 <sup>d</sup>		274.25	138.73	135.52	-174.25

## 1780-1783

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1770-1779 <sup>a</sup>	228,96	151,23	95,84	55,39	77,73
1780-1783 <sup>a</sup>	315,91	195,38	102,64	92,74	120,53
1770-1779/1780-1783 <sup>b</sup>	86,95	44,15	6,80	37,35	42,80
1770-1779/1780-1783 <sup>c</sup>	37.98	29.19	7.09	67.43	55.06
1780-1783 <sup>d</sup>		50.78	7.82	42.95	49.22

## 1793-1800

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1786-1790 <sup>a</sup>	224,16	131,16	76,98	54,18	93,00
1793-1800 <sup>a</sup>	347,61	221,47	140,54	80,93	126,14
1786-1790/1793-1800 <sup>b</sup>	123,45	90,31	63,56	26,75	33,14
1786-1790/1793-1800 <sup>c</sup>	55.07	68.85	82.57	49.37	35.63
1793-1800 <sup>d</sup>		73.15	51.49	21.67	26.84

## 2. Periods of fall in expenditure

## 1721-1727

	<i>Total Expenditure</i>	<i>Military Spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1717-1720 <sup>a</sup>	205,47	160,78	140,39	20,39	44,69
1721-1727 <sup>a</sup>	194,32	132,36	125,44	6,92	61,96
1717-1720/1721-1727 <sup>b</sup>	-11,15	-28,42	-14,95	-13,47	17,27
1717-1720/1721-1727 <sup>c</sup>	-5.43	-20.44	-10.65	-66.06	38.64
1721-1727 <sup>d</sup>		254.89	134.08	120.81	-154.88

## 1737-1741

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1728-1736 <sup>a</sup>	226,65	153,34	118,33	35,01	73,31
1737-1741 <sup>a</sup>	182,88	110,14	83,41	26,72	72,74
1728-1736/1737-1741 <sup>b</sup>	-43,77	-43,20	-34,92	-8,29	-0,57
1728-1736/1737-1741 <sup>c</sup>	-19.32	-28.17	-29.51	-23.68	-0.78
1737-1741 <sup>d</sup>		98.70	79.78	18.94	1.30

## 1748-1758

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1742-1746 <sup>a</sup>	256,35	155,60	67,80	87,80	100,75
1748-1758 <sup>a</sup>	203,37	123,52	74,06	49,46	79,85
1742-1746/1748-1758 <sup>b</sup>	-52,98	-32,08	6,26	-38,34	-20,90
1742-1746/1748-1758 <sup>c</sup>	-20.67	-20.62	9.23	-43.67	-20.74
1748-1758 <sup>d</sup>		60.55	-11.81	72.37	39.45

## 1763-1769

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1759-1762 <sup>a</sup>	301,23	162,76	101,31	61,45	138,47
1763-1769 <sup>a</sup>	214,63	111,93	75,96	35,97	102,70
1759-1762/1763-1769 <sup>b</sup>	-86,60	-50,83	-25,35	-25,48	-35,77
1759-1762/1763-1769 <sup>c</sup>	-28.75	-31.23	-25.02	-41.45	-25.83
1763-1769 <sup>d</sup>		58.69	29.27	29.42	41.30

## 1784-1792

	<i>Total Expenditure</i>	<i>Military spending</i>	<i>Army</i>	<i>Navy</i>	<i>Civil Items</i>
1780-1783 <sup>a</sup>	315,91	195,38	102,64	92,74	120,53
1784-1792 <sup>a</sup>	242,08	140,73	79,90	60,84	101,35
1780-1783/1784-1792 <sup>b</sup>	-73,83	-54,65	-22,74	-31,90	-19,18
1780-1783/1784-1792 <sup>c</sup>	-23.37	-27.97	-22.15	-34.40	-15.91
1784-1792 <sup>d</sup>		74.02	30.80	43.21	25.98

<sup>a</sup> Average annual expenditure in millions of *reales* of *vellón* at constant prices. <sup>b</sup> Increase or fall in expenditure between annual averages of cited periods (in millions of *reales* of *vellón*). <sup>c</sup> Increase or fall in expenditure between annual averages of cited periods (in percentages). <sup>d</sup> Contribution of military and civil items to increase or fall in expenditure (in percentages).

Sources: The author's own calculations based on Jurado Sánchez (2006).



## **Warfare and Taxation in Portuguese Brazil during the Dutch war, 1624-1654**

*Wolfgang Lenk\**

In 1624, the Dutch and their West Indies Company (*WIC*) successfully occupied Salvador, in the Bay of All Saints, capital of the Portuguese colony in the American continent. To halt Dutch interests in America, the Iberian Crowns immediately assembled an expeditionary force named “the Voyage of the Vassals”, “the finest organized by Spain since the great Armada” (Schwartz, 1991), with some 56 sail and 12,000 men under the command of D. Fradique de Toledo. The fleet arrived in Bahia in March 1625. The Dutch, already isolated by the local Portuguese militia, capitulated after 30 days of siege.

After the liberation of Salvador, D. Fradique had a meeting with the high command to decide on the size of the garrison they should leave stationed there before returning to Castile and Portugal. Until 1624, the garrison of Bahia had probably consisted of no more than three hundred men (Pyrard, 1944). D. Juan de Fajardo suggested a force of twelve hundred men among Portuguese, Spanish and Neapolitan soldiers. The Marquis of Cropani, leader of the Neapolitans, favoured a number of twenty hundred men, all from Iberia. D. Fradique stated he should be cautious not to leave a garrison that would represent to the colony more of a burden than a relief – he then chose a garrison of ten Portuguese companies, totalling one thousand men (Tamayo de Vargas, 1628). Eventually, the commander of the Portuguese army group left a total of nine hundred men in Bahia (DHBN, 14: 477-8).

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Nevertheless, the impression of Bahia upon the garrison was one of scarcity – “a province, yet fertile in its fruits, sterile to the necessary for so many people” (Tamayo de Vargas, 1628). In Lisbon, the *Conselho da Fazenda* of the Portuguese Crown was warned of the situation by recurrent correspondence from Salvador. There was a debate on how to adapt the royal treasury in Bahia to the threat posted by the *WIC* and the new needs of defence measures – a task entrusted to Diogo Luiz de Oliveira, nominated as the new governor of Brazil (1955).

Due to delays in the departure of the fleet, Diogo Luís would arrive in Bahia as late as 1627. Until then, the local administration was already looking for solutions for the upkeep of the army. In December 1625, the temporary governor, sergeant Francisco de Moura, ordered the money from the duty on Angolan slaves to be arrested from its collector, anticipating a recommendation from the Finance Council in Portugal (*DHBN*: 15; 3-5, 88-9). Since that duty was farmed in Lisbon to be later collected in Angola, in a complex scheme implicating the Atlantic slave trade and the salaries of Crown officials in Luanda, such a measure ended in double taxation. The governor of Angola strongly protested against this, but it would take a long time before Lisbon stopped the collection of those duties in Brazil<sup>1</sup>. In March 1626, the Crown ordered the extinction of the local court of justice (*Relação da Bahia*) and the consignment of the magistrates’ earnings to the garrison. At the same time, a new duty of four *vinténs* (80 *réis*) on the loading of sugar boxes was created (Schwartz, 1973).

Meanwhile, the Municipal Council (*Senado da Câmara*) asked the king for the garrison to be reduced, complaining about the “collection of new duties, to which we had consented for only the year that will end in July”: meaning the duty on sugar exports, the one *cruzado* (400 *réis*) on the roll of tobacco and the four *vinténs* on the arroba of cotton (*DHAM-AC*, 1944-49, 1: 39). When August arrived, no one in the colony was clear on how to provide for the soldiers’ pay. On the 22nd the Municipal Council unsuccessfully tried to enforce a voluntary contribution (*finta*) from the local population consisting of 600,000 *réis*, tantamount to two-month’s pay for the garrison (*DHAM-AC*, 1: 53-4). On 26 September, a tax was brought in on the wine trade, initially as a temporary measure. At this point, the people of Bahia hoped that, along

<sup>1</sup> Ajuda Palace Library, Lisbon, 51-X-20 and 21.



with the arrival of the new governor, significant financial support would come from the Crown.

However, December came and there was still no sign of either the governor or the money. On the 7<sup>th</sup>, a large number of locals gathered at the Council house to request the abolition of all recently created taxes until the governor came ashore. They had news of merchant vessels that, becoming aware of the new duties, diverted their trade to other captaincies, Rio de Janeiro in particular. The Council officials (*vereadores*) ordered the duty collectors to wait for the arrival of the governor before anything else; there was a loud commotion, “everybody shouting with great ado”, and the officials were forced to agree on the suspension of new duties (DHAM-AC, 1: 57-8).

These animosities ended when Diogo took office, on 27 January. He immediately dispatched orders for the Treasury officers (*provedores da Fazenda*) of Espírito Santo, Rio de Janeiro and São Vicente to send to Bahia their money from the slave duties and “all that remaining of the Royal income, after ordinary wage expenses were paid”. With that, the governor was able to reform the garrison salaries according to military rank, assuring order in the garrison. Notwithstanding the money from the slave duties, in August the Municipal Council received an order to extend the temporary wine taxes for another six months – also referring to a further 1\$000 wholesale tax on the wine cask, probably established at the beginning of his term. To protect the sales of imported wine, Diogo had also prohibited the production of “molasses wine”, a slightly alcoholic beverage made from the foam of the cooking of white sugar. In October the population complained that the wine trade was overwhelmed by speculators and middlemen, who fixed abusive prices and mixed the wine with molasses and sugarcane brandy .

With the Dutch occupation of Olinda and Recife, to the north of the colony, in early 1630, a large share of the Portuguese commerce therein had to be redirected to Bahia. In July, Salvador registered an abundance of Portuguese wine and olive oil. Nevertheless, with the Dutch *WIC* in Recife, Brazil was again a stage for open conflict. The Iberian fleet of D. Antonio de Oquendo, passing by Bahia before charging the enemy, added some eight hundred Portuguese and two hundred Spanish soldiers to the garrison of Salvador. The governor immediately summoned the local colonists to explain his position: the North of the colony had fallen, the South received orders to provide for its own defences, therefore Bahia alone would have to support the army stationed in Salvador.

In order to achieve that, the Royal Treasury needed a total higher than 8,000 *cruzados* per year – or else, “as necessity is not bound by law, and soldiers are free men by nature, insolences are certain to occur” (DHAM-AC, 1: 108-17).

Whether that was a threat or a warning, it holds true that, if the governor’s calculations were correct, the fiscal stance of the Portuguese State in Bahia would have doubled. The resources he said were available amounted to some nine *contos* and five hundred thousand *réis* (9:000\$000), mostly collected as tithes (by far the State’s most important source of income in the Portuguese colonies), plus the lease on the whale oil royal monopoly (*estanco*), taxes on the sale of wine and rights on Angolan slaves – not to mention loans from shipmasters and any other opportune means of seizing money, as the governor dramatically described. Based on these numbers, an agreement was reached upon a new tax of four *vinténs* (80 *réis*) on the can of wine, for a period of six months. If the money collected turned out to be enough for the garrison, Diogo Luís promised to abandon the tax, adding that he felt sorry for “serving in this State in such an age of iron that I have found it, which makes so much difference to the morale of those who lived golden ages”. Notwithstanding the help sent by the Crown, in clothes, wine and victuals, by December 31<sup>st</sup> the wine tax was extended for six more months<sup>2</sup>.

Soon the temporary solution became permanent: every six months the wine tax was renewed. And that was still not enough: the royal treasury continued to use extraordinary sources of financing: in 1632, the *provedor* started a special book for loans to the Crown. Later on that year, the government issued a royal *estanco* (monopoly) on the sale of salt – the first royal shipment of which arrived in 1633. In spite of the many complaints, the province of Bahia had still a good supply of flour and wine (DHAM-AC, 1: 184-220; DHBN, 16: 87-138).

In 1634, the Dutch conquest of Fort Cabedelo, to the north, relieved the fleet from the defence of Recife, freeing its vessels to plunder Portuguese navigation in the South Atlantic. As a precaution, Diogo Luís prohibited Portuguese ships and sugar from sailing out of Salvador. As a result, commerce in the province practically stopped, except for a few

<sup>2</sup> This time, with an exemption for clerical purchases of wine. (*Id., ibid.*, p. 188-205; DHBN, 16: 436-455)

departures authorized by the governor. Again, the wine tax bore the adjustment in the State's bills: the sales of "molasses-wine", "which the people call *caxasa*", was banned again and wine prices increased. In 1636, distilleries (*alambiques*) of sugarcane spirits were closed, "given the damage they inflict on the sale of wine" – the resilience of the production of *cachaça* led the Municipal Council to lift the ban in 1640 and sell annual licenses for distilleries. However, the production of sugarcane spirits was again prohibited between 1646 and 1654, which shows an extraordinary correspondence between periods of conflict or truce with prohibition or liberalization of its production (DHAM-AC, 1: 281-296; 2: 47-8, 51, 312, 315-6; 3: 315-6; DHBN, 16: 396-9; Smith, 1975. 399).

Matters further worsened for the Royal Treasury after 1636. In April, the new governor, Pedro da Silva, needed money not only for the garrison but also for the Portuguese fleet that had brought him and was to escort the sugar fleet back to Europe, while covering the retreat of Portuguese troops and population from Pernambuco. The Dutch were then on the offensive, and its corsairs threatened both the crossing of the Atlantic and the supply of victuals from the southern captaincies and Buenos Aires (see also Canabrava, 1984: 148). From 1635, wheat flour was scarce – regulations for "white" bread show a decline in its weight up to August 1636. In April of that year the supply of manioc flour began from the villages of Boipeba, Camamu and Cairu, in the south of the province. By the end of 1636, soap and meat were also missing – both were traditionally offered by the Rio de la Plata trade.

Adding insult to injury, in December 1637 the Count of Bagnuolo, leader of the Portuguese defences in Pernambuco, arrived with his people in Bahia with the Dutchmen on his tail. There were now three armies (*terços*) in Salvador: the "old" *terço* left by D. Fradique in 1625, the "new" *terço* left by D. Oquendo and the army of Pernambuco. In Recife, the Count of Nassau (or Maurits, the Brazilian, as Dutch history names him – the German Count designated by the *WIC* to rule its American colony) was informed that Portuguese troops in Bahia were unpaid and on the brink of rebellion – which he thought to be his best opportunity to take the center of the Portuguese colony (Barléu, 1940: 79).

Between April and May 1638, the Dutch held Salvador under siege. As soon as the *WIC*'s sails were spotted, Crown and Municipal officers agreed that "it was necessary to rally the men of war with some money, to which the Royal Treasury was unable to assist" – they then resorted to the "public instrument of debt and obligation": a loan of 15,000 *cruza-*

*dos* (6,000,000 *réis*) from the richest inhabitants of the colony, later to be repaid by the whole population. From the end of April, the garrison was receiving, every three days, a two-day flour ration and one day of sugar *garapa* (watered molasses). The Dutch failed to pass the town's trenches, and returned to Recife on May 26 (DHAM-AC, 1: 358-366).

Still, as soon as the Dutch were distant, the soldiers' malcontent broke loose. In June, the *provedor* of the Treasury suffered the harassment of "some captains and other officers that, with drawn swords, demand immediately their pay, making me many discourtesies everyday" (Vilhasanti, 1941: 93-103). By 30 July, the Municipal Council feared that the soldiers "went about robbing the houses and the roads, as they were already doing". The Treasury had a five-month stock of food supply for the troops, but nothing in hard currency – thus it was asking the Municipal Councils of Salvador and Boipeba for a loan of 57,000 *cruzados*. In August, Lourenço de Brito Correa made a 20,000 *cruzados* bid for the renting of the wine taxes, which the Council declined, unwilling to lose control of the tax collection. It nevertheless paid the Treasury's debts with Brito Correa, and that with the money collected from the same wine tax.

In September, the *provedor* Pedro Cadena de Vilhasanti summarized the situation: the Treasury was penniless, indebted by almost 30,000 *cruzados*; soldiers were naked and unpaid; fortifications were under construction by slave labour – which undermined sugar production and the collection of royal tithes; there was much robbing and stealing of tools, gunpowder, weapons, wine and royal ammunition; December was coming and there was no prospect on how to provide for the State's yearly bureaucracy payroll (Vilhasanti, 1941: 130).

Above all, Pedro Cadena protested against the abundance of officers in the army of Pernambuco, under the Count of Bagnuolo. On the 24<sup>th</sup>, he had a meeting with the Count demanding that he restructured the army with fewer and larger companies and fewer officers, cavalries and unnecessary titles – either that, or he was resigning his post at the Treasury. The Count answered that "if the *provedor* broke against him and halted the supply of meat and flour he was asking, he would order its confiscation by force from the inhabitants and cause a civil war" (Vilhasanti, 1941:138). Pedro Cadena climbed down and complied with the Count's demands. An agreement was arranged with the cattle ranchers of the *sertão* (the countryside farther inland), with fixed prices and free retail in town, while the supply of manioc flour was opened to whoever

was willing to bring it from Boipeba, “due to the great damage suffered by the inhabitants under its monopoly, and exclusive supply by a single person” (DHAM-AC, 1: 376-84; DHBN, 17: 132-3).

In 1639, Bahian production appears to be readier for the demands of war, in spite of the presence of the large Iberian fleet under the Count da Torre – the fleet had brought a load of wheat flour, and the meat supply became regular. The Municipal Council also undertook a prohibition of tobacco cultivation, in favour of manioc production, which became obligatory for every slave owner by a system of production quotas. Nonetheless, the fiscal stances still needed tightening: new promises of financial help from Lisbon again never crossed the ocean, while the Count da Torre now requested a donation of 60,000 *cruzados* to prepare the fleet for a blockade of Recife. Unable to avoid this other burden, the Municipal Council named its terms to collect the contribution – particularly, that the *capitania* of Rio de Janeiro also paid its fair share (DHAM-AC, 1: 388-417; DHBN, 17: 211-4; Varnhagen, 1920: 316-412).

After the fleet had been soundly defeated by the Dutch and its ships scattered about the ocean, a Portuguese commander named Luis Barbalho, born in Pernambuco, requested that he and his men were brought ashore. The Count da Torre complied, entrusting him the mission of taking an army of nearly 2,000 men back to the defences of Bahia, marching through enemy controlled territory. The group landed at the extreme north of the Brazilian east coast, the Cape of Sao Roque, and the Dutch immediately began the pursuit. The geography and plant life of the region, crossed with dry riverbeds in a maze of thorns and scalding sunlight, helped the Portuguese to reasonably evade its Dutch persecutors and reach Bahia with most of its men.

Nevertheless, while marching south through the countryside until they returned to Salvador, Luis Barbalho raided as many sugar plantations in Dutch territory as he could. In retaliation, Admiral Lichthart and the *WIC*'s fleet sailed into the Bahian *reconcavo*, a very large bay where a system of navigable rivers meets the ocean, destroying twenty-seven sugar mills, a third of the *capitania*'s production capacity approximately. 1639 and 1640 were the years when that war caused its highest damage to the sugar industry (Boxer, 1957:64-5). The first few months of 1640 were times of desolation for the Portuguese population in Salvador; many were then already blaming the Spanish Crown for their misfortune – the sermons of Jesuit priest Antonio Vieira are probably the best illustration of this (Vieira, 1938: 98-110).

The last important act of the Habsburg Crown in Brazil was the elevation of its condition, and D. Jorge de Mascarenhas, Marquis of Montalvão, became the first viceroy of the land. Immediately after taking office, Montalvão started negotiations with the Count of Nassau in Recife – in October, they had agreed to prevent the war from destroying sugar mills and plantations. Nevertheless, he ordered that the “donation” of 60,000 *cruzados* for the fleet of 1639, which had still three shares to be collected, was to be now used for the completion of the fortification of Salvador and the construction of a small fleet to safeguard the *reconcavo*. This fleet of small, row-powered and lightly-armed vessels had been ordered by Lisbon to be built in Brazil since the early 1630s – it had already had a few successes in defending the coastline against enemy ships in India. However, the local population had become highly impatient with these requests of the royal authority (DHAM-AC, 1: 436-451).

In August, the Municipal Council refused to continue collecting the donation for the fleet, on the grounds that the ships had already left and it had no purpose anymore. Only 15,000 of the total 60,000 *cruzados* had been raised. Montalvão reminded the Council that financial help from Europe was unlikely to come, and the upkeep of the war in Brazil had to come by its own means. If the Dutch tried another attack on Salvador, he said, there would be nowhere else to retreat, as the ones from Pernambuco had done. Not as threatening as Diogo Luís a decade earlier, Montalvão appealed to the self-interest of the locals to support their defences, in the manner they best saw fit.

Throughout the month of September they worked to reach an agreement. Eventually, the last quarter of the donation was not collected. A new tax on the sale of wine was imposed – the can would now cost 720 *réis*, 240 of this in taxes, plus a 1,000 *réis* duty on the sale of the pipe. As a condition, the Municipal Council of Salvador demanded that these same terms were applied in Rio de Janeiro, so that the wine trade would not deviate in its favour. The lease contract on the collection was cancelled and the Council took the responsibility on itself. Fortifications were completed with the compulsory “lending” of slaves. Finally, they agreed on a letter to the King, emphatically asking for money (DHAM-AC, 1: 454-480).

Despite the agreement, the Portuguese restoration of December 1640 opened a breach in the Royal government in the Colony. Since the Marquis of Montalvão had two sons in Spain, a local group used a precautionary order against him in a *coup* (in case the viceroy chose to remain

loyal to Spain, as his wife did actually suggest, D. João IV had sent to Brazil a Jesuit with an order for his deposition). Although Montalvao had loyally conducted the acclamation of D. João IV as the new King of Portugal, he was arrested and replaced at the head of government by a triumvirate, appointed in that Royal decree, consisting of the local bishop Pedro da Silva, captain Luis Barbalho and the *provedor* Lourenço de Brito Correa. Its first measure was to abolish the wine taxes in the *capitania*. But the needs of the garrison still had to be met, and the triumvirate had no alternative other than restore the preceding fiscal stance (Tavares, 2001: 146). The “fiscal revolt” could not override the defence needs of the colony.

With the Dutch conquest of São Paulo de Luanda, in Angola, by August 1641, the Royal treasury lost the collection of its right on the slave trade. The Municipal Council sought means to maximize its wine earnings. After a failed experience to control prices and stimulate demand, they declared a monopoly on the retail commerce of wine. Council officials would be in charge of buying casks in the harbour and delivering to twelve licensed taverns. After a month, the Council realized that the wine monopoly still covered little more than half of its needs, and it was abandoned in August 1641 (DHAM-AC, 2: 54-103).

Antonio Teles da Silva arrived in Bahia as the new governor-general of Brazil in early October, with another regiment of 1,000 men in his fleet. According to calculations made by his *provedor*, the 3,000 men garrison and the State’s payroll amounted to a 57,387,000 *réis* yearly expenditure. Added together all of the revenues – the money from the tithes’ lease, whale fishing, the *verde* (tariffs for weights and balances supervision), the \$320 harbour fee on every sugar box loaded, the salt monopoly and the taxes on wine and sugarcane spirits –, the Royal Treasury was still short of 18:980\$000. Antonio Teles da Silva filled this gap through the collection of a *vintena*, a 5 per cent tax on “fruits that the land bears, sales of goods and house rents” from which no one was exempted. Like the tithes, the lion’s share of the *vintena* collected came from sugar produced and loaded in the harbour – according to an estimate calculated in 1650, between 1642 and 1646 this tax raised 59:385\$217 *réis* for the Treasury (DHAM-AC, 2: 112-144).

At this time, Bahia also suffered from monetary stringencies owing to the restoration of Portuguese autonomy and the decline of Portuguese-Spanish trade in South America. In 1610, Pyrard de Laval described Salvador as the richest town in silver he had ever laid eyes upon – a re-

sult of economic ties with Buenos Aires and the Plata basin (of course, it is also possible that he had never been to Genoa). During the 1630s these ties were already loose, as indicated by shortages of soap and meat (goods traditionally imported from the Rio de la Plata). In July 1641, the silver value of the real in Portugal was reduced by 30 per cent – at this time a merchant in Salvador already complained that silver coins were being taken to Portugal. In 1643, the government in Salvador decided to reduce the silver value of the real by 50 per cent, which indicates an appreciation of the silver (and a devaluation of the *real*) 13 per cent higher in Brazil.

After a five year truce, hostilities restarted when the Portuguese population of Pernambuco, heavily indebted with the Dutch West India Company, rebelled against its rule. Gaining support from sugar mill owners (*senhores de engenho*) in the countryside, the rebellion rapidly succeeded in isolating the Dutch in Recife, by August 1645. After the two battles of Guararapes, which consolidated the siege in mid 1646, the Dutch tried to alleviate Portuguese pressure with an attack against Bahia: the idea was to establish a base in the Bay of All Saints, at the island of Itaparica, and cut Portuguese navigation to Salvador, forcing a retreat from Pernambuco and Recife. The plan was carried out in February 1647, and the Dutch held a fort in Itaparica, a few miles in front of Salvador, until December that same year. Still, the force at Itaparica failed to affect Portuguese activity, the row-powered fleet successfully defended Portuguese navigation against Dutch patrols, and the siege of Recife was even strengthened with artillery pieces from Bahia. The last two of the Dutch raids on the *reconcavo* occurred in 1648 (again, with great damage to thirty sugar mills) and 1652 (with no significant consequences).

Nevertheless, Dutch corsairs operating from Recife did succeed in dismantling Portuguese transoceanic navigation between Portugal and Brazil during the whole of 1647 and 1648. 243 Portuguese vessels were captured during these years, 130 of which had Salvador as its departure or destination (Mello, 1998:358). Sugar commerce was suffocated and the Treasury in Salvador was directly affected. In January 1648, the Crown ordered new tariffs on the loading of goods in the harbour, the Municipal Council complying with these terms. From May 1648, the inhabitants of Bahia were forced to bear another donation, this time totalling 200,000 *cruzados*, for the victualling and maintenance of the fleet that had brought the new governor Antonio Teles de Menezes, Count



of Vila-Pouca, in 1647 and was supposed to carry and escort the sugar harvest to Portugal. This donation was collected in four shares: the first was paid in late 1648, the second in mid 1649 (DHAM-AC, 2: 362-76).

By August, the governor declared to the Municipal Council that the first two shares were already spent and that was still not enough to make the fleet ready. The Council suggested that the Treasury used the Crown's money that rested secure on board two galleons from the East Indies, to which the governor replied: His Majesty's treasure on the galleons "is sacred". The solution found was to draw money from the rich inventory of Bishop Pedro da Silva's heritage, which was borrowed from the "treasurer of the deceased" (*provedor dos defuntos*). Later on in the year, the Royal Treasury continued to borrow from the Bishop's inventory, spending ahead of income the third and fourth shares of the Bahian donation. In December, the Count of Vila-Pouca demanded a different and smaller donation, to pay the garrison of Salvador for that month (DHAM-AC, 3: 25-49).

The suffocation of Portuguese transoceanic commerce needed direct intervention of the Crown. In September 1648, the crossing of the ocean was prohibited until proper escort could be arranged. In Portugal, D. João IV was laying the grounds of what would be the General Trading Company of Brazil, a chartered company responsible for providing such an escort at a fixed price, while in possession of monopolies on the commerce of essential metropolitan goods: wine, wheat flour, olive oil and codfish. The prices of those goods were exorbitantly fixed in Bahia in September 1649, to the outrage of local inhabitants. The first convoy of the General Trading Company reached Bahia in the 14th of March, 1650 – from that day onwards, correspondence of the Municipal Council is filled with complaints about the Company's prices and practices (DHAM-AC, 3: 65; DHAM-CS, 1951, 1-2; Costa, 2002).

Along with the Company's fleet came the Count of Castelo-Melhor, appointed governor of Brazil. His first act in command was the collection of the two remaining shares of Vila-Pouca's donation, which was halted due to problems in the collection lists. The last quarter share was collected in September (DHAM-AC, 3: 79-88).

By August, however, the Municipal Council had risen up against the *vintena* of 5 per cent on all Bahian production. A large meeting of the Council resulted in a petition to the governor requesting the end of that tax, on the grounds that it prejudiced sugar production. The bulk of the *vintena* was collected in kind with sugar of the worst sort, which

merchants were reluctant to accept. At this time, the Council also complained constantly that Portuguese commerce was flourishing in Rio de Janeiro at great detriment to Bahia. Exemptions by the clerical community were also denounced. As an alternative, the Council suggested a rise of 160 *réis* on the wine tax (DHAM-AC, 3: 88-94).

Castelo-Melhor called for a meeting with the Council in October 17th. The proposition was accepted by vast majority, only (and naturally) refused by the General Trading Company's representatives. The retail price of the wine can was raised to 960 *réis*, and the pipe was charged at 55,600 *réis*, 13,000 of it in taxes. In the same month, the governor charged the olive oil commerce with another tax, for the purpose of building a new barracks. He also reformed the garrison, enlarging infantry companies and reducing the number of officers, with which the upkeep of the army dropped to little more than 3,000 *cruzados* every month, excluding flour provisioning (DHAM-AC, 3: 98-138; DHAM-CS, 2: 27; Costa, 1958).

Despite the manoeuvre of the governor and the Municipal Council, in June 1651 two letters from His Majesty arrived in Bahia ordering the *vintena* to be reinstated and the new wine tax abandoned. Thus, the Crown came in defence of the chartered company, demanding that the Council in Salvador "inquired on those responsible for the unrest, to be pointed out by the administrators of the General Company, and inform me on them". In reply, the Council refused to act accordingly on the grounds that "the execution of such orders would be of prejudice to the Royal Treasure", arguing that the problem was the Company's neglect in providing enough wine to the *capitania*, the supply of which had dropped from 200 to 22 casks. It is unlikely that the Municipal Council was capable of taking such a stance without the support of the governor, the Count of Castelo-Melhor, at this time a known enemy of the General Trading Company. Until the end of the year, two other donations were collected; one for the construction of a flour warehouse and the other to fill another gap in the soldiers' pay (DHAM-AC, 3: 156-169).

In 1652, the garrison's upkeep was totally delegated to the Municipal Council – not only it would raise the resources, as it had been doing, but now it would also be responsible for paying out the salaries, relieving the *provedor* of the Royal Treasure. It is likely that the governor had understood that such expenditure had to be kept constantly in line with the economic activity of the province: the volume of imports (particularly wine) and sugar prices and production, mostly. With such a measure,

Castelo-Melhor protected the Royal Treasury from the uncertainties in tax collection. The Council had also its motives for accepting the order, since it meant higher control on the resources collected by its own fiscal effort and on the garrison itself. Its opinion was that “hence will the people be harassed by the people, and they will have the freedom of speaking truthfully and respectfully and alleging its motives with or without reason, for it would be then offending itself and not the Royal ministers” (DHAM-AC, 3:171-216; see also Figueiredo, 1996).

Naturally, the Council named its terms: it requested the money from the royal monopoly on salt, from the tariff on the loading of sugar boxes and the *renda do verde*; it also requested control of all the manioc flour coming into Bahia by contract with the villages of Boipeba and Camamu, and “should there be any shortage Your Excellency [the governor] shall do us the good of obligating them into it as usual”; the collection of such taxes and the paying of the garrison were to be helped by sergeants and the Royal authority; only the regularly enlisted soldiers would be eligible for pay; as soon as the Royal finances were healed, it would pay its debt to the Council of 12,000 *patacas* (a silver coin worth 480 *réis* by then; the total was 5,761,000 *réis*). Castelo-Melhor agreed to all these terms. The Royal Treasury then became responsible for collecting (or leasing the collection of) the tithes and the whale oil tax, while it funded the State’s bureaucracy payrolls, ecclesiastic and ordinary, for the clothing of the garrison, for the High-Court (which had been dismantled during the war but was then being reinstated) and for unspecified “extraordinary expenditure”. It should be noted that, at this point, the Dutch were held isolated in Recife, with little or no help from the Netherlands, hanging by the thread of protection offered by their remaining fleet – they represented little or no threat to Bahia anymore (DHAM-AC, 3: 216-220).

Being thus responsible for the upkeep of the garrison, the Municipal Council of Salvador saw itself in deeper conflict with the General Trading Company of Brazil. The scarcity of wine (between 1653 and 1656 the Company did not bring a single cask to that province) forced the *vereadores* of the Council to ask the population for a loan: 20,000 *réis* from every major sugar mill owner, 10,000 from owners of smaller sugar mills, planters and remaining inhabitants. By January 1654, the final Dutch resistance in Recife had been broken by a convoy fleet of the General Company. In February, the Council resisted the new governor’s attempt to execute the Royal decree of 1651 that reinstated the *vintena* of 5 per cent on all production and exempted the wine tax in favour of

the Company's trade, showing the political strength it had built up during the war years (DHAM-AC, 3: 266-7).

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The economic impact of the defence of Salvador and the means by which the Portuguese authorities provided for it are reciprocally determined. As far as the historical evidence allows us, we shall attempt an interpretation of this relationship starting from the demographic and economic effects of the garrison on the urban life of Salvador, demand-side and supply-side. We will then go on to discuss the transformations in the supply of victuals to Bahia and, finally, the system for financing the State's activities and the political repercussions thereof; particularly trying to ascertain the social groups that eventually footed the bill for the army's expenses.

It should not be too difficult to ascertain the impact of the garrison on Salvador, either in demographic or economic terms. Stuart Schwartz estimates the population of Salvador to be 4,000 in 1587 and 15,000 in 1681. Given that the town was abandoned in 1624 and bombarded in 1638, one could hazard a guess of the garrison's effect on such a growth: 900 men were stationed there in 1625, plus 1,200 in 1631, an undetermined few hundred in 1637 and 1640, a thousand more in 1643. Figures on the number of casualties, desertions and departures have not yet been found. Casualties are certain to be low, given that Salvador was only directly involved in the conflict in 1638. The Neapolitan and Spanish regiments left Salvador after the Portuguese Restoration of 1640, but no record of their numbers was found – since there were four or five of such captains, their numbers were probably between 300 and 400. There is also the military support from Bahia to the rebellion against the Dutch in Pernambuco. From the reform made by Count of Castelo-Melhor until the revolt of the *terço velho* (the old regiment of 1625) in 1688, the garrison consisted of little more than 2,000 men (Schwartz, 1985: 80).

It is possible to estimate the impact on economic activities from the collection lists of the donation called by the government *junta* in 1642. Unfortunately, Antonio Teles da Silva interrupted the collection when he took office, so the lists are incomplete. Nevertheless, it was still possible to ascertain the frequency of registered occupations and their average contribution in the following table:

Table 1 *Registered occupations and average contribution to the 1642 donation*

<i>Registered Occupation</i>	<i>Frequency</i>	<i>Average Contribution</i>
Merchant	44	1\$493
Smaller merchant (“de loja”)	5	\$692
Retail merchant ( <i>vendeiro</i> )	29	\$481
Military officer	26	\$947
Tailor	12	\$357
Shoemaker	10	\$316
Goldsmith	6	\$737
Baker	6	\$477
Barber	6	\$387
Other	47	\$691
Soldier with a registered occupation	11	\$209
Gunner with a registered occupation	3	\$353
Unregistered occupation	208	\$976

Source: DHAM-AC, 2: 388-405.

The table shows that, among 205 inhabitants with registered crafts, only 14 are soldiers. Within these are some of the few artillery officers that were stationed in the garrison. Although the troops might be expected to include a few artisans and skilled urban workers, the table seems to endorse the thesis that most of the garrison was recruited from the poor population of unqualified workers that at this time was abandoning the countryside of Portugal for the larger towns. Their possession of some knowledge or talent obviously made it easier for the artillerymen from this period to perform skilled work (Smith, 1975: 22-3).

More importantly, the fact remains that the garrison of Salvador added more eating mouths than working hands to the community – after all, given the social values inherited from the nobility, soldiers were “men free by nature”, as Diogo Luís de Oliveira stated. Still, the garrison received under average salaries, compared to the usual Royal servant: while the soldier earned monthly 1,200 in money (besides flour rations), a vicar’s salary amounted to 73,920, and the General Governor’s, 1,200,000. Therefore, the garrison represented for the Bahian economy a large and uniform demand of indispensable goods.

Nonetheless, also between 1620 and 1640, trade between Bahia and the Plata river had vanished, isolating the later from a stable supplier of meat, tallow and wheat flour. Therefore, a gap between new demand and disruptive supply had to be filled. That explains part of the economic development of Rio de Janeiro and São Vicente, southern provinces in Portuguese America, most of the development of the villages of Boipeba, Camamu and Cairu, manioc flour producers in the southern parts of Bahia, and the cattle march to the heart of the continent (see Canabrava, 1984).

Cattle ranchers had been already wandering the *sertão* (the arid Brazilian interior) between Bahia and Piauí in the late 16th Century. The first large cattle fair of Bahia, named the “Old Fair” (*Feira velha*) of Capuame, began in 1614 – in 1627 Francisco Dias D’Ávila asked the Crown for the first royal licence for the mining of salt between the rivers Salitre and São Francisco<sup>3</sup>. In Salvador, the supply of meat became regular only after the decade of 1630; shortages were reported in 1634 and 1636. The withdrawal of the Portuguese army from Pernambuco, pursued by Dutch forces along the way, consumed all the cattle closer to Salvador (from the farm of the Dias D’Ávila only some 16,000 animals were slaughtered). Still, less than a year later the city was again fully supplied with meat. Agreements with the ranchers regularized the meat supply, with fixed prices and quantities (as usual in the *Ancien Regime*). Time and time again the General Government or the Municipal Council sent requests for meat to the province of São Vicente, but that seems to have been complimentary to the supply offered by Bahian *sertanistas*. Trade with the southern provinces was much brisker in flour (wheat and manioc), rice and beans – the General Government correspondence throughout the period is dominated by such requests (DHBN, 3-4).

From the point of view of the local financing of the Bahian defences, the incipency of an internal market for the necessary goods and the consequences of war on the transoceanic colonial trade determined the State’s viable alternatives.

First of all, as has been observed, the defence of Salvador practically doubled the State’s demand in the Bahian economy. Through the taxa-

<sup>3</sup> *Salitre* is the portuguese word for saltpeter. Dias D’Ávila is the name of the family that controlled cattle breeding throughout the 16th and 17th centuries. It should be remembered that mineral salt is an important resource to fatten the cattle, since it improves the animal’s digestion. See also Boaventura, 1989, Barros, 1934, Pessoa, 2003.

tion on production (the tithes, the *vintena*, compulsory donations and slave borrowing), most of the fiscal load weighed on the sugar economy, by far the single most important good produced. The taxation of commerce can be broken down into taxation of imports and exports. Taxation of imports (mainly the wine tax) could be passed on to retail prices – since merchants had the choice of deviating their cargoes to other markets, specially Rio de Janeiro – so that the fiscal burden again weighed on local income. The same goes for the taxation of exports (the tariff on the loading of goods), since producers were unable to pass it on in their prices. They were balked from doing so not only by the exploitative structure of colonial trade itself but also by the oceanic war and the scarcity of available ships. Invariably, the defence of Salvador weighed on the internal product of Bahia.

It has been observed that taxation constituted the bulk of Royal revenues in Bahia: mostly the tithes, followed by the wine tax and the slave tax (except during the Dutch occupation of Angola), the *vintena* (temporarily collected), loading tariffs and less significant taxes. “Donations” from the local inhabitants became a common *ad hoc* source of income when taxes were insufficient, usually at the end of the year – but only in emergency periods, such as during the Dutch attack of 1638 or the *quasi*-blockades of 1634–6 and 1647–48, do we find loans from private households as a significant means of financing the Royal Treasury. Neither did Montalvão’s attempt to increase the value of the lease contracts on tithes collection succeed – Bahia and Brazil were far from having a merchant community developed enough to offer a regular finance market to the State, and its colonial stance did not help this development. Compulsory lending of slaves to fortification works or manioc farming was also rarely used, given the strong objection it raised among local inhabitants.

Nevertheless, the most attention-grabbing feature here is the taxation policy, making it depend on the overall economic activity. In other words, taxation would hardly have sufficed if the government had not taken action to generate supply and manipulate the market in its favour. First, by moving to push down the price of victuals necessary to the garrison. In February 1627, the Municipal Council prohibited the sale of victual goods from the province. The prohibition against big traders of flour (*regatões*) was republished on many occasions between 1625 and 1655, and against the meat black market in 1634 (where prices were 60 per cent higher). Sporadic donations were always paid in kind by cat-

tle ranchers and manioc planters. In this sense, manioc flour provides us with the best example: unlike rice or meat (cattle, swine and fish) markets, which had their prices fixed, neither were flour prices fixed, nor was its trade chartered by a contractor, “given the great damage upon inhabitants from the existence of a monopoly and only one person going [south] to buy it”. Price fixing worked only when the Council appointed an official wholesale buyer of flour in town, centralizing trade in his hands, receiving all flour in the harbour and selling it “freely” from a warehouse owned by the Council. In fact, the flour trade quickly became an important source of revenue to the Municipal Council, from which it extracted a profit margin of 100 per cent (DHAM-AC, 1: 67, 244, 384; 3: 130-4, 197, 235-6, *exempli gratia*).

Not only did the General Government and the Municipal Council work to lower their expenditure on goods for the garrison, but they also worked in similar ways to increase their revenue. The sale of wine became a Royal monopoly as early as 1628, and throughout the years the wine tax collection evolved into a Council monopsony in the docks and a monopoly to the taverns – Council appointees would have exclusive rights for buying the casks in the harbour, adding to the price the volume of taxes agreed before delivering them to the licensed taverns. Furthermore, as we have previously observed, periods of open war with the Dutch bear a very close relationship to periods of sugar-cane spirit prohibition.

The sugar trade and its taxes, however, were not subject to such market schemes – and this begins to shed some light on the way in which war impinged on political relationships. Market manipulation, through Royal or Municipal monopolies, prohibitions, restrictions and price fixing, became crucial in providing resources for the Bahian defences, and this raises the question of who benefits and who bears the army’s burden. As we have already seen, the structure of colonial trade made it difficult to pass on any share of the fiscal load to the Atlantic trade. Still, when the wine tax predominated over sugar collections (such as the *vintena*), it was the suppliers and consumers of Portuguese, Azorean or Madeira wine who bore the expenses. Conversely, when Antônio Teles da Silva started collecting the *vintena* in 1642, the volume of taxes on the cask of wine was cut approximately in half, and sugar producers were hindered. By 1650, the support of Castelo-Melhor helped the Municipal Council of Salvador to retaliate against the monopoly granted to the General Trading Company of Brazil; which is an overall victory of the local denizens over metropolitan capital, despite the structure of colonial trade.



Outside the struggle between the “sugarocracy” of the Council of Salvador and the Portuguese merchants of the Atlantic, it is worth stating that some groups did not have the same strength in defending their interests. Flour suppliers from the villages to the south of Bahia constitute an interesting example. While initially they benefited from supplying to the garrison at Salvador, after 1652 and the final arrangement of the Council’s exclusiveness in dealing with flour in town, the Councils of Boipeba, Camamu and Cairu immediately reacted saying that the former were gaining from the intermediation of flour. They further argued that the Bahian *reconcavo* was capable of producing all the manioc it needed, clearly demonstrating that those villagers now had an eye on sugar production (Boxer, 1965: 103-4). It is also worth remembering that many among the sugar producing elite, specially the military-clerical orders, had been favoured with tax exemptions, as a complement to their “ennoblement”. All in all, it is quite reasonable to believe that the bulk of the army’s upkeep, in the end, rested on the middle man’s shoulders: the small sugar planters and slave-owners, small merchants and artisans. Not to mention the slaves themselves.

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# Tracking down signs of the Portuguese Fiscal-Military State 1762-1816

*Maria Cristina Moreira*

## 1. Introduction

In international historiography, particularly in European terms, the question of whether or not a Portuguese fiscal-military state existed furnishes an essential key for interpreting and understanding economic history.

In the overall context of European history in the 18th century, the first half of the century was relatively stable, and the most notable political instability was due to the Wars of Succession; namely in Spain (1700-1706), in Poland (1731-1735) and in Austria (1740-1748). A period of more instability followed, which lasted until the crash of the Napoleonic Empire.

Portugal, a long-time ally of Britain, participated in several war scenarios during that unstable period. These were the *Guerra Fantástica* (1762-1763), the Portuguese part of the the Seven-Years War (1756-1763); and, as a consequence of the French Revolution (1789), Portugal was involved in Roussillon and the War of Catalonia (1793-1795), the War of the Oranges (1801), and in the Peninsular War (1807 –1814), with its particularly devastating impact. This last conflict led to the transmigration of the Portuguese Court to Brazil in November 1807, simultaneously with the first French invasion led by Marshal Junot (helped in the beginning by the Spanish army, in accordance with the Treaty of Fontainebleau), until the Sintra Convention in August 1808. In March of the following year, Marshal Soult led the 2<sup>nd</sup> French invasion of Portugal, which lasted almost three months. Napoleon's last attempt to conquer Portugal began in April 1810, with the appointment of Marshal Massena as Commander of the 3<sup>rd</sup> French invasion that lasted from July of that year to April, 1811. Nevertheless, the Anglo-Portuguese army

continued also to fight in the Iberian Peninsula until 1814, helping Spain during its War of Independence.

Obviously, this political context must have had a great influence on military expenditure and would have been a driving force in the demand for financial resources. In monarchic regimes, the state was principally responsible for assuring the defence of the nation, the need to muster resources to support the war effort must have been linked to the strategies of the fiscal state for the subvention of military expenditure.

In fact, research on international fiscal-military state in the 18<sup>th</sup> and mid-19<sup>th</sup> centuries is an emerging theme, and, among the studies published in the last decade, those of O'Brien (1999, 1998), Bonney (1999) and Bowen and González Enciso (2006) are the most noteworthy.

There is a general dearth of studies on the Portuguese fiscal-military state in this period. Such studies could make an important input to a broadening of the debate and interpretation of the international fiscal-military state, and the understanding of the financing of military expenditure, one of the state's roles as a guarantor of "...strength and respect of the sovereigns and peoples' security"<sup>1</sup>. In this context this study will pinpoint some signs of a Portuguese fiscal-military state. Indeed, the main events of Portuguese military history provide consistent evidence of the importance of the state's function of financing the army according to the organisation of a military financial administration.

The analysis of important documentation concerning the period under study, in several Portuguese and international archives, can help answer the question of whether mobilizing money and resources for warfare, in particular for the Peninsular War, does indeed provide evidence of the rise of the fiscal state, thus proving that the Portuguese fiscal-military state was a reality.

The present study will also look at how the *Erário Régio* (Royal Treasury) sustained the Portuguese military structure and war effort. In order to find out if, from the late 18<sup>th</sup> century to the Peninsular War, the Portuguese fiscal state revealed signs of financing military spending, four approaches will be explored:

- 1) A brief review of military financial administration in order to understand the relationship between its reorganization and the public policies of control and regulation;

<sup>1</sup> Letter of law from General Thesauri Institution, 22 December 1761 in Tomaz (1988: 356).

2) An analysis of the evolution of uniform plans in Portugal at that time, as one of the main sources of military expenditure. The uniform plans also reflected the image the state wanted to project at the national and international level;

3) Four case studies, three with quantitative approaches, of military expenditure as supporting evidence of a Portuguese military state, namely: a comparison of military expenditure from 1812 to 1816 with that of 1762 to 1776; payments by the *Erário Régio* to *Tesouraria Geral das Tropas* (General Treasury for the Troops) for *soldos* (officer's salaries) paid out in 1763; signs of British financial support to the Portuguese army through money transfers for military expenditure during the Peninsular War; a fourth case study using qualitative sources to provide evidence of English support for Portuguese military expenditure during the Peninsular War;

4) Potential lines of research into the Portuguese fiscal-military state based on documentation existing in Portuguese archives.

This study aims to help in clarifying whether the Portuguese fiscal-military state really existed and to also to indicate how signs of both a war effort and the financing of military expenditure can be tracked down.

## 2. Brief review of military financial administration

Knowledge of the Portuguese state resources that were mobilised for the control and regulation of military expenditure; namely the institutional, administrative and accountancy-based structures created for that specific purpose, reveals that public policies in these areas did exist, and emphasise the relevance of the military financial administration to the Portuguese state in the 18<sup>th</sup> and early 19<sup>th</sup> centuries. A brief review of the evolution of the military financial administration provides evidence of the role of the fiscal-military state.

### *From vedorias to the first half of the 19th century*

A study conducted by Pires (2005) gives us a clear picture of the development of military financial administration from the creation of *vedorias* (overseer's offices) to the end of the first half of the 19<sup>th</sup> century. In

1642, during the reign of D. João IV, *vedorias gerais* (general overseer's offices) were created as structures that allowed the organisation of the necessary administrative functions for regulating military expenses. The roles of *vedor geral* (general overseer), *contador geral* (general accountant) and *pagador geral* (general paymaster) were also created and the exercising of these functions was regulated through the publication of specific regulations.

The financial administration of the armies was the responsibility of the *vedor*. Troop acquisitions always required previous authorisation from the *vedor* for payments to be made. In this process, the *contador* was responsible for recording the operations in their books, and the *pagador* was responsible for making the actual payments.

Regular troop reviews to verify actual numbers, armament and upkeep were checked against the records kept by the clerks in the *Contadoria Geral* (General Accounting office) and signed by the *Vedor Geral*; these records, together with registration books, were also used by the overseer to authorise pay. In fact, the records kept in different books belonging to *Contadoria* allowed the administration of income and expenditure, namely: accounts, under separate titles, of the numbers in each border garrison, declaring artillery, weapons and ammunitions, necessary upkeep, the soldiers and officers of each company and their respective pay; accounts of hospital expenses; records of administrative notifications and regulations; incoming and outgoing payments made by the *pagador*; and regimental transfers. In turn, the *pagadores gerais* registered all daily payments in specific books, later verified against the expense records of the *Contadoria*, and they also noted down the amount of monies received to cover those expenses.

In 1763, under the law of 9<sup>th</sup> July, Marquês de Pombal implemented a new system for paying and controlling military expenses through the creation of three *Tesourarias Gerais das Tropas* (General Treasury of the Troops) that were closed only in 1816: *Tesouraria Geral da Corte e Provincia da Estremadura* (General Treasury of the Court and the Province of Extremadura) in Lisbon, *Tesouraria Geral do Porto* (General Treasury of Oporto), in that northern city, and *Tesouraria Geral do Sul* (General Treasury of the South) based in Elvas, doing away with three *contadorias* and *vedorias*. These treasuries inspected the application of the funds distributed by the government to the army – artillery, infantry and cavalry – according to their geographical area. In order for them to do this job, a staff of twenty-five was appointed to the *Tesouraria Geral das Tropas*.

Porto and the South had similar structures, each with a treasurer, three joint commissioners and five fiduciary paymasters, while *Tesouraria Geral da Corte e Provincia da Estremadura* had one treasurer, two commissioners and four fiduciaries to support its administrative duties.

In 1811, due to the creation of *Tesouraria Geral do Exército* (General Treasury of the Army) (edict of 9<sup>th</sup> September 1811) budget and military expenditure became more centralised through the keeping of weekly and monthly balance sheets controlled by the inspector of *Tesourarias Gerais do Reino* (General Treasury of Kingdom). In order to perform these tasks this treasury had at its disposal ten officials in 1816 (a treasurer, a clerk, three paymaster commissioners, a head clerk, an apprentice clerk, a doorman and an office boy) and was responsible for the elaboration of a set of registries such as income and expenditure, current accounts with the names of people and departments that had received funds; records of notifications defining payments; records of drafts and promissory notes that the treasury had received, which worked as a means of confirmation and help to the income and expenses books.

Under the edict of 21<sup>st</sup> February 1816, two departments were created in *Tesouraria Geral do Exército* with the goal of centralising all the army's accounting practices: *Repartição de Fiscalização da Fazenda* (Exchequer Inspection Office) and *Repartição de Tesouraria e Pagadoria* (Treasury and Payment Office), under the direction of a *contador fiscal* (Fiscal Accountant) and a treasurer, respectively. Both answered directly to the *Erário Régio* and that is why the position of treasuries' inspector ceased to exist.

In this new organisational order, the general treasurer had to draw up and send the annual military expense budget to the *Erário Régio* and the *contador* had to produce and send the bi-annual plans of the army's expenditure to the government and to the Commander-in-chief of the army. At the end of 1816, the *Tesouraria Geral do Exército* was reorganized, resulting in the creation of the *Contadoria Geral das Tropas* (Troops's General Accounting Office) and twelve *Pagadorias Militares*<sup>2</sup> (Military Payment Office) in charge of the payments to military bod-

<sup>2</sup> According to a diploma of 2 May 1817 they were created in Lisbon, Faro, Elvas, Vila Viçosa, Castelo de Vide, Guarda, Torres Novas, Porto, S. Pedro do Sul, Bragança, Chaves and Ponte de Lima.

ies. For the first time, the double-entry method was implemented in the army, recording movements in cash books, daily books, ledgers and subsidiary entry books.

In 1836, military administration was again reorganised on liberal tenets, leading to the creation of seven administrative-military divisions, each one of them having an *Intendência military* (Military Intendancy). These dealt with financial management and, therefore, the *Tesouraria Geral do Exército* ceased to exist.

Up until the end of the first half of 19<sup>th</sup> century political instability gave rise to successive organisational changes in the military administration of the War Ministry. First the *Repartição Central de Contabilidade* (Central Accounting Office) was created in 1835, closed in 1837 and readopted in 1844 under the name of *Repartição de Contabilidade* (Accounting Office), the *Repartição Provisional de Liquidações* (Provisional Liquidations' Office) was created in 1836, closed in 1837 and readopted in 1849 under the name of *Repartição de Liquidação* (Liquidations's Office), and finally, the *Inspecção Fiscal do Exército* (Fiscal Inspection of the Army) was created in 1844, and disbanded in 1849 due to the readoption of the *Repartição da Liquidação*.

The evolution of military financial administration clearly demonstrates the existence of an organised fiscal-military state as an effort to regulate and control military expenditure.

### 3. Uniform plans in Portugal and the fiscal-military state

The evolution of Portuguese military uniformology can be traced back to the first uniform plan in Portugal in the Regulation of 1764 and the following plans until the end of 19<sup>th</sup> century: 1806–1820 (general uniform plan of 19<sup>th</sup> May 1806)<sup>3</sup>; 1848–1859 (general uniform plan of 1848 in the French style<sup>4</sup>); 1869–1885 (uniform plan of 1868/1869 in the French style<sup>5</sup> and the 1885 plan adopting the Prussian appearance); and the fourth period between 1892–1904 (uniform plan of 1892 in the

<sup>3</sup> In this period Army Orders have not been implemented, occurring only after the command of William Carr Beresford, in 1809. See Coelho, (1998).

<sup>4</sup> Army Order 50, 2nd October 1848

<sup>5</sup> Army Order 80, 26th December 1868 and Army Order 4 of 19th January 1869, as well as the Army Order 48 of 5th October 1885.



national style<sup>6</sup>) can be heavily associated with extra expenses in terms of uniforms and weapons. This is an appreciable source of military expenditure.

Bearing in mind the period referred to in this study, the first uniform plan in Portugal created in 1764 and the general uniform plan of 19<sup>th</sup> May 1806, in force between 1806 and 1820, were in themselves a reason to speak about the need of a fiscal-military state. Although the first specific references to a uniformity of garments in Portuguese armed forces appeared in 1740, the decrees of 1764 defined the first uniform plan for the Portuguese army, marked by the adoption of dark blue coatees.

When the general uniform plan of 19<sup>th</sup> May 1806 was implemented, it led to greater investment because of the inclusion of a new set of uniforms that comprised a summer uniform and a winter uniform, a working uniform, forage caps and other pieces that had not previously existed. At the same time, the new plan demanded the renewal of military equipment such as backpacks, gaiters and shoes. With this plan, the aim was to give the Portuguese army a consistent uniformisation and a modern image in comparison to other European armies.

The fact that this plan was in place during a fourteen-year period of revolution due to the Peninsular War and to the beginning of Liberal Revolution, and a time of soaring military expenditure because of the three French invasions in Portugal (1808, 1809, 1810–1811), meant that the army had to replenish and replace weapons, equipment, uniforms and horses, as well as recruit more soldiers.

The theatres of operation in which Portugal was involved caused a new reorganisation of the army under British leadership, which meant strong financing and organisation controlled by the British government with the agreement of the Portuguese Regency. This situation implied a massive supply of weapons to infantry, cavalry and artillery<sup>7</sup>, together with the supply of complete uniforms, textiles<sup>8</sup> and accessories, equipments and other logistical responsibilities. These actions brought innovations to the Portuguese army, for example:

<sup>6</sup> Army Order 25, 12th September 1892.

<sup>7</sup> These large-scale supplies are documented in the Public Records Office in London.

<sup>8</sup> During this period the Portuguese demand for Spanish wool for the textiles industry was considerable. The Portuguese market imported Spanish wool not only for national demand but also to re-export it to Great-Britain. See Moreira, 2007.

- Changes in the uniform plan of 1806 with the introduction of the stove-pipe shako and new uniform modifications, especially those of the Chasseurs Battalions, adopted after 1810; also the introduction of a new model of shako – a bell topped shako – for officers and sergeants, after 1815<sup>9</sup>.
- Regular supplying of textiles and materials for making the uniforms, including complete kits of full uniforms and gear.
- Massive supply of weapons such as infantry flintlock muskets, especially the India Pattern model (Brown Bess), Baker rifles and cavalry pistols, swords and sabres, pikes, ammunition boxes, some artillery and all necessary equipment to complete the troops equipments.
- Introduction of the Baker rifle (Chasseurs battalions and *Leal Legião Lusitana*, Lusitanian Loyal Legion), an expensive and specialised weapon conceived for the Sharpshooters of the Chasseurs battalions.
- Support for restarting autonomous capability for the production of weapons, ammunitions and military material.

The study of the different uniform plans and uniform legislation, decreed in Portuguese army Orders in the above-mentioned period, clearly identifies the need for supplementing army financing. If research in archive documentation proves the implementation of an obvious strategy to assign part of the budget to those supplementary needs, then one can say the evolution of uniformology in Portugal contributed to rise of a fiscal-military state in Portugal.

#### 4. Evidence of a Portuguese military state

This study presents a set of examples that are the result of research carried out by the author, showing that a Portuguese military state did in fact exist in the 1762–1816 period. This research involved the examination of qualitative and quantitative sources in the archive of *Tribunal de Contas* (Audit Court).

<sup>9</sup> The generalisation of bell-topped shakos occurred only after the Liberal Wars, in the Uniform Plan of 1834.

## 4.1. Comparing 1812-1816 to 1762-1776

After an exhaustive search of monthly records in the *Livro da Arrecadação da Conta que se acha tomada no Erário Régio pertencente ao Tesoureiro Geral dos Exércitos desde Janeiro de 1812 até Dezembro de 1816 em que foi tesoureiro Luís Torcato de Lemos e Figueiredo* (Book of Depository Account concerning the *Erário Régio* that belongs to the General Army's Treasurer from January 1812 to December 1816, period when Luís Torcato de Lemos e Figueiredo was the Treasurer) the compilation of military expenses gave the total value for this five-year period of 35,956.500 *contos* (the term *contos* is frequently used throughout the text: it means *contos de réis*, where *réis* was a monetary unit at the time: one *conto* corresponded to one million *réis*).

Table 1 *Account concerning the Erário Régio that belongs to the General Army's Treasurer from January 1812 to December 1816, period when Luís Torcato de Lemos e Figueiredo was Treasurer*

<i>Debit</i>	<i>Total (réis)</i>	<i>Credit</i>	<i>Total (réis)</i>
1.	29,818,468.933	6.	5,939,480.109
2.	5,197,657.995	7.	3,508,046.400
3.	129,575.888	8.	544,500.000
4.	475,342.922	9.	1,094,300.000
5.	335.485.000	10.	884,457.273
		11.	4,270,565.434
		12.	12,253,258.600
		13.	3,103,000.000
		14.	70,000.000
		15.	2,207,500.000
		16.	1,226,000.000
		17.	855,422.922
Total	35,956,530.738		35,956,530.738

Source: created by the author based on sources from Tribunal de Contas Archive, ER5358.

**Legend:**Income of *Tesoureiro Geral dos Exércitos*:

1. Income that Army's Treasurer Luís Torcato de Lemos received from *Real Erário*.
2. Income that Army's Treasurer Luís Torcato de Lemos received from British help.
3. Income that Army's Treasurer Luís Torcato de Lemos received from voluntary donations.
4. Promissory notes that the Army's Treasurer Luís Torcato de Lemos received from *Real Erário* and used to pay *soldos* and other expenses of the royal volunteers sent to Brazil.
5. Others.

Payments of *Tesoureiro Geral dos Exércitos*:

6. Payments to the treasurer Central troops, João Cordeiro Roda .
7. Payments to the interim treasurer on campaign.
8. Payments to the treasurer on campaign , José Maria Trinité.
9. Payments to the treasurer of Southern troops, António Manuel Fontes de Barros by Army's General Treasurer, Luis Torcato de Lemos e Figueiredo.
10. Payments to the treasurer of Southern troops, Francisco Fruillo Luz Xavier Vieira de Mello.
11. Payments to the treasurer of Northern troops, António Thomás de Almeida.
12. Payments to the Commissariat treasurer, José Ramos da Fonseca.
13. Payments to the treasurer of royal arsenal of the army, Nascimento Pereirinha.
14. Payments to the [ilegible] of the military hospitals of the Kingdom
15. Payments to the treasurer of the military hospital, António José Lopes.
16. Payments to the paymaster of the military works, Paulo José Baptista.
17. Others.

At the same time, it was possible to identify all the military income and expenditure of *Tesoureiro Geral dos Exércitos* between 1812 and 1816 and to list them by nature. In table 1 the values indicated in the "Debit" and "Credit" columns allow us to identify the nature of the flow, namely receipts that the army treasurer received from *Real Erário*, from British help and from voluntary donations, and also the different types of payments.

The data presented shows that a very significant sum of the military expenses, 83% of the total expenditure value, was paid by the *Erário Régio*. Table 2 gives details of the financing of military expenditure by the *Erário Régio* during that five year period.

Table 2 *Income that Army's Treasurer Luís Torcato de Lemos received from Real Erário from 1812 to 1816 (u.m.: réis)*

	1812	1813	1814	1815	1816	Total
January	450,000.000	500,000.000	540,000.000	426,000.000	384,000.000	2,300,000.000
February	443,000.000	516,000.000	540,000.000	500,000.000	390,000.000	2,389,000.000
March	468,000.000	520,000.000	560,000.000	552,000.000	430,000.000	2,530,000.000
April	500,000.000	560,000.000	540,000.000	500,000.000	400,000.000	2,500,000.000
May	520,000.000	555,000.000	560,000.000	450,000.000	400,765.400	2,485,765.400
June	467,300.000	560,000.000	540,000.000	530,000.000	480,000.000	2,577,300.000
July	510,000.000	600,000.000	520,000.000	460,000.000	340,000.000	2,430,000.000
August	500,920.000	600,000.000	520,000.000	501,512.500	360,000.000	2,482,432.500
September	500,000.000	600,000.000	600,000.000	580,000.000	371,000.000	2,651,000.000
October	500,000.000	560,000.000	520,000.000	470,000.000	387,870.185	2,437,870.185
November	516,000.000	600,000.000	500,000.000	480,605.000	357,048.212	2,453,653.212
December	510,000.000	580,000.000	560,000.000	500,000.000	431,447.636	2,581,447.636
Total	5,885,220.000	6,751,000.000	6,500,000.000	5,950,117.000	4,732,131.433	29,818,468.933

Source: created by the author based on sources from *Tribunal de Contas* Archive, ER5358.

Military expenditure of approximately 36.0 thousand *contos* in a period of only five years is clearly significant when compared to the total military expenditure of the *Erário Régio* between 1762 and 1777, which was 38.5 thousand *contos* (Tomaz, 1988). The short period from 1812 to 1816 corresponds to an average annual value that is 2.8 times higher than the total military expenditure from 1762 to 1777, which is a much greater period of fifteen years, rather than five.

Table 3 *Erário Régio's military expenditure from 1762 to 1776*

Year	Army and Navy Total (contos)	Expenditure's Total (%)	Income's Total (%)
1762	2,665.7	77.6%	71.2%
1763	2,496.6	54.0%	44.8%

→

<i>Year</i>	<i>Army and Navy Total (contos)</i>	<i>Expenditure's Total (%)</i>	<i>Income's Total (%)</i>
1764	2,818.4	56.3%	60.5%
1765	2,466.1	46.5%	51.9%
1766	2,752.2	45.1%	42.8%
1767	2,874.6	55.1%	56.7%
1768	3,039.2	52.9%	52.9%
1769	2,707.3	50.8%	50.7%
1770	2,602.5	48.1%	50.3%
1771	2,223.7	44.6%	45.3%
1772	2,232.1	44.8%	44.4%
1773	2,158.7	43.8%	43.9%
1774	2,430.2	46.8%	43.9%
1775	2,048.0	37.9%	39.0%
1776	3,010.2	49.8%	48.5%
Total	38,525.5	49.6%	49.2%

*Source:* created by the author based on Fernando Tomaz's figures (1988: 376-380).

On analysing the structure of the expenditure of the absolutist state, it is interesting to compare public expenditure with the expenditure of the army and navy. From the 1762-1766 figures given by Tomaz<sup>10</sup> we can see that military expenditure absorbed 49.6% of total state expenditure, a percentage that is clearly higher than that of public works, 3.5%. If such a huge share of state expenditure was given over to the Army in 1766, a stable year politically and military speaking, then the logical assumption would be that, in wartime periods, a Portuguese fiscal-military state would be even more evident.

According to Tomaz in the above-mentioned study<sup>11</sup>, in 1766, *soldos* took up 39.6% of the total military expenditure, a percentage which is

<sup>10</sup> The rest of the full percentage of expenditures corresponds to General Salaries wages (17,3%), Royal House (14,55%), interests (6,5%), general expenditures (4,55%) Overseas territories (4,0%) (Tomaz, 1988: 367).

<sup>11</sup> Curiously, Tomaz's figures, from 1762 to 1776, seem to show that the two highest Portuguese income figures were from customs houses and consulates (24.15%) and from Tobacco (17.00%), p. 362.

clearly greater than that of other categories, namely supplies of provisions (about 21.6%), lieutenantancy (14.5%) and the Guinea and India stores, responsible for 18.9% of military expenditure that year.

This case study of military expenditure stresses that the largest share of Portuguese military state expenditure, more than 80%, was defrayed by the *Erário Régio* during the period 1812 to 1816. This emphasises the need of the Portuguese fiscal state to raise money for military spending.

#### 4.2. *Payments from the Erário Régio to the Tesouraria Geral das Tropas for soldos falling due in 1763*

The research of a quantitative source for backpay to officers from 1763 referred to in point 4.1, confirmed the involvement of the *Erário Régio* in the covering of that debt.

Research on the documentation, entitled “*Livro de registo de débito e crédito dos dinheiros que a Tesouraria Geral das Tropas recebe no Real Erário para pagamentos dos remates de contas dos soldos vencidos pelos militares até 1763 sendo pagos desde 1763-1793*” (Book of records of debit and credit monies that the General Army’s Treasury receives from the *Erário Régio* for payments of current account *soldos* falling due until the end of July 1763)<sup>12</sup> has brought to light a great number of records of *soldos*, obtained from a collection in the archive of *Tribunal de Contas*. This gives us the interesting information that the *Tesouraria Geral das Tropas* received about 648 *contos* from the *Erário Régio*, set aside for payments to *Lopes Durão - Tesoureiro Geral das Tropas da Corte e Província da Extremadura* (Lopes Durão – Court and Province of Extremadura Troops General Treasurer) and when interim treasurers of *Tesouraria Geral* were Alexandre Pegado Mexia Roda e S. Martinho and Luiz Jozé de Mattos.

In actual figures, from 1763 to 1792 the *Tesouraria Geral das Tropas e Província da Estremadura* received from the *Real Erário* a sum of 283 *contos* for seven years, in the period when Lopes Durão was the General treasurer, and 365 *contos* for twenty-two years when Alexandre Pegado

<sup>12</sup> *Inventário o Fundo Geral do Erário Régio* that mentioned “The 9 July 1763 law decreed the end of the *Contadoria Geral e das Vedorias* and ordered accounts to be given directly to the *Erário*”, p.157.

Mexia Roda e S. Martinho and Luiz Jozé de Mattos, were the interim treasurers of the *Tesouraria Geral* .

Table 4 Soldos falling due in the end of July 1763 from the current account of Court and Province of Extremadura Troops general treasurer, Lopes Durão (u.m.: réis)

<i>Year</i>	<i>Total (reis)</i>
1763	8,531.466
1764	1,337.620
1765	129,644.644
1768	98,431.769
1769	25,026.540
1770	4,000.000
1771	15,913.413
Total	282,885.452

Source: created by the author based on sources from *Tribunal de Contas* Archive, ER5351.

Table 5 Soldos falling due in the end of July 1763 from the current account of Court and Province of Extremadura Troops interim treasurers, Alexandre Pegado Mexia Roda e S. Martinho. and Luiz Jozé de Mattos (u.m.: réis)

<i>Year</i>	<i>Total (reis)</i>	<i>Year</i>	<i>Total (reis)</i>
1771	6,664.026	1783	23,125.129
1772	9,243.154	1784	30,296.877
1774	35,210.184	1785	2,107.071
1775	1,177.783	1786	6,344.338
1776	8,249.999	1787	9,648.289
1777	12,179.347	1788	22,463.865
1778	17,764.221	1789	32,929.681
1779	5,667.567	1790	31,988.313
1780	23,150.737	1791	31,352.559
1781	37,040.240	1792	4,861.945
1782	13,900.347	Total	365,365.675

Source: created by the author based on sources from *Tribunal de Contas* Archive, ER5351.



In fact, this proof of fiscal-military state expenditure shows how payments were made *a posteriori*, and research is being carried out into the causes of slow integral payments of *soldos* to the end of July 1763, which falls in an unstable period of war.

It is interesting to make a comparison between the *soldos* falling due for payment in 1763, amounting to a value of 650 *contos*, and *soldos* in military expenditure in 1766, amounting to 1090 *contos*. Bearing in mind that the first sum only refers to *Tesouraria Geral das Tropas da Corte e Província da Estremadura*, it can be concluded that the total sum of military expenditure of *Tesouraria Geral das Tropas* was greater. This case constitutes ample proof that one aspect of basic military spending, the military salary, was financed by the *Erário Régio*, an institution of the fiscal state.

#### 4.3. British help during the Peninsular War

The Peninsular War, 1807–1814, was a period in Portuguese military history during which the Portuguese army was under British command and, consequently, it is not possible to disassociate it from the strong financial backing, essentially of the British Government. With the aim of defining how far that support influenced the financing of Portuguese military expenditure, a study was made of the records containing detailed data of days and months between 1809 and 1810 in *Livro mestre de registos dos dinheiros oferecidos pela Grã-Bretanha para sustentação de huma parte do Exército português* (Registry of monies offered by Great-Britain for the upkeep of a part of the Portuguese Army). This made it possible to identify the type of military expenditure that was defrayed by Great-Britain but also which regiments were supported by that help, which amounted to 555 *contos* in 1809 and 593 *contos* in 1810.

Table 6 *British help during the Peninsular War - Infantry Regiment expenses (u.m.: réis): 1809 and 1810*

	1809	1810	Total
Infantry Regiment n. 1 expenses	42,335.358	47,556.874	89,892.232
Infantry Regiment n. 2 expenses	39,011.406	75,005.809	114,017.215
Infantry Regiment n. 3 expenses	31,207.412	36,082.448	67,289.860

→

	<i>1809</i>	<i>1810</i>	<i>Total</i>
Infantry Regiment n. 4 expenses	49,567.969	66,744.803	116,312.772
Infantry Regiment n. 7 expenses	50,990.615	34,090.880	85,081.495
Infantry Regiment n. 10 expenses	32,371.171	33,489.416	65,860.587
Infantry Regiment n. 11 expenses	21,210.881	52,183.913	73,394.794
Infantry Regiment n. 13 expenses	36,554.519	33,746.106	70,300.625
Infantry Regiment n. 14 expenses	31,813.277	59,166.632	90,979.909
Infantry Regiment n. 15 expenses	27,888.275	35,733.244	63,621.519
Infantry Regiment n. 16 expenses	44,331.244	36,194.035	80,525.279
Infantry Regiment n. 19 expenses	59,448.223	36,650.029	96,098.252
<b>T O T A L</b>	<b>466,730.350</b>	<b>546,644.189</b>	<b>1,013,374.539</b>

*Source:* created by the author based on sources from *Tribunal de Contas* Archive. ER5407.

**Table 7** *British Help during the Peninsular War - Cavalry Regiment expenses (u.m.: réis): 1809 and 1810*

	<i>1809</i>	<i>1810</i>	<i>Total</i>
Cavalry Regiment n. 2 expenses	25,744.181	182.288	25,926.469
Cavalry Regiment n. 5 expenses	33,339.370	122.760	33,462.130
<b>TOTAL</b>	<b>59,083.551</b>	<b>305.048</b>	<b>59,388.599</b>

*Source:* created by the author based on sources from *Tribunal de Contas* Archive ER5407.

**Table 8** *British help during the Peninsular War - Chasseurs Battalion expenses (u.m.: réis): 1809 and 1810*

	<i>1809</i>	<i>1810</i>	<i>Total</i>
Chasseurs Battalion n. 1 expenses	4,094.815	16,389.762	20,484.577
Chasseurs Battalion n. 3 expenses	13,960.179	17,418.299	31,378.478
Chasseurs Battalion n. 4 expenses	11,373.820	12,468.763	23,842.583
<b>TOTAL</b>	<b>29,428.814</b>	<b>46,276.824</b>	<b>75,705.638</b>

*Source:* created by the author based on sources from *Tribunal de Contas* Archive, ER5407.

Table 9 *British help during the Peninsular War - Total expenses (u.m.: réis): 1809 and 1810*

	1809	1810	Total
Infantry	466,730.350	546,644.189	1,013,374.539
Cavalry	59,083.551	305.048	59,388.599
Chasseurs	29,428.814	46,276.825	75,705.638
Total	555,242.715	593,226.062	1,148,468.776

Source: created by the author based on sources from *Tribunal de Contas* Archive, ER5407.

It is interesting to note that military expenditure on pay, both of *soldos* and *prés* (wages of enlisted men, including sergeants, squad leaders, chiefs, private first-classes and soldiers) financed by Great-Britain amounted to 44.2% in 1809, 42.9% in 1810 and 42.9% in total of both those years. In monetary terms this amounts to 246 *contos* in 1809, 247 *contos* in 1810, and 493 *contos* in both years.

Table 10 *British help during the Peninsular War - Expenditure by type 1809 and 1810*

Description	1809		1810		Total	
	Réis	%	Réis	%	Réis	%
Transport intendency	25,817.960	4.6	18,072.320	3.0	43,890.280	3.8
Officials' Soldos	49,600.104	8.9	51,607.222	8.7	101,207.326	8.8
Prés	195,974.600	35.3	195,783.180	33	391,757.780	34.1
Provisions	172,596.060	31.3	158,134.350	26.7	330,730.410	28.8
Luggage beasts	7,020.380	1.3	419.750	0.1	7,440.130	0.6
Officials and regiments animals	3,101.800	0.6	11,114.500	1.9	14,216.300	1.2
Uniforms and shoes	2,920.755	0.5	4,229.147	0.7	7,149.902	0.6
Illumination and firewood	1,751.330	0.3	5,614.669	0.9	7,365.999	0.6
Conductions	1,554.710	0.3	387.100	0.1	1,941.810	0.2
Hospitals	41,697.920	7.5	84,108.424	14.2	125,806.344	11.0
Army's arsenal	53,207.097	9.6	63,724.275	10.7	116,931.372	10.2
Allowances		0.0	31.120	0.0	31.120	0.0
Total	555,242.716	100	593,226.057	100	1,148,468.773	100
Difference. Total expenditure by type - Total expenses (a)	1		-5		-3	

Source: created by the author. based on sources from *Tribunal de Contas* Archive, ER5407 (a) see table n. 9).

Bearing in mind that the British help received between 1812 and 1816 added up to 5,198 *contos*, giving an annual average of approximately 1,040 *contos*, it is a moot point whether the data obtained for 1809 and 1810 is the exact representation of the total amount of British support, or if it was deferred in time as occurred in the abovementioned payments of *soldos* paid out late in 1763 by the *Erário Régio*.

Table n° 11 *Income the army's treasurer Luís Torcato de Lemos e Figueiredo received from British help ( u.m.: réis ): 1812-1816*

	1812	1813	1814	1815	1816	Total
January	578,000.000	208,000.000				786,000.000
February	100,000.000	160,000.000				260,000.000
March	428,511.142	160,000.000				588,511.142
April	73,600.000	112,000.000				185,600.000
May	64,000.000	140,000.000		80,000.000		284,000.000
June	120,000.000	240,000.000				360,000.000
July	54,000.000	160,000.000		80,000.000		294,000.000
August	160,000.000	160,000.000			1,040,000.000	1,360,000.000
September	90,000.000	128,000.000				218,000.000
October		136,000.000	160,000.000			296,000.000
November	56,000.000	136,000.000	160,000.000			352,000.000
December	192,000.000		10,759.103	10,787.750		213,546.853
Total	1,916,111.142	1,740,000.000	330,759.103	170,787.750	1,040,000.000	5,197,657.995

Source: created by the author created by the author. based on sources from *Tribunal de Contas* Archive, ER5358.

British help during the Peninsular War portrays an interesting process of procuring the necessary financial resources in the international market, establishing military alliances with stronger powers; thus achieving not only military victory but also financial support.

#### 4.4. *Qualitative sources from letters evidencing the British support of Portuguese military expenditure during the Peninsular War*

Great Britain provided financial support during the Peninsular War directly through payments for human resources, their uniforms and re-

lated military costs as a way of ensuring a correct application of the money they made available.

René Chartrand's study (2001) clearly proves the extent of British support to the Anglo Portuguese army: "...the cost of 10,000, then 20,000 men was assumed by Britain from late 1808. (...) The British 'Portuguese Subsidy' had grown to nearly £1,000,000 in 1810. Wellington knew this was too little and (...) put the actual cost of a 30,000-man Portuguese army at over £1,600,000 – the equivalent of around one billion pounds Sterling today – a huge sum. And this was «exclusive of clothing and arms which are to be furnished by Great Britain» at further expense." (Chartrand, 20001: 15-16)

The author also underlines that "...Wellington's 30,000 man subsidy was approved in April 1810 and raised to £2,000,000 in 1811. It should not be forgotten here that Portugal had to somehow find the money for the balance of its forces, another 13,000 regulars in March 1810, plus garrison and auxiliary forces (...). Besides the Portuguese subsidy there was the expense of maintaining the British troops themselves, perhaps another £2,000,000 and other expenses such as those associated with the naval forces in that area" (Chartrand, 20001: 16).

Curiously, from the collection of the documents kindly sent by René Chartrand to the author of the present study, it is possible to identify the specific regiments and forces financed by Great Britain, for 16,050 men on the 30<sup>th</sup> September 1809 and the need of an extra supply of 3,950 men to reach the 20,000 men mentioned by René Chartrand.

“ABSTRACT from the Monthly Returns of the twelve Regiments of Portuguese Infantry and three Battalions of Chasseurs, paid by Great Britain; (...) [showing] their effective Strength on the 30th day of September 1809:

Regiment, No.		<i>Men</i>
1 – Lippe		1,414
2- Lagos		1,261
3 – Olivença		627
4- Freire		1,332
7- Setúbal		1,297
10- Lisboa		1,375
11- Penamacor		1,400
13- Peniche		1,230
14- Tavira		1,208

	15-Olivença	583	
	16- Vieyra Telles	1,378	
	19- Cascas	1,209	
		-----	
	Effective Strength of the 12 Regiments	14,314	Men
Three Battalions of Chasseurs			
Battalion, No.	1.	623	
	3.	569	
	4	544	
		-----	
		1,736	
		-----	
		16,050	Men

(...) The effective Portuguese Troops, paid by Great Britain, on the 30<sup>th</sup> September last, being as above 16,050 Men;  
 It falls short of 20,000 Men by 3,959

-----  
 20,000

(Sgned) John Bell.  
 Deputy Superintendent of British Aids<sup>13</sup>

Another document gives evidence for a Portuguese Subsidy of around £1,000,000, paid by the British:

“It is H. M’s intention to employ in Portugal a British Force of 30,000 effective men; and further to furnish in aid of Portugal the annual sum of £980,000; namely,  
 £ 600,000 for 20,000 Troops already in the British pay.  
 £ 250,000 for 10,000 additional Troops.  
 £ 130,000 for increased Pay of Portuguese Officers.

-----  
 £ 980,000

This great and generous effort cannot fail to confirm in the Portuguese Government and Nation the just sentiments of attachment to the British alliance, nor to inspire additional zeal and confidence in the maintenance of the security and independence of the Kingdom of Portugal. The sum granted by H.M. for increasing the Pay of the Officers of the Portuguese army, must be

<sup>13</sup> Extracts enclosed on the Dispatch from the Right Honourable J. C. Villiers to the Earl Bathurst; dated Lisbon, Dec. 16th, 1809; by courtesy of René Chartrand, who had acquired this documents at the Napoleonic Fair, London.

considered as the strongest testimony of a liberal regard for the interest and honour of H. M.'s ancient Ally.

The policy of this measure has been repeatedly urged in your dispatches, and I trust that H. M.'s Government will derive from its adoption those advantages which you have anticipated, and which it may justly be expected to produce. In return for these liberal supplies, H. M. is entitled to claim from the Portuguese Government every assistance which can be afforded to the British Commanders and troops, a faithful and judicious application of the funds granted for the support of so large a portion of the Portuguese Army, and every effort for the due maintenance of that part of the Portuguese Force which must be supplied from the exclusive resources of Portugal.

In addition to these arrangements, H. M. will expect to receive regular monthly accounts of the expenditure of the sums applicable to the Military charges of Portugal, under the orders issued to Lord Wellington, as well as accurate returns of the State and condition of the several corps receiving British pay; and you will be pleased to direct your particular attention to these objects.

It is also desirable the H. M. should be acquainted with the state and condition of that part of the Portuguese Forces, which is to be maintained from the revenues of Portugal: You will therefore transmit to me such information as you may be enabled to obtain on this point, as well as upon the general situation of the finances and resources of Portugal, and particularly of the funds applicable to the expenses of her Army"<sup>14</sup>

On 15 December 1809, the correspondence from Lord Liverpool to Lord Wellington also shows "that the Portuguese government will take the necessary measures for maintaining the remaining 15.000 men and their militia in a state efficient"<sup>15</sup>. The fact that the number reached only 13.000 men in the following year, as mentioned above, underlines the importance of the 30.000 men financed by English support in 1810.

This correspondence testifies that military expenditure during the Peninsular War was co-financed by Portuguese and British states, a key for the interpretation of the financial fiscal-military state mechanisms.

<sup>14</sup> Extracts of a Dispatch from the Marquis Wellesley to the Right Honourable J. C. Villiers; dated Downing Street, Jan. 5th, 1810, by courtesy of René Chartrand, who had acquired this document at the Napoleonic Fair, London.

<sup>15</sup> Lord Liverpool to Lord Wellington, Downing Street [London], 15 December 1809, the National Archive (Kew, UK), Foreign Office 63/98.

## 5. Some potential lines of research on signs of fiscal-military state

This chapter broadens the research opportunities on the Portuguese fiscal-military, providing some documentation sources existing in Portuguese archives.

The *Arquivo Histórico Militar* (Military Historic Archive) contains a large number of documents that can be studied to find out the connection between military expenditure and the fiscal state: military expenditure, payment of *soldos* to enlisted men and other documents from *Contadoria Geral da Guerra e Reino* and *Vedorias gerais de diversas províncias da Restauração à Secretaria de Estado dos Negócios Estrangeiros e da Guerra*; correspondence about supply management and military pay during the War of Spanish Succession; budgets, taxes and projects, payments for running military stores and provinces during the period when the *Secretaria dos Negócios Estrangeiros e da Guerra* was functioning.

The Council of War was the first Portuguese military archive and it was created by decree of 11<sup>th</sup> December 1640. It dealt with all important military issues of the country, from its creation until 1736, the year when the *Secretaria de Estado dos Negócios Estrangeiros e da Guerra* (State Secretariat for Foreign Affairs and War) was established. As an advisory and partially executive body, the Council of War's services were regulated by a permit of 22<sup>nd</sup> December 1643.

*Secretaria de Estado dos Negócios Estrangeiros e da Guerra*, created by the permit of 28<sup>th</sup> July 1736 and based in Paço da Ribeira, Lisbon, started to deal with all diplomatic and military issues. However, its archive was severely damaged by the earthquake of 1<sup>st</sup> November 1755. In the following year, a new archive was formed and the recovered documentation was included; nowadays, these documentary collections are found in the *Arquivo Histórico Militar*.

Also, in this same archive, an important contribution to the study of Portuguese military state issue lies in the exploration of documentation referring to correspondence from the periods of the *Guerra Fantástica* (1762–1763), Roussillon-Catalonia War (1793–1795), War of the Oranges (1801) and Peninsular War (1807–1814), of the governments of D. Luis da Cunha Manuel (1756–1776), Aires de Sá e Melo and Visconde de Vila Nova de Cerveira (1776–1801) and of D. Luis Pinto de Sousa and Duque de Lafões (1788–1801), as well as the commands of Count of Lippe (1762–1768) and Count of Goltz (1801–1807). Issues such as



army reorganisation, military salaries, military recruitment and specific taxes concerning the financing of the war effort are equally covered in the documents available in this archive.

Military legislation, specifically the legislation brought in to regulate financial issues and commissions formed to evaluate programmes and war material acquisition, also constitutes a key point for the research available in this archive. It contains additional documentation that will be conducive to a wider relative knowledge of army textiles purveyors, arsenals, goods, acquisition and replacement of weapons, uniforms and equipment, making it possible to outline the structure and typology of army suppliers. It should be stressed that this documentation refers to all the following: *Arsenal Real do Exército* (Royal Army Arsenal), *Fábrica de Pólvora de Barcarena* (Barcarena Gunpower Factory), *Real Fábrica de Pólvora de Alcântara* (Alcântara Royal Gunpower Factory), *Armazéns de Pólvora de Beirolas* (Beirolas Gunpower Stores), *Trens do Porto, Elvas, Valença, Almeida e Peniche* (Goods Stores in Porto, Elvas, Valença, Almeida and Peniche), *Real Fábrica de Cobertores* (Royal Blanket Factory) and *Armazéns Gerais do Exército* (General Army Stores), as well as the frequent references to factories in Covilhã and Portalegre. Those references indicate contractual connections to the army in order to supply textiles and other products needed to make uniforms, military clothing and other different military supplies.

Curiously enough, the investigation on the existence of commissions for the army's goods and services acquisitions, as well as documentation referring to proposals for opening lines of credit for this purpose would be important evidence of financing mechanisms of military expenditure.

Documents in the archive of *Tribunal de Contas* are an equally interesting source which show the liquidation and inspection process of military expenditure of *Tesouraria Geral das Tropas* and *Tesouraria Geral do Exército*. Any research carried out into this matter should be complemented by a study of permits, decrees, edicts, official letters and similar correspondence, namely *Livro de registo de decretos, portarias e provisões respeitante ao Exército* (Registry of decrees, edicts, and official letters concerning the Army), *Livro de registo de ofícios referentes a rebates de papel por moeda destinados a despesas do Exército expedidos pela Tesouraria Geral do Exército* (Registry of paper currency exchanged for military expenses by Army's General Treasury), *Livro de registo de ofícios, provisões e outras ordens da junta da direcção Geral dos provimentos de Boca para o Exército*

(Registry of professions, provisions and others from general Direction of Army's maintenance), *Livro de registo de officios dirigidos à Secretaria de Estado da Repartição de Guerra pela Tesouraria Geral do Exército* (Registry of notices addressed to State secretary of War Office by the Army General Treasury) and *Livro de registo de officios da Tesouraria Geral do Exército* (Registry of notices from the Army General Treasury).

Another crucial archival source is *Instituto dos Arquivos Nacionais Torre do Tombo* (Institute of National Archives/Torre do Tombo), since it houses a set of documents that are equally relevant for the research into a fiscal-military state. An in-depth search of its rich documentation is needed to make up for the lack of studies on Portuguese fiscal-military state in the 18<sup>th</sup> and mid-19<sup>th</sup> centuries. Such a study would certainly challenge and further the understanding of how the Portuguese fiscal-military state managed war resources and military expenditure.

## 6. Conclusion

This study tracks down evidence for the existence of a Portuguese fiscal-military state, as reflected in the evolution of military financial administration through the creation of institutions aimed at regulating and controlling military expenditure.

The Portuguese fiscal-military state is also manifested through the successive uniform plans and uniform legislation that were decreed in Portuguese Army Orders. These clearly identify the supplementary need to finance the army and the state's belief that the army's image was important in garnering the spirit of the nation.

The four case studies regarding military expenditure which were presented here stress not only the heavy support of the Portuguese fiscal state through the *Erário Régio*, but also the foreign financial support provided by Great-Britain during the Peninsular War, by both quantitative and qualitative sources.

The thesis of the existence of a Portuguese fiscal-military state in the 18<sup>th</sup> and mid-19<sup>th</sup> centuries can be further enhanced by studying military expenditure policy, production and market vectors, and its administration and cost. This can be achieved by means of deeper research of the rich, quite under explored, Portuguese archives dealing with issues concerning the fiscal-military state. Indeed, exploring those sources could provide a more precise understanding of the spending profile of the

Portuguese state, including the processes and impacts involved in raising money for war resources and military expenditure.

## Sources

Documents courtesy of René Chartrand, who had acquired these documents at the Napoleonic Fair, London Napoleonic Fair, London. *Extracts enclosed on the Dispatch from the Right Honourable J. C. Villiers to the Earl Bathurst; dated Lisbon, Dec. 16<sup>th</sup>, 1809 and Extracts of a Dispatch from the Marquis Wellesley to the Right Honourable J. C. Villiers; dated Downing Street, Jan. 5<sup>th</sup>, 1810.*

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# Joint-Stock Companies as the Sinews of War: the South Sea and Royal African Companies

*Helen Julia Paul*

## 1. Introduction

Modern distinctions between private and public enterprise and between trade and warfare do not easily apply to the great trading concerns of the early modern period.<sup>1</sup> Joint-stock companies had shareholders, but they fulfilled more than one role in serving the needs of mercantilist states. Such companies were founded to rationalise national debts which had largely been incurred to service the state war machine. By reducing the administration costs and interest charges borne by the State, debt restructuring improved the State's ability to bear higher debt burdens in the future. This, it was understood, was important for future campaigning. In return for this service, joint-stock companies such as the South Sea Company and the Royal African Company were granted monopolies of trade. In their case, the trade was in slaves.

A fiscal-military state aimed to strengthen its financial position in order to improve its ability to wage war. However, the European states themselves were not identical in structure and were changing over time. Therefore, fiscal-military states may have linked their fiscal changes and military ambitions together in different ways. Many continental states made their armies a priority whilst Britain favoured naval power. England's (later Britain's) Blue Water Strategy used the Royal Navy to safeguard trade and to block the ascendancy of other nations. This chapter focuses on the links between the Royal African and South Sea Compa-

<sup>1</sup> I would like to acknowledge the support of the Economic and Social Research Council (UK) for funding this research through an ESRC Studentship and also an ESRC Post-doctoral Fellowship. I would also like to thank conference participants at Session 69, IEHC 2006, Helsinki, for their comments.

nies and the Royal Navy. It argues that they formed part of an integrated system which combined public and private enterprise. Therefore, the assistance given by the state to the companies was part of the Blue Water Strategy. Both companies continued to be part of this system even after the South Sea Bubble, which otherwise created political upheaval. Profitability alone cannot be used to judge the companies' activities. They were part of an early modern fiscal-military state.

The fiscal-military state model liberates early Georgian England from being seen as merely the chaotic precursor to later successes. The South Sea and Royal African Companies' reputations have suffered from their inclusion in Whig histories. By considering both companies as purely private entities, their eventual demise has been read as a failure. However, by considering them as quasi-public, their contribution to the fiscal-military state can be shown. In addition, their quasi-public status ensured their survival within the context in which they operated.

This chapter will discuss the linkages and alliances between these joint-stock companies, the English state and the Royal Navy. The use of joint-stock companies to deal with Navy debts is well-known, as is the fact that naval convoys protected merchant fleets. However, the linkages between the service and the two slaving companies extended well beyond these considerations. Scarce resources were shared or protected from being commandeered and Royal African and South Sea Company men were regularly exempted from impressment. The two companies could gain supplies or dockyard space from the Navy and brought supplies out to Navy vessels in return. The Navy and Royal African Company also co-operated over the treatment of suspected pirates, including the task of putting them to trial. These activities show that the Royal Navy was not simply required to assist the two slaving companies as part of the Blue Water Strategy. It treated them more like partners in a joint endeavour, and as if they were part of the state apparatus. This stance did not alter even after the South Sea Bubble of 1720, implying that it had not lost its respect for both companies despite the public outcry about the crash.

## **2. The History of the Companies**

Joint-stock companies had shareholders and their shares could be traded publicly in Exchange Alley or coffee houses. However, they were not

analogous to the modern profit-maximising firm of economic theory, if that even exists in practice. They also undertook some sort of public role, including the provision of public goods, in order to hold a charter.<sup>2</sup> The major joint-stock companies were also involved in national finance. They persuaded holders of government debt to surrender it in exchange for company shares. This simplified the administration of the debt and lowered the interest rate as the government paid a management fee to the company. The shareholders would have a claim on this flow of income, but also there was the possibility of reaping gains from the company's other activities, such as slave trading. Thus such companies were closely linked to the state from the first.

Such linkages were not sufficient to make the companies fully part of the state apparatus. However, the mercantilist policies which states followed at this period shaped the development of the companies. The prospect of gaining future colonies was part of the reason for the state to grant trading monopolies. A well-armed monopolist would be better able to fight off opponents (literally) than a large number of small players. It might also receive state support, including military support, if needs be. Indeed, the East India Company's activities eventually led to the British gaining India as a colony. The South Sea Company appeared at a time when the Spanish economy had been weak for many years. If the situation continued, then the Spanish empire might disintegrate and become available to outsiders. A company with trading links and bases already in Spanish America would be well placed to trade without Spanish intervention and possibly grab territory.

Even if the time was not right for expansionist activities in a particular region, it was important to maintain that option for the future. The Royal African Company was certainly aware that if it moved out of one of its African strongholds, another European company would move in. Once a fort was lost, it would be extremely expensive, if not impossible, to regain. The land was rented from the local African powers such as the Fantees. The hinterland was not colonised by Europeans. Other European nations also had forts dotted along the coast, in close proximity. Maps of the coast showed national flags marking the locations.<sup>3</sup> The

<sup>2</sup> A public good is one which is non-excludable and non-rival. It is often, but not always, provided by the state. An example would be national defence.

<sup>3</sup> See for instance, *A Draught of the Coast of Africa from the Streights Mouth to Cape Bon Esperance*, PRO MPG 1/221.

English flags were interspersed with those of other nations such as the French. Therefore, the surrounding African groups were well aware of different European groups and could have trading relations with several of them. It would be easy enough for an empty fort to be rented out to someone else.

The first British attempt to trade in slaves to Africa was under the aegis of the Royal Adventurers who were formed in 1660. They were the precursor to the Royal African Company. It gained its monopoly to trade along the African coast in 1672 (Davies, 1970: 41-44). It built up armed forts at various points along the coast. It had armed ships, soldiers and guns. Pirates were numerous and widespread. There are various letters in Admiralty records from the governors of various colonial outposts such as Jamaica and Virginia detailing sightings of pirate ships.<sup>4</sup> Pirates appeared regularly off the British coasts. They were found around the Mediterranean and off the African coasts as well as in the Caribbean. Merchant vessels might be attacked by foreign powers in wartime. Economic warfare had been used by Louis XIV by his incitement of private ships to attack foreign merchant vessels (Bromley, 1987: 279).

The Royal Navy could not provide much convoy assistance in wartime. It was being used as a troop transport and having to fight enemy fleets. The Navy's need for manpower increased and so did its press-ganging activities. Merchant ships would lose their crews to provide sailors for the war effort. The Royal African Company was badly hit by the loss of men and convoy protection during the War of the Spanish Succession (1702-1713). It had already lost its monopoly status in 1698 due to pressure exerted by other English independent slavers (Palmer, 1981: 5). They were able to use the safe anchorages and protection afforded by the company's forts. In return, private traders were meant to pay dues to the company for maintenance of its infrastructure. This obligation was revoked in 1712 (Davies, 1970: 100-1). The Royal African Company eventually received subsidies for its forts from the government from 1730 and ceased trading in 1752 (Palmer, 1981: 6). The subsidies can be seen as compensation for a necessary protection of English trade. Furthermore, the companies protected English options to expand their colonies in the future.

K. G. Davies's book on the Royal African Company ended abruptly at 1713 and the remaining decades of the company's trade was dismissed

<sup>4</sup> See, for instance, PRO ADM1.3814 and ADM1.3815.



by him as being “on the whole a record of decay and inactivity”. He did point out that there were periods of activity such as the years 1713 to 1715 and 1720 and 1724 (Davies, 1970: 344). It is notable that these periods are directly before and after the South Sea Bubble of 1720. After the War of the Spanish Succession, the Royal African Company had entered into business with the South Sea Company. The *Asiento* contract to trade in slaves to Spanish America was granted to Queen Anne as part of the Treaty of Utrecht. It was then transferred to the South Sea Company. The contract specified the shipment of 4,800 *piezas de Indias* per annum.<sup>5</sup> No previous Asientist had ever shipped that number consistently. Therefore, it is likely that the figure was a guideline or maximum (Donnan, 1931: 17–20). The contract also provided for the shipment of some goods other than slaves to Spanish-held areas. In addition, there were plenty of opportunities for the company to smuggle goods in. The Spanish colonies were starved of manufactured goods, for example. Minor conflicts between England and Spain in 1718 and in 1726 temporarily halted the trade. The South Sea Company continued to bring slaves into Spanish America until 1739 and the term of the *Asiento* expired in 1750. However, the company is known primarily for giving its name to the South Sea Bubble of 1720.

The South Sea Bubble saw the sharp rise in the shares of the South Sea Company and of the stock market as a whole, followed by a sudden fall. This whole episode has been traditionally seen as a morality tale and various authors had questioned whether the company was interested in the slave trade at all. Some believed that it was merely fraudulent (e.g. Dickson, 1976). Of the limited number of studies on the slaving side of the company, Palmer’s is the most comprehensive. His work focused largely on the slave experience and also attempted to consider its profitability *ex post*.<sup>6</sup> Difficulties with missing data meant that he was unable to do so conclusively. In any case, cliometric analyses of profitability are of limited use in judging the activities of a quasi-public enterprise. Palmer noted that the *Asiento* was useful to the British state as it was important in building up and maintaining expertise in the Spanish American markets (Palmer, 1981: 159). How-

<sup>5</sup> A *pieza de India* was a measurement of a slave. One healthy adult male corresponded to one *pieza de India*. Other individuals would have counted as a fraction of a *pieza*.

<sup>6</sup> Difficulties with missing data meant that he was unable to do so conclusively.

ever, it was not simply the profits from the slave trade which would have interested investors, but also its role as a smuggler and potential coloniser. It was not merely a private company, but part of the English/British fiscal-military state.

### 3. The Fiscal-Military State

Brewer's fiscal-military state has become the dominant paradigm for understanding a range of issues in the early modern era. Brewer considered that such a state combined attempts to strengthen fiscal power with a military agenda. This was set within a context of inter-state rivalries based on mercantilist principles (Brewer, 1994). This idea forced a revision of traditional Whig histories of the development of European economies. Previously, attention had been drawn to the Industrial Revolution and the rise of the professional specialist bureaucrat. Harling and Mandler wrote that Brewer's work "casts doubt on the implicit 'modernization' model that hitches together economic growth, government growth, bureaucracy, professionalism, and *embourgeoisement*" (Harling and Mandler, 1993: 44-5).

The "modernisation" or Whig model is often underpinned by a Darwinistic process of selection which removes inefficient structures. Therefore, those features of the Georgian state which did not persist were assumed to be inefficient by definition. However, there are various difficulties with this idea. Firstly, there is the definition of "inefficiency". The assumption is that some goal is not being reached or could be attained with fewer inputs. In modern economic theory, this goal is usually profit-maximisation. However, the fiscal-military state was interested in its own survival and this was one of the goals for any component of that state. Multiple goals mean that efficiency is not so easily measured or attained. There would be trade-offs in pursuing competing goals such as private profit versus military success. For example, Jones showed that there were instances of the Dutch mercantile and financial community forcing Dutch governments into appeasement and trade with the enemy (Jones, 1988: 39-40). At other times, these goals would not be in competition as success in war gained trading privileges, such as the *Asiento* granted to the South Sea Company.

The deterministic model of progress with competition provoking a natural selection process has been criticised by biologists themselves.

The concept of an overall (and basically progressive) order arising naturally as a consequence of unfettered struggle among individuals forms the centerpiece both of the “free market” economics generally favored in western Europe and America from the late eighteenth century to our own times, and of Darwin’s own central conviction [...] that biotic competition in “crowded” ecosystems operates as the primary motor of trending in the history of life (Gould, 2000:1).

Gould summarised the two major flaws in this approach. Firstly, the most basic models of competition would imply that one species is made extinct due to the success of the other “in a geological instant”. This is not seen in practice. Secondly, there is little persuasive evidence of this competitive interaction (Gould, 2000: 1-2).

With regard to economic theory or economic history, it can be said that different forms of institution did co-exist. In addition, they did not necessarily directly compete against each other on all fronts. Competition for scarce resources did occur. Merchants and mercantile companies needed financial backing, ships, supplies and sailors. However, there was some degree of co-operation towards a shared goal. The survival of an individual trading company would mean little if the state itself were lost. Thus, there is some evidence of the Royal African Company taking care of independent British slave traders who were nominally in direct competition with it. They were afforded the use of Royal African Company facilities for which the government paid subsidies.

England (later Britain) survived as an independent state, but did so whilst employing a variety of trading strategies. The East India Company was a remarkably successful joint-stock company with its own soldiery. The Virginia Company was not. It was replaced by small businesses comprising of one or two families (Olson, 1983: 366). The Royal African Company was granted a monopoly of trade which was subsequently withdrawn. It continued to receive government patronage and subsidy and survived for decades after the withdrawal of the monopoly. Such differences appear contemporaneously. Using the ultimate annexation of India by the British as a sign that the East India Company was the “efficient” model and the others were inefficient is incorrect. It still bases the judgement of whether states or companies were “successful” or “efficient” upon much later events. The time lag allows for other forces to come into play in the intervening decades. Decision-makers within the Exchange Alley would lack this magical hindsight and would

be aware only that different responses were available to tackle the issues of competition in different regions.

The notion of “unfettered” competition was not really plausible for the Georgian state. Traders were part of a world in which state-sponsored piracy and war would interrupt trade. Trading companies’ existence was threatened if they lacked powerful patronage. These problems have usually been seen as part of the bad old days in the Whig model. However, it may be that the later ideals of free trade and competition are illusory. Britain’s, and later the United States’, commitment to free trade only occurred when it was clear that they would win the competition. Without a hegemony, state intervention is perhaps more explicit. The fiscal-military state idea is making explicit the anxiety regarding national survival which was present in a more evenly matched set of states. Competition between European states was not the end of the story either. Groups outside of Europe were also involved. African leaders held sway over their own domains on the slaving coast of Africa. North African corsairs were able to dictate terms of surrender of European captives and to chase away European invaders. British bases in the Mediterranean were dependent on North African supplies (Colley, 2002: 70-76). Indigenous North Americans were able to wipe out European settlements (Colley, 2002: 144). Subrahmanyam noted that in 1617, the courtier Sir Thomas Roe was bemoaning the fact that the Mughal ruler, Jahangir, was not giving the East India Company and its monarch their due. He likened the Mughals to the Ottomans in this regard (Subrahmanyam, 2004: 71). European strategies for success did not necessarily lead to successful outcomes given the multiplicity of potential opponents.

A part of any national strategy is a consideration of when to intervene in the marketplace and to interrupt competition. In an environment where resources were not merely scarce but tight, and with high fixed costs, government intervention made a real difference. Its existence should not be seen as a sign of the inherent weakness of the company it was helping. It was not naïve protectionism. The subsidisation of the Royal African Company has been written off as merely shoring up a dying entity (Davies, 1970). Within the context of unfettered competition, this subsidisation would seem to be stalling the inevitable and removing the driver for the eventual Whig progress which competition guarantees. However, the Royal African Company was not purely a private entity. It was providing a public good – a set of strongholds and local knowledge on the African coast which could be used by other British traders and by

the Royal Navy. It was also assisting the South Sea Company which was itself aimed at breaching Spanish power in the Americas. The eventual demise of the companies does not mean that they were inefficient (by whatever benchmark) throughout their trading life. Whilst they were in operation, the companies fitted well within the fiscal-military state.

#### **4. Blue Water Strategy**

The Royal Navy was at the heart of the Blue Water strategy which aimed to use naval strength to promote Britain's trading interests. Brewer outlined the mercantilist connection between the two. "Under Charles II, as under the Commonwealth and Protectorate, the 'blue water' strategy became official policy. Commercial wealth and naval power were seen as mutually sustaining" (Brewer, 1994: 168). This approach suited a nation with a strong maritime tradition. Its continental rivals were forced to rely on their land forces for defence whilst Britain benefited from the natural moat of the English Channel. High fixed costs tended to focus a state's attentions on either army or navy. Hatton characterised the attitude of Louis XIV as preferring to "see the nation's hard-pressed resources go to his armies rather than to a navy which had clearly been eclipsed by its foes" (Hatton, 1978: 114). The converse was true for England:

England's strength rested on her commerce, which included the profits of colonies and shipping as well as production at home. [...] in contrast to her continental neighbours, England emphasized the use of her Navy, rather than her army, during the period between 1648 and 1714 when she was developing into a great power (Hattendorf, 1993: 192).

Financial power and flexibility became essential as wars became more expensive. Brewer argued that "most eighteenth-century wars ended when the protagonists neared financial exhaustion. The first power to achieve fiscal reconstruction – to pay off or reduce its former obligations – would probably wind up holding an advantage when hostilities began anew" (Brewer, 1994: 122). However, financial obligations did not disappear in peacetime. Financial innovations acted as a ratchet effect on military and naval expenditure. "The Government's financial capability allowed the long-term deployment of ships and semi-permanent retention of men" (Baugh, 1977: 160). Long sea journeys and a need to stay

prepared for war led to high investments in capital goods such as ships and dockyards. These high fixed costs had to be borne in peacetime. There was only so far that the navy could retrench even on labour costs. Disabled or pensionable men had to be provided for and many sea-officers were kept on half-pay to maintain the fighting capacity of the nation. The service was habitually in debt, but this was not restrictive to its activities. When its credit was stretched too much, Parliament came to its rescue (Baugh, 1977: 455-6). When the South Sea Company was granted its royal charter, it was on the condition that it took over the management of part of the National Debt. It converted more government debt between 1715 and 1719 (Sperling, 1962: 25). Much of this debt had originally been incurred as naval expenditure.

In theory, the Blue Water Strategy allowed the Royal Navy to promote trade, and commerce to pay for the Navy. Clearly, there were sometimes differences between policy and practice (Jones, 1988: 36). Rodger argued that:

Subsequent historians have constructed a strategic tradition, the “Blue-Water policy”, to which the Tories were supposedly attached, but much of this is a modern rationalization of what had more to do with atavistic prejudice than rational calculation, and was to a large extent common ground among politicians of all parties (Rodger, 2006:178).

It is possible to soften the assumption that there was a winning formula of naval power and trade. Politicians and others were sometimes overoptimistic about trade paying for the Navy. This does not undermine the importance of the Navy to the trading companies, or vice versa. The Navy and the sections of the economy which supported it, were given precedence much of the time even if they underwent setbacks. It is not necessarily great successes which mark out the importance of the Blue Water approach. It is the fact that the state itself survived, along with many of its trading opportunities. In the case of the slave trade, the interactions between the Royal Navy and the trading companies went beyond grudging assistance. They seemed to work closely together at all levels, as shall be shown below. In this case at least, the Blue Water strategy appears to have been diligently applied.

## 5. The Sinews of War

The two companies had both public and private roles, and benefited from assistance from the Royal Navy. Signals of this close relationship would have encouraged investors. Traders without naval backing might not complete or even start their voyages. Therefore, the companies' public relationship with the elite and the Admiralty was clearly displayed. One way of achieving this was to hold meetings in coffee houses situated near to Exchange Alley. This was a commonplace occurrence, even though the companies both had impressive headquarters nearby. For instance, in 1715 Royal African representatives met the Earl of Orford at Tom's coffee house.<sup>7</sup> Orford was First Lord at this time (Baugh, 1977: 493). The willingness of Admiralty figures to assist the companies was partly due to an understanding that the companies were assisting the Royal Navy itself, and not just the state or the economy as a whole. There were various linkages between the three institutions at different levels of importance. There were the financial activities of debt restructuring and the important work of convoys. However, there were also less obvious ways in which the companies and the Navy rubbed along together. They transported items and news for one another, and joined together to perform duties which in later ages were carried out by embassies or colonial authorities.

The Admiralty was only too aware of the costs of keeping the Royal Navy supplied, let alone at fighting strength. It relied on the financial sector to help make naval debt affordable. The Dutch Republic had already shown that by annuity financing it could borrow very cheaply (Carruthers, 1996: 82). Brewer argued that previously "only the Dutch, with their sophisticated banking system, were able to borrow heavily without insolvency" (Brewer, 1994: 24). The English/British joint-stock companies were formed along the same lines. The government benefited from a simplified system and the opportunity to pay back debts when interest rates were low. The South Sea Company was itself formed in order to deal specifically with naval debts incurred largely during the War of the Spanish Succession.

Consolidation of large amounts of debt was not the only service performed by the financial sector. The Royal Navy had difficulties making

<sup>7</sup> PRO T70.89, 15 Sept. 1715.

payments in cash to its men and suppliers. They were frequently issued with paper debt instruments such as tickets for wages. These papers could be sold on or used to pay for goods directly, at a discount. They could then be presented at a later date by the new holder. Payments were made when the accounts had been settled for each ship (Baugh, 1977: 159-160). Many of the Navy's suppliers operated on a small scale and could not afford to maintain large unpaid bills over a long period. The Navy was also practically a monopsonist. As the largest permanent customer of many suppliers it held considerable power over them (Pool, 1966: 66). Therefore, it could require its suppliers to accept paper tickets rather than cash payment. Men might be transferred from ship to ship before accounts could be drawn up. They were issued with pay tickets, not cash. These tickets could be accepted by traders or bought at a discount for cash by brokers (Baugh, 1977: 159-160). The concentration of discounted tickets in the hands of individuals allowed private fortunes to be made. Through these individuals there were links to the wider financial world. Sir Harcourt Masters was a notable figure in the practise of assigning prizes (at a discount) and was also a director of the South Sea Company. Bromley noted that, "It is clear that many naval officers employed influential financiers" (Bromley, 1987: 474-7). The financial sector itself owed much of its development to the Royal Navy and maritime trade. Marine insurance brokers frequented Lloyd's coffee house near Exchange Alley. The circulation of various types of ticket created a type of paper currency which facilitated day to day transactions. The Navy's small suppliers and sailors could not have lasted long without funds of some sort, to the ultimate detriment of the Navy and the wider economy.

Despite the close links between the mercantile and financial interests and the Navy, there were still potential sources of conflict between them. In 1710, the protectionist lobby wanted the Navy to buy its naval stores from the North American colonies rather than Sweden. However, the Navy chose to buy cheaply from its traditional suppliers rather than bow to pressure (Pool, 1966: 70-1). There was also the incidence of direct competition between the Navy and the merchant marine. Certain key items, such as tall trees for masts, were in short supply and a source of concern to the Navy. It managed to have restrictions placed on the size of the East India Company fleet to ensure that it did not starve the Navy of supplies (Pool, 1966: 89). However, the most notable area of competition was for labour. Good sailors and shipwrights were highly



valued and the Navy required them in considerable numbers. If it could not hire them it impressed them, sometimes straight off the decks of merchant ships. This was potentially the most damaging attack upon the mercantile sector as loss of a ship's crew could cancel the voyage. Fear of impressment on the way into port meant that some men abandoned ship when they neared England. The ship might founder as a result.

Even though supplies, skilled workmen and dockyard space were at a premium, the Admiralty gave the two slaving companies favourable treatment. The companies were allowed access to a range of important resources. The South Sea Company asked that its ship, the *Royal George*, be carried into the Royal Dock at Woolwich. As victuals were hard to get at short notice it also asked for 4,096 pieces of beef and 2,048 pieces of pork. When the *Hannibal* was sent into naval docks, the Royal African Company asked for a few workmen and materials as well.<sup>8</sup> The Company was also able to ask for masts, even though they too were in short supply at times. For instance, in 1732 the South Sea annual ship was in danger of needing its mast replaced so the company wanted a direction sent to Sir Jacob Acworth that he should supply it if necessary. In the Victualling Board's summary of a decade of its accounts up to 1721, both companies' names appear. They are under the heading of "Extraordinary services performed foreign to that of victualling his Majesty's navy". Provisions issued for the Royal African Company come to 1,172 pounds sterling and those for the South Sea Company were valued at 50 *l*. They are the only two private companies mentioned. The sums compare with 49 *l*. to maintain the garrison at Sheerness, 396 *l*. for German soldiers on transport ships and 1,605 *l*. for officers and men of the Ordnance (Baugh, 1977: 471-2). Whilst all these sums were petty cash compared to the victualling of expeditions, the fact that the Navy was prepared to victual private companies at all is notable. Also, it did not seem to extend this privilege to other companies, such as the East India Company, or to small independent traders.<sup>9</sup> This may be because of the perceived importance of the companies' work and the lure of Spanish gold.

In return, Royal African and South Sea Company ships carried provisions and orders for the Royal Navy. For example, in 1721, the Royal

<sup>8</sup> PRO ADM1.3810.

<sup>9</sup> These favours may be because of the perceived importance of the footholds in Africa and Spanish America. It may be that the East India Company was seen as requiring less assistance.

African Company sent a letter to the Admiralty informing them that the company's ship, *Carlton*, was ready to carry the King's Provisions for the Men of War on the Coast of Africa.<sup>10</sup> The Admiralty was also informed that any orders for the sea-officers could be sent by the *Carlton*.<sup>11</sup> This was a standard offer made by the two companies. They would also offer to pick up supplies for the Navy whilst en route. The Royal African ship, *King Solomon*, stopped off at Madeira for wine for *HMS Swallow* and *HMS Weymouth* which were off the coast of Benin. The *King Solomon* was already loaded with 60 tons of provisions for naval use.<sup>12</sup>

The threat to merchant shipping of press-ganging did not seem to affect the two slaving companies unduly. They were routinely given protections for their men. Entire crews were protected from press-ganging as were watermen at the South Sea Company dock at Deptford. However, the companies were sensible of the Navy's difficulties in gaining labour. The South Sea Company assured the Admiralty that they had reduced the number of men on their Greenland-bound ships as much as possible.<sup>13</sup> This would be in order to allow the remaining labour force to be taken up by the Navy. From time to time, even the companies came under the same predations that smaller merchants suffered from. In 1726, the South Sea Company found that Scottish sailors, chosen for their whaling expertise, had been pressed. It had to send a flurry of letters to get them back again.<sup>14</sup> However, such lapses aside, it seems clear that both companies could protect their labour force from the press-gangs. This was an important consideration and a highly visible sign of favour. The Royal Navy was willing to allow entire ships' companies to be exempted from naval service and found its men elsewhere, presumably from other merchant vessels.

The Admiralty could justify press-ganging as a necessary evil because of the Navy's role in protecting mercantile interests or wartime emergencies. The need to defend trade had prompted the passing of the Cruisers and Convoys Act of 1708.<sup>15</sup> Previously, the Royal Navy had sometimes shown priority to its other commitments such as transport-

<sup>10</sup> PRO ADM1.3810, 18 Apr. 1732.

<sup>11</sup> PRO ADM1.3810, Aug. 25 1721.

<sup>12</sup> PRO ADM1.3810.

<sup>13</sup> PRO ADM1.3810.

<sup>14</sup> PRO ADM1.3810.

<sup>15</sup> 6 Anne c. 65.

ing troops. For example, this was the case in the 1690s (Jones, 1988: 38). However, as has been argued above, the threats to trade from piracy or economic warfare were considerable. In 1739, merchants asked for convoys due to the war with Spain and wished that more small vessels could be built for the purpose (Baugh, 1977: 216). 15 out of 42 petitions made by Tobacco merchants to the Treasury, the Admiralty or the Board of Trade in the period 1689 to 1715 concerned the provision of convoys (Olson, 1983: 370). The ideal was that all mercantile shipping could be protected in this way. This was not possible in practice. Indeed, even where convoys were provided there were still problems. "Vessels carrying highly perishable cargoes could not afford to wait for a convoy to assemble. Nor were traders always eager to arrive at a foreign port at the same time as a convoy of their competitors, since this naturally lowered the price their cargo could command" (Colley, 2002: 51).

The Royal African and South Sea Companies seemed to have few problems with their convoy protection. A letter from African House to the Admiralty in 1733 began with the words, "it being about this time of the Year that the Right Honourable the Lords of the Admiralty are pleased to order a Man of War for the Coast of Africa".<sup>16</sup> In one letter of 1728, the Royal African Company thanked the Admiralty for the speediness with which they supplied a frigate for the protection of the African coast.<sup>17</sup> The Royal Navy seemed to be able to co-operate with the companies in order to co-ordinate sailings. The ships provided did not simply patrol the coast, they shadowed the company ships so as to provide a close escort. In addition, the Royal Navy ships also transported the bullion which the companies wished to remit back to London. This was usually noted down as "treasure". For example, the Royal African Company sent gold aboard the Folkestone Man of War in 1715.<sup>18</sup> In 1726, The South Sea Company put its gold on *HMS Falkland*. This was a commonplace method of transporting gold for the companies.<sup>19</sup> This is above and beyond simply protecting vessels from pirates and indicates a closer relationship between the navy and the companies than simply protection of trade.

<sup>16</sup> PRO ADM1.3810, 23 Aug. 1733.

<sup>17</sup> PRO ADM1.3810, 6 Jun. 1728.

<sup>18</sup> PRO T70.89, 28 Jun. 1715 and 5 Jul. 1715.

<sup>19</sup> See PRO ADM1.3810.

The reciprocal nature of this relationship can be seen from the procedure for trying pirates. One of the Royal Navy's functions was to catch pirates, and they would occasionally catch them off the coast of Africa. Royal Navy commanders were ordered to call in at various Royal African Company settlements and to speak to the factors there to gain local information. If pirates were caught near to British colonial outposts, then the local authorities could try them. However, there were no British colonies off the African coasts and the Royal African forts were the nearest substitute. The forts were used as prisons for the pirates. Captain Ogle of *HMS Swallow* caught Roberts "the Great Pirate". Ogle captured three pirate vessels and most of their crews. Instead of holding the men under guard on their own ships, which might have been risky, he sent them to Cape Coast Castle.<sup>20</sup> Cape Coast Castle was fortified and the Royal African Company was well versed in how to keep prisoners, as they used the fort as their major slave depot.

Europeans did not own African land as colonies, but were under the authority of indigenous groups (Thomas, 1997: 183-4). Therefore, there was no colonial government. Cape Coast Castle, the Royal African Company's main fort, was on land which was under the jurisdiction of the King of Whydah. The kingship of such individuals was not subordinate to the power of European settlers. For instance, the Royal African Company was unable to load the *Windsor* fully due to a war between the Kings of Whydah and Ardah.<sup>21</sup> However, such kingdoms were land-based and not concerned with the maritime laws developed in Europe. Therefore, they claimed no jurisdiction over pirates. It would have been possible, but inefficient; to take condemned individuals back to British soil. The commanders of Royal Navy ships could carry out various legal functions, in lieu of a land-based legal system. This would have meant that they would have been the judge of suspected pirates whom they had caught. This was not ideal. However, the state extended legal privileges to members of the Royal African Company and used their land-based officials alongside its own sea-officers. The Royal African Company was regularly asked to send lists of men who could form a committee for trying pirates.

<sup>20</sup> PRO ADM1.3810, 18 Jun. 1722.

<sup>21</sup> PRO T70.38, 3 November 1714. Whydah (Whidah) and Ardah are along the coastline of modern day Ghana and Benin. They were primary areas for the slave trade between Africans and Europeans.

This list was not restricted to the major location of Cape Coast Castle or to the main governors of each settlement. Several Royal African settlements were listed with the chief merchants and factors at each.<sup>22</sup> One list mentions a chaplain as well.<sup>23</sup> In contrast, the Royal Navy only put forward the names of the commanders of each naval vessel. For example, in 1733, the Royal African Company listed twelve individuals to try pirates, They were to work alongside Captain Timothy Bridge, *HMS Anthelope*, and Captain Richard Herbert, *HMS Diamond*.<sup>24</sup> The willingness of the Royal Navy to allow landsmen, who held no colonial government position, to try pirates alongside their own sea-officers is notable. In addition, the landsmen make up the majority of names when the Navy could have insisted on other sea-officers being added to the list. Of course, not all the individuals concerned would have been part of each trial, as they were based at different locations. However, the British state was seemingly happy to allow legal power to be wielded by individuals chosen by the Royal African Company and to allow the minor officials at the minor trading posts to be included. This is understandable when it is remembered that the Royal African Company acted as a guardian of British slavers on the African coast. Private traders were able to shelter in the Royal African Company's fortifications and benefit from advice and assistance given by its officials. Although these private traders were rivals for purchasing slaves, they were also part of the British plans to maintain a hold in Africa. The subsidisation of fortifications was partly for the joint-stock companies and partly for private British trade. The quasi-military status of the companies was sufficiently important for the Board of Ordnance to enquire how many arms the Royal African Company had contracted for.<sup>25</sup>

## 6. Conclusion

The mercantilist nature of the early modern world trading system necessitated the use of military or naval force to ensure trading rights and protect trade. In England (later Britain's) case this manifested itself in

<sup>22</sup> PRO ADM1.3810.

<sup>23</sup> PRO ADM1.3815.

<sup>24</sup> PRO ADM1.3810, 31 Jan. 1733/4.

<sup>25</sup> PRO T70.89, 10 Nov. 1715.

the Blue Water Strategy which relied upon the Royal Navy to defend the country and promote its trading interests. The high fixed costs involved could be met because of the strength of the financial sector. Navy debts were part of the National Debt consolidated when the South Sea Company was established. However, these activities do not, in themselves, imply that the Navy and joint-stock companies worked well together towards a shared goal. Qualitative evidence shows that the Royal Navy and the slaving companies co-operated closely in a number of ways. At a basic level, the sharing of men and supplies was significant especially given the pressure on resources. The South Sea and Royal African Companies were even allowed access to Royal Dockyards and to put their gold shipments on naval vessels. The slaving companies' status as quasi-public enterprises is perhaps best illustrated by their involvement in the trials of pirates on the African coast. The Royal Navy was happy to ask for Royal African Company personnel to take on a role which could have been undertaken by sea-officers and which, in other areas, was the responsibilities of local representatives of the Crown. The two companies were protecting British options to colonise or simply to keep out other European rivals from Africa. They also were part of the state's attempts to protect private British slave traders. The fortifications in Africa were subsidised by the state but staffed by Royal African Company soldiers. In many ways, the distinction between private and public was blurred. The Navy and the companies were components of the English/British fiscal-military state and they willingly worked together for its benefit. The sharing of resources and obligations continued even after the South Sea Bubble. This shows that, behind the scenes, business continued as usual. The eventual demise of the companies does not show that they were inefficient in undertaking their activities. They were suited to the fiscal-military state which they served. Eventually, the context in which they operated changed and new forms of trading structure were adopted.

## **Taxation for British Mercantilism from the Treaty of Utrecht (1713) to de Peace of Paris (1783)**

*Patrick O'Brien*

Received opinion tends to hold up the formation of the United Kingdom's state as the classic case of liberalism and *laissez faire*. I recently shed some doubts on this idea, proposing instead that the English success, gauged in terms of the worldwide economic and military supremacy built up by the start of the nineteenth century, was "the outcome of aggressive and successful mercantilism. In the beginning was a fiscal state with its Royal Navy" (O'Brien, 2006: 17-18). From 1713 to 1783 Great Britain comes across as a clear, viable and successful example of the mercantilist state, offering an enviable framework of security, stability and order. British military activity afforded continuous protection and also spurred a headlong growth in trade and the economy, with public and private interests brought into a close and mutually stimulating partnership. This platform of growth and protection served as the springboard for more aggressive and far-reaching fiscal policies than in other European states (Mathias, 1976; O'Brien, 1988, 1999). British society and its economy accepted rising levels of taxation on the strength of the stimuli underpinning its ongoing growth, mainly greater security and higher economic activity (O'Brien, 2002). But these fiscal policies had to be built up on a specific fiscal structure, with certain problems of administration and management and limitations that were difficult to get over. Our intention here is precisely to delve into this historic juncture. We will therefore analyse the composition and productivity of taxes, problems of tax administration, and the role of politics.

## 1. The Composition and Productivity of Taxes

### 1.1. *Taxes and the Evolving Structure of the Economy*

Taxes are the share of a nation's income or wealth legally appropriated by the State. Over the eighteenth century the proportion of taxes taken from household incomes increased substantially. Gregory King's figures suggest that the State obtained around 7% in the war, 1689-97. If Massie's estimate is plausible, then the share had risen to around 10% during the Seven Years War. At the height of the long struggle with Napoleon, 21% of the nation's income for 1811 was taken as taxes (Mathias, 1975; O'Brien, 1988). Although tax revenue increased more rapidly than national output, that trend does not imply that the role of Government in the economic and social life of the country expanded over the century but reflects Britain's active foreign and military policy. Momentum proceeded (as it did in later centuries) by a series of steps. In periods of conflict the share of national income collected as taxes rose sharply but never reverted to peace time levels – partly because the military establishment seldom contracted to its former size but mainly because the State had to find money to pay interest on loans borrowed to pay for previous wars.

Under pressure from an active foreign policy, Chancellors looked for new and productive taxes. As the economy underwent structural change the tax base widened and provided money to pay for war – itself an agency for development. To a more limited extent the expanded capacity to tax came from administrative improvements – particularly from the relatively efficient Excise department.

When the century opened the British Government already had available to it a range of taxes normally associated with a commercialised and diversified economy. For example, around 1700 .taxes on land and other immovable types of property (which form the most feasible objects of taxation for agrarian economies) financed only 35% of peace time expenditure. Despite extensions to include other types of wealth (houses, carriages, horses, and domestic servants) dependence upon such traditional forms of revenue declined still further. By 1790 direct taxes (that is levies collected from specified lists of taxpayers) yielded only 18% of total revenue (See Table 1). Throughout the century taxes fell overwhelmingly and increasingly on current expenditure. They were collected from producers who passed them on as higher prices to consumers. Britain's tax structure which reflected the kinds of goods, services



and property had passed beyond a traditional system characterised by just a few levies on land and other fixed types of property to a structure dominated by indirect taxes levied upon internal and external trade and domestic industry. The nation's fiscal system lacked only a direct tax upon income to qualify for the accolade of modern (Ardant, 1975).

Over the eighteenth century a Parliament of aristocrats found itself in a position to shift the relative burden of taxation from land to other sectors of the economy. Not to exports (which in accordance with mercantilist principles, remained largely untaxed) but onto the consumption of families who bought domestic manufactures and services and who purchased imports. It was upon locally produced beer, spirits, salt, soap, candles, coal, glass, bricks, leather, printed cloth, and newspapers; upon services (provided by lawyers, banks, insurance companies, and road transport) and upon imported food, (drink, tobacco, and textiles) that the exactions of the State increasingly fell.

Table 2.1 *Sources of Taxation 1700-1785*

<i>Year (circa)</i>	<i>Customs Duties Levier on Imports</i>	<i>Land and other Direct taxes</i>	<i>Excises and Stamps Levied on Domestic Production and Services</i>
1700	1.2	1.6	1.7
1705	1.5	2.0	1.8
1710	1.3	2.1	1.9
1715	1.5	1.5	2.4
1720	1.7	1.6	2.8
1725	1.6	1.2	3.1
1730	1.6	1.5	3.0
1735	1.6	1.0	3.2
1740	1.5	1.5	3.2
1745	1.3	2.1	3.1
1750	1.4	2.0	3.5
1755	1.7	1.5	3.8
1760	1.9	2.3	4.1
1765	2.2	2.3	5.5
1770	2.6	1.9	6.0
1775	2.6	1.9	6.3
1780	2.6	2.6	6.6
1785	3.3	2.7	7.8

**Notes and sources**

Income from taxes is defined as net receipts at the Exchequer.

See Appendix 1 for sources.

To some extent observed shifts in the sources of taxation reflected structural changes in production and consumption. As commerce and industry expanded more rapidly than agriculture changes obviously occurred in the capacities of different sectors to cope with more taxes. But such changes also reflected the power of different groups within the 18th century political system. For example, the marked decline in the share of revenue emanating from direct levies on the wealth and expenditures of the affluent upon their homes, carriages, horses, and servants were taxed, as well as land - is clear. In "real" terms the absolute sum contributed by direct taxes to the needs of the state actually fell for eight decades after 1710. This occurs while agricultural output (and rent - which almost certainly increased faster than agricultural output) rose by 57%. Macro comparisons of direct tax yields with estimated trends in agricultural output (a proxy for rent) suggest that the proportion of their incomes contributed by landowners and farmers in the form of direct taxes may perhaps have fallen by almost a third over the period 1710-90 (O'Brien, 1988).

What is perhaps more interesting is the long run diminution in the share of tax revenue contributed by customs duties, levied on retained imports. That fell from 27% around 1700 to 22% in the 1780s. Between 1701-91 customs receipts (valued in constant prices of 1700) nearly doubled while retained imports (also valued in real terms) increased roughly four times. From very high levels of 40% to 44% 1695 to 1725 the ratio of customs revenue to retained imports declined steadily to a range of 20% to 30% over the last quarter of the 18th century (Deane, 1967: 64, 318, O'Brien, 1988). (Both ratios are measured in constant prices). The failure of central Government to "batten" tighter onto the rise of the "commercial economy" seems surprising. Before 1722 exports had been taxed at 5%; thereafter (with conspicuous exceptions for minerals such as coal, lead and tin), Governments refrained from taxing goods sold abroad. In fact they did what they could to foster exports by granting subsidies or bounties on a selection of goods sold abroad, and by reserving colonial markets for British goods.

Since the Restoration, Governments not only held back from taxing but actively encouraged the nation's shipping and re-export trades. Details of their policies related to shipping and colonial commerce can be found in standard texts but in an immediate sense the Imperial and Navigation Acts represented a "drain" on revenue (or revenue foregone). Of course the Exchequer benefited indirectly from the marked rise of

shipping, shipbuilding, and the servicing of the international economy by British insurance, banking, mercantile and other forms of commercial enterprise located in Bristol, Liverpool, Glasgow, and above all in London, Commercial activity certainly expanded. For example over the 18th century the tonnage of ships registered in British ports rose enormously (Davis, 1962). Volumes of re-exported colonial produce landed at British ports before being sent on to Europe, the Empire and other parts of the world increased nearly 3 times from the early 18th century to 1791 (Deane, 1967: 320-321). But from most of this flourishing mercantile enterprise the Exchequer derived only limited *direct* gains which took the form of stamp duties on selected commercial and legal instruments. On the debit side drawbacks (repayment of customs duties on re-exported goods), the Navigation Code, (which confined trade to British ships) and heavy expenditure on sea power all encouraged “multi-national” enterprise which escaped taxation while enjoying increasingly expensive protection from the Royal Navy. Although the State funded a substantial part of the costs and risks contingent upon the expansion of international commerce, the Exchequer was left to recoup what it could by imposing duties on retained imports of tropical foodstuffs (sugar, coffee, tea, spices, rum, tobacco) and by taking a diminishing selection of imported industrial raw materials (timber, bar iron, thrown silk, hemp, dyestuffs), higher quality textiles (silks, linens and cottons), glass and leather goods. Despite the pronounced rise in retained imports the Customs department never managed to collect anything comparable to the proportion of British expenditure on imports it secured from the sharp upward revision in duties in the reigns of William and Anne (Davis, 1966: 306-317).

The failure to recoup more from this basket of ostensibly taxable commodities carried through British ports policed by customs officers stemmed from several sources. Obviously high duties on imports restrained consumption and prompted consumers to purchase cheaper domestically produced substitutes. Before the 1770s while per capita incomes climbed slowly upwards and the ratio of retained imports to national income remained around the 10% mark, but two decades later it had risen to 17%. High on the list of reasons must be that determined and highly successful conspiracy to defraud the revenue by smugglers. Illicit trade not only reduced the volume of imports which came into the tax net (by perhaps up to 25% during some decades of the 18th century) but acted as a serious restraint on the powers of Chancellors

to push up the ad valorem rate of customs duties. Long before Pitt had the foresight to reduce tariffs in the 1780s, his predecessors had realized that higher duties which encouraged more smuggling actually reduced revenue (Cole, 1958: 395-410; Mui, 1975).

Their initiatives in taxing imports also became steadily more circumscribed by the development of lobbies within the political system for the protection of imperial and shipping interests whose profits depended upon access to the metropolitan market. The West India lobby, the City of London, those mendicants at Westminster on the payroll of the East India and other trading corporations, used whatever influence they could command to divert the attention of Chancellors away from imported merchandise.

Members of Parliament together with supporters in Cabinet could, moreover, call to their aid arguments which evoked more widespread appeal. For example, while "luxuries" were held to constitute *proper* subjects for taxation "necessities" were not. As the consumption of tea, sugar, coffee, dried fruit, and spices spread down the social scale, the distinction between imports consumed by the rich and the majority became more difficult to sustain. Furthermore, Ministers became more sensitive to the argument that heavy duties on imported inputs of British industries might operate to frustrate their development. Raw silk, flax, linen, yarn, dyestuffs, oils, chemicals (but not bar iron) received some protection from the depredations of Chancellors on this account. While high tariffs on finished manufactures prompted import substitution which again eroded revenue from foreign trade (Davis, 1966: 316; Davis, 1979: 36). Deeper analysis into changes in the commodity mix of imports could reveal how long-term changes in consumption habits and production patterns constrained Chancellors who wished to increase duties on imports which (as the economy developed) ceased to be simply taxes on superfluities and developed into "essential" supplies of food and raw materials. In any case the populace could retaliate by illegally buying more smuggled merchandise.

Caught in a cleft stick with powerful resistance to direct taxation on one side and operating under real restrictions with respect to levies upon imports on the other, eighteenth century Governments resorted increasingly to taxes upon industrial production and internal trade. Excise and stamp duties imposed on manufactures and services rose from 38% of tax receipts at the Exchequer circa 1700 to nearly 60% by 1790 (See Table 1). The burden of taxes carried by manufactured

goods and urban services sold within Britain rose nearly six fold 1700-1790. Tax receipts expressed as a ratio of the gross output of industry and commercial services purchased at home increased from (perhaps) under 10% at the beginning of the 18th century to over 20% before the wars with France (O'Brien, 1988). Without excises and stamp duties (which proved themselves to be efficient and elastic sources of revenue) the British Government may well have experienced revenue crises of a kind which afflicted the French and other states of *ancien regime* Europe. While additions to the national debt provided the state with the extra money required to pay for a succession of increasingly expensive wars from 1689 to 1783, excises and stamps (on beer, bills of exchange, candles, cider, deeds, glass, insurance, internal travel, newspapers, leather, plate, printed goods, receipts, salt, soap, spirits, starch, and a penumbra of other commodities) were moved steadily upward to pay for the ever increasing interest bill incurred to fund military expenditure. The accumulation of debt in wartime, avoided immediate and possibly unacceptable jumps in taxation by spreading the load forward over future generations of taxpayers, but interest bills still had to be paid (or "funded" in contemporary parlance). Essentially the eighteenth century fiscal system operated to finance a military establishment whose expenditures oscillated sharply between war and peace. Looking retrospectively from 1793 to 1688 and comparing broad changes in the composition of tax revenues with trends in the structure of the British economy, historians will perceive that internal production and commercial services apparently carried most of the extra load. In relative terms the burdens imposed by central Government on land and land-ownership declined. While the mercantile and shipping interests, who benefited most from the kingdom's expansionary naval policy, seems to have contributed only modestly towards its mounting cost. Apparently that cost fell increasingly upon industry and internal trade and upon commodities and services widely purchased by all ranks of the populace. In no way could taxes falling in large part on commodities in widespread consumption be described as equitable or progressive - by modern standards. But the fiscal system worked successfully enough to increase the power of the state in world affairs without provoking tax revolts or seriously retarding the long term advance of industry and commerce (Mathias, 1976: 633-640).

## 1.2. *The Productivity of Taxes and Fluctuations in Their Yields*

Listing the range of taxes on the statute book, it appears that Sydney Smith's hyperbole that: "taxes were upon every article which enters into the mouth or covers the back or is placed under the foot, taxes upon everything which is pleasant to see, hear, feel, smell, or taste, taxes upon warmth, light and locomotion, taxes upon everything on the earth and waters under the earth, on everything which comes from abroad or is grown at home" (Buxton, 1888:19) comes close to a description. Nevertheless the bulk of tax revenues emanated from a mere 33 taxes listed in table 1.

From this group only the land tax fell directly upon wealth or income and at the end of the eighteenth century the objects of taxation consisted overwhelmingly of commodities and services, people paid taxes in proportion to their outlays and not to their incomes or property. Taxes which made a relatively large contribution to the needs of the State fell either upon a limited range of commodities, widely consumed - such as sugar, tea, salt, tobacco, candles, coal, leather, printed textiles and beer, and its ingredients, or consisted of duties on "luxuries" such as brandy, wine, whisky, silk, Indian cloth, newspapers, and foreign linens with a market confined to the more affluent groups in British society. Taxes, productive of revenue, had not been imposed upon goods in highly elastic demand or supply which implied the Government could usually increase its income by raising tax rates. In the short run the usual effect of elevating a tax rate (or imposing a tax upon a commodity) is to raise the price charged to consumers. At higher market prices families cut back expenditure and at lower profits per unit of output producers will sell less. Quantity supplied, purchased and taxed of the commodity then falls. But, if total tax receipts rise the decline in quantity assessed has not been sufficient to offset a rise in the rate of tax. If receipts at the Exchequer fall that decline has counteracted the rise in the amount of tax paid upon each unit taxed. The response of consumers and producers to a change in the rate of tax imposed upon any good or service will depend on its elasticities of demand and supply. The more inelastic the demand and supply the smaller the fall in the quantity taxed and greater the addition to public revenue from any given rise in tax rates.

Short run elasticity of demand depends mainly upon the availability of substitutes. If good substitutes are on offer, demand is likely to be elastic and taxes become "optional". Over time demand changes with

income, tastes, family size and the shift of households between urban and rural locations. Whenever demand for commodities responds positively to changes in income and other longer run factors the volume taxed of these commodities changes in the same direction. Efficiency is also relevant because if producers are able to absorb taxes without cutting output the Exchequer will gain. Thus levies which fall upon industries with potential for cost reductions are less liable to effect the growth of output and the quantity taxed of a given commodity. Rates of production for industries which enjoy an elastic supply of inputs, can innovate technically or institutionally to cut costs and benefit from internal or external economies of scale, are less affected by taxation than more static industries. Long run growth and efficiency simply render the diversion of money to Government a less onerous burden on the private sector over time.

Measurement of elasticities of demand and supply for different commodities is not feasible, but comments from contemporary writers on public finance and the evidence that receipts from most outlay taxes continued to increase over several decades, despite additions to tax rates and to market prices, suggest Governments (by a process of trial and error) had selected commodities for taxation where the quantities bought, sold and taxed were not highly responsive to changes in rates of tax. Thus outlay taxes on commodities with no good substitutes such as sugar, salt, coal, candles, glass, bricks, timber, soap, leather, newspapers, malt, hops, tobacco, fire insurance, post horses, pleasure horses, and carriages. Even where substitutes existed the Government took care to extend taxation to include them - see tea, and coffee, or beer, whisky, rum, brandy, and wine. Contemporaries described levies, on beer, soap, salt, candles, leather, and coal, as taxes upon "necessities". Another group of duties, namely those on brandy, wine, high quality textiles, pleasure horses, carriages, newspapers, were purchased mainly by the rich and for that reason not likely to be responsive to restricted changes in tax rates.

Over time the growing efficiency of industry, agriculture and trade raised income and helped producers absorb the growing cost of Government without seriously impeding the development of the economy. Innovation and structural change did not, however, proceed rapidly enough to help the State find substantial additions to revenue required to finance expenditure in wartime. War came too frequently and suddenly and Chancellors had to find taxes to meet the interest on loans floated to

finance military expenditure. They looked for taxes which could be relied upon to meet demands for rapid additions to tax receipts over short periods of time. Naturally they favoured the taxation of commodities and services where the quantities demanded and supplied were not elastic to changes in tax rates.

Over the eighteenth century and perhaps fortunately for economic development few taxes fell directly upon rapidly growing industries. No taxes touched cotton or woollen textiles, pottery, the manufacture of iron and metalwares, the bulk of coal used by industry or new forms of transport like canals. Of course investment in these industries generated revenue indirectly through its impact upon the general level of consumption and via excises levied upon the inputs of the construction industry (timber, bricks, and glass). But even this effect was probably counteracted by the negative impact the growing efficiency of British industry had upon home demand for imports. Apart from coal, lead and tin exports remained untaxed and their rapid growth over the century contributed nothing directly towards public finances. Fremantilist policy towards exports encouraged British manufacturers, West Indian planters and the East India Company to avoid taxes by selling outside the home market.

While the growth of industry, agriculture and trade certainly helped to finance a rising level of public expenditure, tax revenue continued to be vulnerable to fluctuations in the volume of production. It is not possible to show that tax receipts fluctuated in any systematic way with national income, but obviously both the private and public sectors capacity for expenditure varied with changes in output.

Direct taxes exhibited almost no regular variations because the base for the land tax was a fixed valuation and thus both short and long term fluctuations in rental values found no reflection in tax receipts. For other direct taxes (levied upon the houses, windows, carriages, horses, and servants of the rich) short run swings in incomes probably had little effect on such sumptuary forms of expenditure. Only permanent changes in family wealth altered the size and style of domestic establishments.

Fluctuations are more apparent in the volume of commodities taxed indirectly. But neither in timing nor amplitude did these movements synchronise into a regular pattern. The Government seldom suffered serious shortfalls in revenue from all or even the majority of taxes over any given year or group of years, largely because depressions in economic activity did not pervade the economy to anything like the same extent as



they did in later centuries. No single activity dominated the transmitted fluctuations throughout the system but poor harvests, interruptions to foreign trade and a decreased rate of private capital formation certainly depleted tax revenue from year to year (Ashton, 1959).

In a society where agriculture employed a majority of the labour force harvests naturally exercised a most important influence on changes in the level of expenditure. Inclement weather not only raised food prices and pushed down the capacity of the majority of the population to buy industrial goods and imports but increased prices of raw materials for several agro-industries including the brewing of malt and hops into beer, the distillation of grain into spirits, the making of starch, tanning and tawing hides into leather and the manufacture of soap and candles from animal fat. With good weather and plentiful crops the demand for labour at harvest time and for workers from agro-industries expanded. Expenditure did not leak into imports of basic foodstuffs but flowed, at the margin, into manufactured commodities (subjected to excises) and towards imported luxuries such as tobacco, wine, foreign spirits, tea, sugar, and quality textiles.

Theoretically, a poorish harvest which reduced food and raw materials supplies could turn the terms of trade in favour of agriculture and farmers profits and owners rents could rise. Provided they spent additional income upon manufactured goods or increased the rate of capital formation any potential reduction in total expenditure might be mitigated. Evidence on the balance of such effects is only qualitative but suggests that unfavourable extra income from agricultural rents or farmers profits leaked into savings or imports. Moreover, bad harvests did not normally create a climate that encouraged additional investment and whenever shortfalls in revenue and higher food prices lead to higher borrowing by the State funds usually became scarcer and more expensive for private investors (O'Brien, 1988).

As the century went on trade became a more obvious source of instability for both the economy and the public revenue; not only because more labour and other resources found employment in activities connected with the foreign trade but also because war frequently interrupted the flow of exports and imports. Indirectly trade affected output and revenue through expenditure on exports and imports. Whenever exports boomed, British incomes rose and with a lag the Exchequer gained through increased purchases of manufactures and foreign commodities.

With these rather general considerations in mind, we can now consider salient factors which determined yields from major taxes in the 18th century. The majority of taxes yielded very little revenue and can be ignored. For example, prohibitive duties upon imports operated primarily to protect domestic enterprise from foreign competition. Other taxes served to curtail types of consumption considered undesirable. Some formed part of a system of levies designed to prevent consumers from substituting untaxed for taxed commodities. Many no doubt persisted as unrepealed anomalies.

Publications exist which provide a complete picture of the tax structure and I have concentrated upon a sample of taxes which provided amounts of £100,000 and above for the Exchequer. Unless otherwise stated the generalizations and figures cited here will refer to the taxes listed in Table 1. In order to facilitate comprehension of an extensive range of data 18th century taxes have been classified into 8 groups in terms of their incidence: upon incomes and property, food, heat, light, and fuel, construction, and footwear, cleaning materials, alcohol, and tobacco, and commercial services.

Table 2.2 *Major Taxes 1788-92*

<i>TAX</i>	<i>Average Annual Yield 1788-92 £'000</i>	<i>Type of Tax</i>	<i>Estimated Rates Ad Valorem</i>
<i>1. Direct Taxes</i>			
Land	2037	Direct	10% to 20%
Windows	769	Direct	-
Carriages	186	Direct	-
Houses	147	Direct	2½ to 5%
Domestic Servants	129	Direct	-
Riding Horses	120	Direct	-
Total	3388		
<i>2. Taxes on Food</i>			
Tea	583	Customs Duty	12½ %
Sugar	999	Customs Duty	34% (muscavado)
Salt	425	Excise	9%
<i>3. Heat, Light and Fuel</i>			
Coal	651	Customs Duty	21% (solellin tendon)
Candles	318	Excise	9%

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<i>TAX</i>	<i>Average Annual Yield 1788-92 £'000</i>	<i>Type of Tax</i>	<i>Estimated Rates Ad Valorem</i>
<i>4. Construction Materials</i>			
Bricks	109	Excise	8½ %
Glass	181	Excise	-
Timber	225	Customs Duty	15%
Iron Bars	133	Customs Duty	-
<i>5. Clothing and Footwear</i>			
Printed Cloth	226	Excise	-
Imported Linen	108	Customs Duty	-
Indian Cloth	195	Customs Duty	13% (muslin)
Raw Silk	224	Customs Duty	13% (raw Bengal)
Hides and Skins	257	Excise	-
<i>6. Cleaning Materials</i>			
Soap	399	Excise	-
Starch	102	Excise	-
<i>7. Alcohol and Tobacco</i>			
Beer	1968	Excise	20% (strong beer)
Malt	1838	Excise	16%
Hops	121	Excise	16%
Wine	739	Customs Duty	27% (sherry)
Foreign spirits	990	Customs Duty	60% (rum)
Domestic spirits	654	Excise	-
Tobacco	607	Customs Duty	83%
<i>8. Commercial Services</i>			
Newspaper	150	Stamp Duty	55% (Times)
Bills of Exchange	105	Stamp Duty	-
Fire Insurance	147	Stamp Duty	-
Post Horses	131	Farmed	-

*Sources:* see appaxs. 1 and 2.

One outstanding difference between 18th century taxation and that of more modern times is the far smaller proportion of total revenue accounted for by taxes upon income and property. Direct taxes contributed only a fifth of tax revenue at the end of the 18th century. Almost half came from the land tax. In law land tax was “levied on the full yearly value of lands tenements and heridatments at a rack rent... and

on the yearly value of all personal property, this value being calculated at 6%” (Dowell, 1888: 93). It represented the entirely “unsatisfactory” outcome of a series of attempts during the Interregnum and Restoration to impose a direct tax based upon some conception of a citizen’s capacity to pay. With its Monthly Assessments of 1649 to 1654, the subsidy of 1670 and General Aids to William III, Parliament tried and failed to tax *income* according to some clearly defined and equitable criteria. As a compromise *wealth* of every kind emerged as the index of ability to contribute to revenue, but regular assessment of property values also proved to be administratively impracticable (Ward, 1953: 2-3; Sinclair, 1802: 8; Kennedy, 1913: 38-44; Chandaman, 1975: 140-41, 149, 189-95). Liability became stereotyped at an historical valuation which very soon ceased to bear anything but a tenuous relation to current reality. At the end of the 17th century, Parliament recognised the futility of trying to impose criteria for assessment and simply fixed a quota which had to be contributed annually from a levy on property in every locality (Brand, 1793: 7-9). Quotas for each country or town were determined according to the amount contributed to the “Aid”, granted in 1692 for the war against France. This Aid instructed local commissioners to levy a tax of four shillings in the pound on the annual value of all real estate (annual value to be calculated at rack rent); upon income from other property (assumed to equal 6% of the current capital value of the property) and on stipends from certain public offices. After 1698, Parliament continued to pass laws imposing the same annual levy on all property. Assessment of individual liability remained, however, in the hands of Local Commissioners, without interference from the Treasury. Parliament merely insisted that each locality contributed a predetermined sum based upon its contribution at the original assessment of 1692. The sum paid varied with the rate of tax imposed by the Commons, but whatever the rate the relative contribution of each locality remained firmly static throughout the 18th century (Ward, 1953: 1-2). In time, property values in some localities increased faster than others and the position of fixed quotas lead to unequal incidence between different parts of the kingdom. Apparently the north and west tended to gain while the Home Counties paid more than their “fair” share (Ward, 1953: 7, 22; Steuart, 1767: 561-562; Smith, 1776: 780; Brand, 1793: 5-8).

Methods of assessment varied from place to place, and complaints about unequal incidence discredited the land tax as an equitable levy. Furthermore, property other than land escaped assessment. Despite the

intentions of Parliament, the tax became in practice, as well as in name, a land tax, rarely levied according to the real value of land (Wilson, 1982; Turner, 1986, Ward, 1953: 7, 19, 22, 39, 87-88; Smith, 1776: 801; Mortimer, 1801: 439; Adams, 1796: 22, 27, 30).

Direct taxes also included levies upon housing, carriages, servants, and pleasure horses. This group of taxes are akin to income taxes, because the law employed expenditure as an index of income, but since liability varied with expenditure upon the taxed item they are perhaps properly classified as "direct outlay" taxes. For dwellings, the law defined liability in proportion to the annual value of occupied houses and the number of windows per house. For taxes upon horses, carriages, and servants, it related liability almost exclusively to domestic establishments and exempted horses, carriages and servants employed in agriculture, industry, and commerce. All these taxes were assessed on a progressive scale and tax rates increased with the annual value of a home, its windows and with the number of carriages, servants and pleasure horses retained by a given household. For example, houses with an annual value of £5 to £20 paid tax at 6d in the pound, while those with an annual value of £40 per year and above paid 1/-. Houses with 7 windows contributed 2d a window; with 25 windows and above the householder paid 2/- a window. A family paid tax at £8. 16. Od. a year if it kept a single carriage and at £10. 14. Od. per carriage if the establishment contained eight carriages (1 Comms. of IR, 1857, 3: appdxs. 67 and 68; Acs. 1830, 25: 30, 34, 39; IR, 384, 35; 385, 58, 767). Clearly, the Government wished to tax citizens according to some operational criteria of ability to pay and assumed their expenditure upon domestic transport, servants and housing could provide a reasonable index (Steuart, 1767: 519; Shehab, 1953: 10 and 35). Sir John Sinclair, a recognized expert on public finance, agreed and wrote: "It is natural to suppose that every individual nearly in proportion to his proportion of his property would procure for himself the convenience of being well lodged" (Sinclair, 1802, 3: 1,78). In contemporary eyes direct outlay taxes possessed several advantages. First they were regarded as, "voluntary" in the sense that citizens incurred liability only in so far as they chose to spend money in particular ways. Such taxes also embodied the principle of progression, that is a tax rate which increased with each marginal increment of expenditure and in this respect can be described as antecedents for a progressive income tax (Kennedy, 1913: 129-30; Steuart, 1767, 2: 519; Shehab, 1953: 29-30, 43-44). Administratively taxation of clearly demarcated and vis-

ible objects of property gave rise to less opportunity for evasion than customs and excise duties.

Duties on tea and sugar fell upon imported Imperial produce and the tax on tea represents one of the few examples of *ad valorem* taxes on the statute book. The administration found it possible to cope with the problem of valuation because the East India Company alone could legally import tea and its sale in London was regulated by Government. Only semi-raw or muscavado sugar would be imported into Britain and West Indian sugar, which enjoyed an advantage over sugar imported by the East India Company from Bengal, provided British refiners with about 95% of their raw material (Rept. on U.K. Tariff: 209,215; c/10901). Salt exported, used to cure fish, delivered to the manufacturers of glass, or the bleaching section of the textile industry escaped tax, while duties imposed on Scottish salt fell below those levied in England and Wales (PRO, Pitt Papers, 292; E/ 11894; O'Brien, 1988). By the late 18th century all three foodstuffs were widely consumed. Although contemporaries disputed as to whether tea and sugar qualified as "necessities" they almost invariably agreed about salt and frequently deplored a tax which burdened the poor (MacArthur, 1801: 76; Bernard, 1817: 8-10, 22, 108; McDonald, 1785: 33; Pitt Papers, 294; Thompson, 1786, 2: 26).

Prices charged by producers of salt depended on the costs of production in the salt mines of Cheshire and the costs of distilling salt from sea water. By 1817, at least the raising and crushing of salt had been mechanised (CC. on the Use on Rock Salt, 1817, 3: 142-143, 145-146). According to the Committee of 1801 the most significant element in the cost of salt consisted of charges for fuel (CC. on Salt, 1801, RCRC, 10, 589). With the construction of canals, prices of coal to salt refiners fell and canals also lowered distribution costs inland. From all accounts by far the most important part of the market price of salt consisted of the excise itself, which amounted to about 70% *ad valorem* (Vansittart Papers, 31229; Parkes, 1817:117). Demand for salt came mainly from households, partly to season food but mainly to preserve fish, meat, and vegetables at a time when other food preservatives were virtually unknown (Bernard, 1817: 58, 110). Industry required salt for bleaching, tanning of hides, the manufacture of glass, soap, mineral alkalis and sal amoniac. With lower duties industrial demand could have been extended but no Government could resist raising the rate of tax (to an inordinately high level) on a commodity with a highly inelastic demand (Parkers, 1817: 6, 11, 22, 42, 43, 127, 131).

Households found it less difficult to refrain from the consumption of sugar than they did from salt. Demand for sugar appears as income and price elastic. By the late 18th century the taste for sugar had spread among all classes of the population and demand grew with the consumption of beverages like tea, coffee and cocoa (Rept. on U.K. Tariff, 1898, 85: 209, 221; Ilesley, 1810: 84). Perhaps sensibly, but no doubt more in deference to strong pressure from the West India interest in Parliament, Governments refrained from raising the import duty to a multiple of its cost. Just before the war the ad valorem rate on sugar amounted to about a third of its wholesale price in London. Sugar prices to British refiners, and the volume of sugar taxed depended mainly upon cultivation costs in the Caribbean, freight-rates across the Atlantic and the opportunities open to planters to dispose of their crop outside the metropolitan market. There is no evidence that the cost of sugar cultivation in the West Indies declined at the end of the 18th century. On the contrary, the “interested” testimony of planters and merchants suggest it may well have risen (Anon, 1792: 15; CC. on Distillation of Sugar and Molasses, 1808, 4). Nor is there anything to indicate that technical progress or other factors lead to a pronounced decline in the freight rates charged by the British mercantile (Macauley, 1823: 5; Ilesley, 1810: 77, 85; Ragatz, 1928: 310).

Imperial regulations compelled planters to use British ships and also forbade them to refine sugar in the West Indies, but they could distil rum there. As sugar converted locally into rum increased, the quantity of Muscavado sugar available to British refineries declined and forced up prices of sugar in the metropolitan market. The amount of sugar converted into rum depended in turn on the sales of the colonial spirit in the British market. As an Imperial product, rum enjoyed tariff advantages over foreign spirits such as brandy, but stood at a disadvantage compared with Scots and English whisky (Acs. 1830: 25; Rept. on U.K. Tariff, 1898, 85: 160-162).

If consumers acquired a taste for rum or its price fell relative to foreign and domestic substitutes the revenue from sugar could be affected, but at the same time the Government would gain income from taxes on rum. In so far as the West Indies exported rum to other markets, such as the United States, the British Treasury failed to gain anything from additional production of colonial sugar (Anon, 1744: 23-24, Ragatz, 1928: 180-181).

Perhaps the level of European demand for sugar constituted the most important influence on quantities imported into London. As that level

rose, or if alternative sugar on world markets rose and merchants found it more profitable to sell raw and refined sugar outside Britain. Domestic prices then moved upward into line with international prices and receipts at the Exchequer declined. Whenever European demand could be satisfied with sugar imported from sources outside the British Empire the metropolitan market then absorbed a greater share of the supply of sugar produced in the colonies and the Government gained revenue (Anon, 1792, 4; Anon, 1793, 5; Macauley, 1823, 1:114-119; CC. on Distillation of Sugar and Molasses, 1808, 4: 166-168; CC. on Trade with West Indies, 1808, 4: 252 and 262).

By the end of the 18th century tea had moved towards becoming the national beverage. Demand for tea increased with the rise in income but also depended on prices of substitutes, particularly beer and coffee and complementary like sugar (MacArthur, 1801, 3; PH 36: 1259). On the supply side tea prices depended on prices paid by the Company in India and freight charges to England. For the domestic market the Government fixed prices to allow the Company a profit of one penny a pound above costs (c.i.f.) (Rept. on U.K. Tariff, 1898, 85: 199-200; Mui, 1975: 37-39). With a fixed price in the home market and a relatively small European sale domestic demand appears less affected than sugar by conditions in international markets. Furthermore, the ad valorem tax on tea of 12% hardly affected consumption. Pitt's Commutation Act of 1784 cut the rate from 112%, and at this relatively low rate tea enjoyed a small tax advantage over beer, and a considerable advantage over coffee (Dowell, 1888: 241; McCulloch, 1839: 1141; Pitt Papers, 274, Acs, 1830, 25: 21-22).

Unlike other excises the tax on coal (collected by the department of Customs) was levied upon only a part of total production, namely on coal carried coastwise into ports in England and Wales and coal exported (C/1090; Acs. 1830, 25). Between 1788-92 the Exchequer received annually £103,000 for coal exported, £353,000 for coal carried into London and £194,000 for coal transhipped to other ports (C/1090I). Despite Parliament's avowed antipathy to "partial" taxes, the format of the coal tax had persisted for over a century, mainly because of the administrative difficulties involved in the assessment of a multiplicity of mines often located in remote parts of the kingdom. Nevertheless, mine owners and their supporters in Parliament successfully frustrated an attempt in 1784 to introduce a tax on coal at the pithead (Hausman, 1985; Stanhope, 1861-62: 221-222; Pitt Papers, 4: 301; Hardie, 1793: 2). The Ex-



chequer lost considerable income from Pitt's failure to extend the tax to include total production because probably not more than a third of total coal output was transported by sea. Moreover, since coal shipped inland by canal, river and road escaped taxation, industries such as iron, cotton and woollen textiles, pottery, and metallurgy located near or on coal-fields did not contribute to Government through taxes on their inputs of fuel. The contemporary view that the coal tax fell largely on consumers in the capital seems substantially correct (Hausman, 1985; Beaumont, 1789: 2-3; Hardie, 1793: 3-5). In London resided many families whose demand for fuel was not highly responsive to price changes. Moreover as a household fuel for urban areas coal was both superior to and cheaper than wood. Remote from mines, or distant from rivers or sea lanes, charcoal, wood and peat may have been cheaper due to the prohibitive costs of transporting bulky commodities by anything other than water transport, but in most towns wood enjoyed no similar advantages and with a growing shortage of domestic timber the price differential between coal and wood probably widened (Anderson, 1792: 18; Anon., 1800: 13; Smith, 1961: 1; McCulloch, 1839: 289-293; Sweezy, 1928: 81). Given the nature of the market and the absence of substitutes, the demand for taxed coal may have been highly inelastic. Furthermore, with the growing concentration of the population in towns and the rise in incomes the quantity of coal carried coastwise increased (Ashton, 1929: appx. E).

Industries which utilised heat in the process of production, such as breweries, distilleries, brickyards, glass furnaces, soap and sugar refineries, metallurgical workshops and bakeries, supplemented the household demand for coal. In general such industries could be found near their markets in towns and fuel supplies often reached them by sea (Beaumont, 1789: 6-8; Ashton, 1955: 92) Their demand for coal varied with output which in turn depended on the level of demand for their finished products. As fuel probably accounted for only a small proportion of total costs, their consumption of coal was probably not highly elastic, particularly as the specific nature of their capacity and labour supplies made it difficult for entrepreneurs to transfer to alternative forms of economic activity (Beaumont, 1789: 6-8). It is surprising to find a tax levied upon exports. Obviously the Government had concluded that foreigners paid the tax (Beaumont, 1789: 21-25; Ashton, 1929: 226-227).

While demand for coal cannot be described as elastic, at lower prices the quantity of coal transhipped coastwise or exported would have risen. Just before the war the ad valorem rate of the tax upon coal in London

amounted to about a fifth of its wholesale price, but nearly half of the price charged to consumers consisted of freight charges and distribution margins of various kinds (Beaumont, 1789: 37, 40; Ashton, 1929: 195, 217, 224; Edington, 1803: 44-45; Stevenson, 1789: 3, 4, 13; Smith, 1961: 5, 140). If the Government had prevented the exploitation of consumers by combinations of middlemen in the London coal trade, prices may well have fallen. Galloway and Ashton point to the last decade of the 18th century as a period when railways and iron pit props came into the coal industry (Ashton, 1929: 9, 12, 20, 39, 50, 63; Galloway, 1898: 300, 304, 313, 314-316; Stevenson, 1789: 4).

Yet these innovations failed to result in 1850 in lower charges to consumers, largely because coal owners of the Northumberland and Durham field, (which supplied most of the capital's coal) operated a cartel to maintain prices just below the level where coal from other fields became competitive in the London market (Sweezy, 1958: 34, 39, 79-81; Ashton, 1929: 212, 214, 215; Smith, 1961: 149). Unless the Government had been prepared to act, the "Vend" would only lower prices if prompted to do so by competition from other fields. More determined action by the Government against a well known monopoly in the production and distribution of coal could have benefited the revenue.

Artificial light, before the advent of gas and electricity, came from wax or tallow candles. In 1792 the excise upon wax candles stood at three times the rate on tallow candles, presumably because a pound of wax gave light for a longer period, but also because the more affluent classes tended to buy wax candles. About 85% of the revenue emanated, however, from tallow candles (E/11894).

All classes of the population purchased candles and the tax had been condemned by Adam Smith among others for falling upon a necessity (Dowell, 1888: 309; Anon, 1785: 25). Demand grew with population and increased with income, but responded feebly to changes in price. The cost of candles depended chiefly on prices of their raw materials, wax and tallow. Tallow came mainly from British animals but by the end of the century considerable quantities came from abroad. Distribution margins or transport costs probably did not form a significant proportion of the retail price because the manufacture of candles was a localised activity (Ashton, 1955: 91).

Taxes levied upon the shelter of the population included not only the direct taxes on houses, already discussed, but indirect taxes on bricks and glass and imported timber (PH 30: 1360; Dowell, 1888: 377). Not

all glass subjected to tax went into windows, but the yield from glass used for bottles, mirrors, glassware and optical purposes remained small (E/11894). Some timber imported found its way into furniture, farm implements and household utensils. Nor did the activities of the construction sector consist simply of house building. To some extent changes in quantities of bricks, glass and timber assessed to tax varied with the construction of factories, commercial buildings, transport facilities public utilities, ships and machinery of all kinds. Demand for building materials depended on the rate of capital formation above all other influences bearing on domestic investment. During the Industrial Revolution capital formation proceeded at a faster rate and as the population grew and migrated townwards the level of investment in houses probably rose.

Prices of timber, glass, bricks and their substitutes obviously effected the volume taxed. While windows could be constructed of no other material than glass, bricks competed with stone where it could be quarried locally and imported timber competed with domestic supplies. Prices of imported pine, fir, oak and other wood sold in London rose well above the prices paid by merchants in the Baltic because of the high costs of shipping timber across the North Sea (Albion, 1926: 114-118, 150-22). As an offset to ocean freight charges, costs of transporting bulky commodities such as glass, bricks and timber around Britain declined with extensions to the canal system and improvements to the roads. On the other hand, neither the manufacture of glass nor bricks benefited from technical transformation on a scale sufficient to bring about substantial reductions in the costs of production (Barker, 1960: 81).

Taxes which affected the prices of the clothing and footwear worn by the population included an excise on printed textiles, customs duties on European linens, Indian cloth (such as calicoes, muslins and nankeens) and raw materials of the silk industry. In addition, the Government collected excises on hides and skins, tanned or tawed into leather for footwear, horse furniture, and farm implements. Foreign linens sold in Britain were either of good high quality, such as damask and lawn, or consisted of varieties of cloth made from flax and used for purposes other than the manufacture of clothing, such as hessian, spruce, canvas and sailcloth (C/10901, Rept. on U.K. Tariff, 1898, 85: 62). Tariffs levied on thrown silk (a semi-manufactured input) purchased from France and Italy stood at over double the rate of those on raw silk imported from Bengal, China and Italy (C/10901; Acs. 1830, 25: 7). Since the East

India Company enjoyed a monopoly for the import of Indian textiles, the Treasury found it feasible to impose ad valorem rather than specific taxes upon muslins, calicoes and nankeens (Rept. on U.K. Tariff, 1898, 85: 64; C/10901). Excise duties on hides, skins and printed cloth varied with the type of leather and cloth under preparation and the Government attempted to tax better quality cloth and leather at higher rates (E/11863; Acs., 1830, 25: 64). Taxes on silk, linens, Indian textiles and certain types of printed cloth fell, according to most contemporaries, on luxuries, but several writers agreed that the excise on leather raised the price of a "necessity", for which no substitutes existed (Anon, 1830: 16; Dowell, 1888, 4: 312, 424; McCulloch, 1839: 75). Some also insisted that the excise on printed cloth no longer affected a commodity purchased exclusively by the rich (Anon, 1785: 17; Wright, 1785: 3; Pitt Papers, 301). Excise statistics certainly support this contention because by 1790 most of the yield came from printed cottons. Nevertheless textiles worn by the mass of the population (linens, cottons, and fustians) did not pay tax unless printed. Plain cloth or cloth dyed a single colour escaped tax entirely as did woollens of every kind, printed or plain (E/11894).

As incomes rose, expenditure on better quality textiles such as silk, imported linens, Indian piece goods and printed cloth, would also increase. The different markets for cloth overlapped and the adaptation of new techniques by the cotton, linen and woollen industries which lowered their prices relative to silks, foreign linens and Indian piece goods affected revenue adversely. Until the imposition of a duty on imported raw cotton in 1798, only through the printing sector of the industry did the Government directly derive additional revenue from the technological revolution in textiles. To some extent revenue benefited from the adoption of new techniques by the silk industry. Perhaps not significantly because most innovations in silk production had been introduced earlier in the century (Ashton, 1955: 96, 116; Jordan, 1931: 24; Warner, 1912: 75-76). The volume of raw silk and foreign textiles subjected to tax might, however, have grown rapidly if freight charges, which formed a considerable proportion of their prices, had fallen, but no technical revolution occurred in ocean-going transport until well into the 19th century.

Taxes fell on cleaning materials in their contemporary forms of soap and starch. Starch delivered to the linen industry and soap to the linen and woollen industries paid duties at lower rates (Acs: 1830, 25: 15; E/11894). Contemporaries regarded neither soap nor starch as strict ne-

cessities but recognised that both excises affected the consumption of the poor. In fact the Government attempted to meet this objection by levying a lower rate of duty on “hard” soap (McCulloch, 1839): 1071). No substitutes competed with either material but whenever their prices rose the poorer classes probably reduced their purchases, particularly of starch. Prices depended partly on the cost of animal fat to soap boilers and grain to manufacturers of starch (Ashton, 1955: 60, 91; McCulloch, 1839: 1079). No innovations introduced into animal or arable husbandry at this time depressed costs of fat or grain to levels which perceptibly influenced their prices. Nor apparently did new techniques in the manufacture of soap or starch affect prices and demand.

No less than 54% of the revenue from indirect taxes came from beer (and its raw materials malt and hops), wine, brandy, rum, gin, domestically distilled spirits and tobacco, and the outstanding contribution made by this group of taxes towards the finance of Government has persisted today. Rates of tax were all specific but their structure reflected several aspects of Government policy. For example, beer, still regarded as a necessity at the end of the 18th century, paid far lower taxes per gallon (even allowing for the duties on malt and hops) than any other form of alcoholic beverage, apart from cider. Taxes levied on stronger more expensive beer stood at a higher level per barrel than on table or small beer (E/11894; E/11863; Acs: 1830, 25: 19). These brewed privately for consumption within the family escaped the tax on beer, but not on malt or hops.

For moral reasons the Government thought it desirable to tax spirits at rates which might restrain consumption. At the same time, in order to encourage domestic industry, Chancellors taxed spirits distilled within Britain at lower rates than imported brandy, geneva and rum, and the colonial spirit, rum, also secure preferential treatment over foreign rivals (Acs: 1830, 25: 9, 10, 17; E/11863; E/11894). The special position of Scotland received concessions which lead to numerous legal complications and provided good opportunities for fraud. Thus barley grown north of the border (considered to be of inferior quality to the same crop cultivated in England) paid a lower duty when converted into malt for use in the Scottish distilleries and breweries (Acs: 1830, 25: 18). While the lower tax on Scottish spirits represented a grudging recognition from the London Government that Scotsmen drank whisky rather than beer. Within Scotland whisky distilled in the Highlands (where locally cultivated bigg and barley produced a lower output of spirits per

unit of input), received preferential treatment over whisky distilled in the Lowlands. Legally Highland spirit could not be sold in the Lowlands and whisky imported from Scotland into England and Wales paid customs duties to equalise excise duties between the two countries and to protect the less efficient industry south of the border from competition (Acs: 1830, 25: 17; E/11863; E/11894).

Customs duties, with differential rates on wines from particular parts of Europe, reflected the country's commercial policy. Spanish and Portuguese wines paid lower duties than their French equivalents because Spain and Portugal admitted British manufactures on favourable terms. Under the Anglo-French Commercial Treaty of 1786 the British Government lowered the duty on French wine in return for similar concessions on British exports, not, however, to the point where French claret and burgundy enjoyed the same tariff treatment as port and sherry (Rept. on U.K. Tariff: 1898, 85: 146-148; Acs: 1830, 25: 13).

At the outbreak of war the annual consumption of alcohol in Great Britain can be estimated at 234 million gallons of beer, domestically distilled spirits 601 million gallons, rum 2.2 million gallons, and brandy and geneva 2.1 million gallons (E/11894, Rept. on U.K. Tariff: 1898, 85: 161). Consumption of beer did not however rise *pari passu* with incomes or population. By the late 18th century tea had probably replaced it as the "national beverage" (Mathias, 1959: 358, 359, 362, 373-75; McCulloch, 1839: 10, 13, 777), except perhaps in Scotland, where spirits continued to be widely consumed, despite Government attempts to place whisky beyond the reach of the working classes. But in Scotland *taxed* spirits had become the drink of the more respectable classes and the mass of the population purchased their spirits from illicit distillers (Mathias, 1959: 11-12; Smith, 1776: 842; McCulloch, 1839: 1073-75; Dowell, 1888: 77-80; Anon, 1798: 4-5).

Brandy, geneva, rum and spirits distilled in England probably competed far more with each other than with beer or non-alcoholic beverages such as tea and coffee and revenue gained on one could often be at the expense of revenue lost on another. Certainly the pressures on the Government, on the one side from the West India interest in favour of rum and on the other from the distillery interest to secure tax concessions for their product suggest they considered themselves in competition with each other and with imported brandy.

Demand for malt and hops derived from the consumption of beer and to a lesser degree from spirits and vinegar. Purchases of malt by brew-

ers can be divided between brewers who supplied the general public and family brewers who brewed for domestic consumption. Apparently the latter responded far more to variations in malt prices than public brewers with a large fixed capacity and a skilled labour force to maintain. Demand for hops, which formed only a small ingredient in beer, seems to have been less elastic than demand for malt. Hops could, however, be substituted for malt, but to a far greater extent malt competed with unmalted grain, particularly in the distillery. Whenever malt prices rose distillers and brewers used a greater proportion of barley and bigg which lowered the quality of their beverages (Mathias, 1959: 357, 374, 376-77, 391; L. CC. 5 on Irish Revenue, 1823, 7: 268). Distillers could also manufacture from a wash of low quality wine, cider, molasses and sugar if malt became too expensive (CC. on High Price of Corn, RCHC, 9, 84.). Over the 18th century both brewers and distillers had succeeded in converting a given input of malt into a greater output of beer and spirits. On the other hand, changes in the composition of output from weaker to stronger beer or from lower to higher quality spirit increased their demand for malt (Mathias, 1959: 371, 373; CC. on Malt Duty in Scotland, 1821, 8: 213).

On the supply side the prices of imported spirits and wine were reflected by high customs duties. For port or sherry the tax amounted to about a third of the price and on French and German wines it must have been higher. On rum the ad valorem rate stood at 60% in 1790, undoubtedly a lower rate than the duties levied on foreign spirits like brandy and geneva. Furthermore, on bulky imports like wine and spirits freight rates by sea exercised a strong influence on retail prices.

The ad valorem rate of tax on strong beer (including the excises on malt and hops) probably amounted to something like a third and on British spirits above beer but below rum - that is between 30% and 60%. In the Lowlands of Scotland the introduction of an improved still had enabled manufacturers to discharge a wash of grain far more rapidly and to increase the rate of output from a given input of capital (Marsden, 1925: 36; CC. on Scottish Distillery, RCHC 11, 1798: 319-21; E/11894). No comparable improvements occurred in the techniques of brewing or malting in the late 18th century and the most important short run influence on the prices of beer and malt continued to be harvests. In years of bad harvests barley prices rose and pushed up prices of grain (Ashton, 1955: 57, 58; Mathias, 1959: 377, 380; Ashton, 1959: 37-38; CC. on High Prices of Grain, RCHC 19, 1795: 84). Hop harvests

had a less significant effect because hops formed a smaller ingredient in beer. When harvests proved exceptionally bad the Government compulsorily reserved a higher proportion of the available supplies of wheat and barley for bread and prohibited the sale of grain to distillers and occasionally closed down the distillery altogether (Anon, 1797: 1-2; CC. on Financial State of the Country, PH 33: 1797: 209). Over time the growth of population increased demand and exercised an upward pressure on grain prices which also raised the prices of alcohol brewed or distilled from grain.

Four miscellaneous taxes remain to be considered, namely stamp duty on newspapers, bills of exchange and fire insurance policies and the tax on post horses. They are difficult to fit under a label. Newspapers and post horses gave pleasure to the more affluent classes but all four taxes might perhaps be described as levies on commercial services. Newspapers certainly provided merchants and industrialists with economic intelligence and contained advertisements. At 2d a sheet they paid taxes often greater than their original cost and newspaper prices also included an excise levied on the paper they used (Comms. of IR, 1857, 4, appdx. 59; Dowell, 1888, 4: 342, 343, 246; McCulloch, 1839: 827).

Taxes on post horses hired by innkeepers and coaching companies to convey passengers and their vehicles from place to place provide a rare example of revenue collected by tax farmers. In 1787 Pitt found receipts from the mileage duties on post horses and carriages in a state of decline and took the unusual step of farming the duties (Dowell, 1888, 3, 350-52; Binney, 1958: 44). Taxes on post horses can be regarded as part of a group of levies on internal transport which included horses and carriages kept for use by private families and duties levied on passengers who travelled with hired horses and vehicles. Before the advent of railways, as internal trade and personal mobility increased and as the road system improved, the Government derived revenue from these taxes on travel (Comms. of IR, 1857, 4: 203, appdx. 46; CC. on Internal Communications, 1837, 20: 303-307).

Stamp duties on bills of exchange and fire insurance are among the small number of ad valorem taxes employed by the Government in 1792. Bills of £10 and under paid duty of 3d, from £10 to £50 the stamp increased to 6d and above £50 it became 1/-. Stamps affixed to fire insurance policies amounted to 1/6% on the value of the property insured. Ad valorem rather than specific rates could be employed for taxes of



this type because the law stipulated that the courts would not recognise claims against such documents, unless stamp duties had been paid.

The value of bills of exchange circulated reflected changes in the volume of trade, changes in prices and the increased employment of bills to consign goods. With the spread of banks and other financial intermediaries to discount bills of exchange, their liquidity increased which probably encouraged the wider use of this form of credit (King, 1936: 9, 27-28; Pressnell, 1936: 88-90, 171). In a similar way the development of fire insurance facilities prompted property owners to guard their assets against fire (Pitt Papers, 277; John, 1953). As the volume and value of capital grew the Government gained revenue from ad valorem taxes of this type, but demand for fire insurance also depended on the premium charged by companies. Given the risks in the business of fire insurance and the administrative costs involved, premiums charged depended on the rate of interest. If the return obtained by fire insurance companies on their investments in Government securities rose they could afford to charge lower premiums and the Exchequer would gain income.

## 2. The Problem of Administration

### 2.1. *The Administration of Direct Taxes*

Two constitutional principles had been enshrined by the Glorious Revolution: first no taxes could be imposed without consent from Parliament; further that the assessment and collection of direct taxes should be controlled by country gentlemen (Beckett, 1985; Morgan, 1911: 306; Thompson, 1938: 96-98). The latter precept gave rise to marked incompetence in the administration of direct taxes which persisted until the third decade of the 19th century (Binney, 1958: 58-59). Liability for direct taxes came almost invariably to be prescribed in relation to immovable property which could be clearly demarcated and less easily concealed than income. Property provided with an obvious basis for tax assessment for Governments serviced by an inefficient administration and where tax evasion was rampant among all classes of the population.

The assessment of personal liability was supervised by Local Commissioners for Taxes, nominated by members of Parliament and who exercised responsibility for the assessment of one, or more direct taxes, within a sub division of a county. They ordered assessors, (appointed for

parishes in their divisions) to obtain detailed returns from each householder, specifying the annual value of his land, the total windows in his house and the number of servants, carriages and pleasure horses maintained over the past year. If the assessor found any householder had underdeclared his liability he could amend returns before passing them on to the Commissioners for scrutiny. If a taxpayer disagreed with the amendments he could appeal to the Commissioners. Their word was final and an assessment signed by them represented legal liability for tax.

Collection then began. For this purpose the Commissioners also appointed tax collectors for every parish who gathered taxes within a specified period of time and handed over the money, together with the names of defaulters, to Receivers General for their divisions. The latter were officials, appointed by the Treasury, to collect money from all parishes within their areas of appointment (usually a part of a county) and to transmit taxes to the Exchequer (O'Brien, 1988).

Formally the administration of direct taxes embodies certain advantages; not least the measure of cooperation secured from country gentlemen in the imposition of taxes upon their property. Without a marked delegation of responsibility in the assessment and collection of direct taxes, it is doubtful if the Hannoverian State could have imposed such levies at all (Binney, 1988: 59). In addition, voluntary organisation had the merit in contemporary eyes of being cheap. Certainly it seemed inexpensive compared to the cost of collecting customs and excise duties managed by professional organisations. Commissioners obtained only sufficient pay to cover the expenses for any clerical assistance and parish officials received a penny per pound of revenue collected. Receivers General were also remunerated according to the amount of revenue collected (Ward, 1953: 141; CC. 8 on Finance RCHC 12, 1797, 225, appdxs. 9, A 16; Exch.RI82/1360, T 22/10, T 1/902/1729; IR/384), but neither parish officials nor receivers considered themselves properly recompensed for their work. The office of parish assessor and collector passed by rote and on occasions Commissioners had to compel a reluctant citizen to accept the job (T 1/1399/8401). As for Receivers, over the 18th century they profited by lending out public money entrusted to their care for interest. Their failure to transmit taxes promptly into the Exchequer represented a cost to the public, because the Government had to borrow short-term to meet day to day expenditure (CC. on Public Accounts, HCJ 38, 1780-82; CC. 8 on Finance RCHC 12, 1797, appdx. E.5). If proper account had been taken of the interest paid on

these short term loans the Select Committee of 1797 might have been less inclined to congratulate the direct tax administration for its low collection costs. Allowing Receivers to retain balances in their hands for any length of time also involved a risk to the revenue and losses occasionally occurred when they went bankrupt (CC. on Income and Expenditure RCHC 11, 1786, 148; IR/384, 52, 63, 68; T1/769/2938; T1/574/744).

Tardiness by Receivers General in transferring taxes to the Exchequer was a frequently investigated problem. Yet Receivers could not be blamed entirely for the time it took for revenue to reach London. Gathering taxes from parishes was a protracted business particularly in the more remote parts of the country. Delays often occurred through the refusal of citizens to pay promptly or the negligence of collectors. Sometimes collectors absconded with public money and the parish (held legally responsible for their dishonesty) had to be reassessed. Bills of Exchange payable to the capital could not be obtained readily, although the shortage of bills became less difficult with the spread of country banks later in the century. Furthermore, Receivers needed to retain balances of public money to meet the salaries of local militia and pay bounties for the export of certain commodities payments devolved on them by Parliament.

Although Parliament promulgated regulations which defined the time allowed for payment of taxes into the Exchequer and set limits to the amount of public money Receivers could retain, throughout the century Receivers continued to lend out public revenue for personal profit and the Government could do little except instruct the Board of Taxes to hurry the more tardy. This it did with uneven degrees of vigour; All the time the Board remained hampered by its inadequate powers over the machinery for collection. While Receivers owed their appointment to the Treasury they were also aristocratic nominees, acceptable to the country gentlemen of their division. As men of status, with patrons, they were not easily intimidated by Whitehall (CC. on Public Accounts HCJ, 38, 1780: 70-80, appdx. A. 6, A. 12, A. 16; CC. 8 on Finance RCHC 12, 1797: 223-25; T1/902/2081; T1/8593/ 2423; T1/1411/8519; T1/1254/6407; T1/1328/8409; IR/385-2, 239; IR/384-13, 24, 42, 93, 196).

Under Pitt's Chancellorship, the numbers and quality of staff at the Board of Taxes improved, and pressure for rapid collection became more intense. Still the amount of public money retained by Receivers at any one time between 1780-98 showed little tendency to decline. With the increased value of direct taxes collected in the counties, at least the ratio

of the outstanding balance to total revenue fell sharply (Ward, 1953: 42,49,51,60,109,146,148, 149, 152). Furthermore, there was a point beyond which the Board could not prudently go because, as successive Committees pointed out, if Parliament deprived Receivers of the privilege of retaining public money, the office would become less attractive to men of the right calibre and the entire efficiency and honesty of tax collection could suffer still further.

Central authority over the assessment of direct taxes seems even weaker than over their collection. Thus due largely to the incompetence and obstruction of the administration, the Government had consistently failed to impose direct taxes for incomes and property according to some equitable criteria of ability to pay. By the late 18th century the practice of assessment under the land tax had certainly departed from the letter of the law. Local Commissioners, often found it difficult to disagree with landed magnates who used influence and position to avoid paying their fair share of the tax. Any individual reduction or exemption had to be balanced by increases elsewhere and adjustments, particularly those between parishes normally met with strong local resistance. Unless reasons for change proved compelling, assessments tended to remain stereotyped and the land tax became more and more unequal in its incidence.

Administration for direct outlay taxes seems more efficient, partly because of the nature of these taxes and also because a stronger degree of central control operated in their assessment. Annual values for houses were recorded for purposes of local rates. Since rates were disbursed at the local level, each parishioner had an interest in the contribution of his neighbours. Thus property valuation, based on parish records, for the inhabited house tax could be fairly accurate (T1/1240/3551). Taxes upon domestic servants, carriages and pleasure horses also fell upon visible objects of consumption. Nevertheless they gave rise to problems concerned mainly with legal definitions and exemptions. Parliament excluded poorer people from paying taxes on their dwellings and windows, by exempting all those not liable to pay poor rates and by confining the operation of the tax to houses with an annual value of over £5 and with more than 7 windows (19 G.3.c.59; 24 G.3.c.59). Householders on the margin of this category usually made strenuous efforts to have their dwellings exempted and flooded Commissioners for Taxes with appeals against their assessments or proved very obdurate in payment (T92/123). Over time the law became more pre-

cise in defining the tax base so that the intentions of Parliament could not be thwarted. Thus it prohibited the blocking and unblocking of windows and counted windows extensive enough to give light to more than two rooms as two windows. The law also carefully distinguished houses from places of work, domestic servants from other employees, carriages from carts and pleasure horses from those which pulled the plough (6 G.3.c.38, 19 G.3.c.59, 24 G.3.c.31, 24 G.3.c.38, 25 G.3.c.43 and 29 G.3.c.49; Comms. of IR, 1857, 4, appdxs. 67-69; Acs., 1830, 25: 30, 34, 39). The work of administering direct taxes on outlay involved discovering those liable and the precise extent of their liability. Most appeals against assessment questioned definitions of carriages, domestic servants or pleasure horses, within the meaning of the act (Anon, 1781; T1/812/3749; T1/1404/9510). Problems of this kind constituted a normal part of 18th century fiscal administration and certainly proved much less intractable than attempts to define and assess income under the land tax.

Furthermore, the element of central control through officials called Surveyors, which the Treasury had introduced into assessment of direct outlay taxes, made them more equitable and effective levies. As full time officials appointed and paid by the Treasury, Surveyors assisted Commissioners for Taxes with the work of local assessment. They first appeared to help with the window tax of 1696. For much of the 18th century they had not performed their duties very competently, but when Parliament added to the rate and range of assessed taxes during and after the American war, the Treasury, through the Board of Taxes began to exercise some of its powers over the assessment of direct outlay taxes (Ward, 1952: 528, 533; Ward, 1953: 139-140, 149, 156; CC.8 on Finance, 1797: appdx. A.6). More care seems to have been taken with appointments. Attention was paid to the age, education and character of applicants for the post, and at the same time their pay and prospects improved. In addition to his salary of £90 per year, a Surveyor obtained 5% of all surcharges he made on citizens who attempted to evade liability. From time to time Surveyors received a bonus from the Board of Taxes for increasing yields from taxes in their localities (T29/218, T22/10, T1/1323/7144; EX/82/1360 and IR.384: 15,25; IR. 385: 2, 15). From the ranks of the more assiduous Surveyors, the Treasury recruited Inspectors. Inspectors reported to the Board on the efficiency of assessment in the counties and checked upon the diligence of Surveyors and the efficiency of Commissioners

in carrying out their duties (CC. on Land and Assessed Taxes, 1821, 3: 34, 167; CC.8 on Finance, RCHC 12, 1797: 227; TI/1323/7144; TI/961/448; TI/1252/6188).

With additional responsibility, financial incentives and closer scrutiny from Whitehall, Surveyors began to obtain powers which passed beyond assistance to the Commissioners. Thus when Parish Assessors neglected their duties, assessment could be made by them. They could also undertake independent surveys to ascertain the current value of houses in an area and for this purpose all parish records had to be made available. Where necessary they amended the assessments delivered to Commissioners by Parish Assessors and stood present at all appeals to the Commissioners. Surveyors harried collectors to pay over arrears to taxes to Receivers' General, and submitted reports to the Board on balances in the hands of Receivers (18 G.3.e.26, 24 G.3.e.38, 25 G.3.e.47, 28 G.3.e.49; TI/961/448, TI/1240/35S1, TI/1254/6407; CC. on Land and Assessed Taxes, 1821, 3: 20, 151).

Although there are indications that after the American War the Government attempted to assert more control over the assessment and collection of direct taxes, the net results of this effort should not be exaggerated. After all the land tax remained unaffected and the Treasury made no attempts at reforming its structure despite frequent suggestions for a revaluation of land. Instead the Treasury concentrated efforts on just four taxes (levied on dwellings, horses, servants and carriages) which contributed only a minor share of the revenue from direct taxes. Even here, the extent of administrative improvement remains problematical. No doubt the rate and efficiency of Surveyors improved. But as long as the machinery for the assessment of direct taxes remained in the hands of country gentlemen yields from direct taxes undoubtedly fell well below possible levels, whatever Whitehall might do to remind them of the needs of the Exchequer.

## *2.2. The Administration of Taxes Upon Outlay*

The assessment and collection of taxes on outlay did not fall under the control of country gentlemen, in a position to thwart the intentions of Parliament, but were collected by professional civil servants nominally subject to direction from Whitehall. Their overriding problem was how to enforce tax laws upon a society where nearly everybody either prac-

tised or at least condoned frauds on the revenue. Chancellors appreciated that elevating tax rates increased the profitability of fraud. They also realised that a reduction in rates might raise yields by reducing the propensity to evade taxes among the public. Thus when he augmented the rate of a particular tax, a Chancellor had to estimate, not merely the elasticities of demand and supply for the commodity in question, but also the probable level of evasion. Similar difficulties arose in finding new objects for indirect taxation where fraud could be a highly probable contingency. For example, taxes levied upon glass made in large scale domestic plants had proved much less prone to evasion than duties on imported spirits and tobacco, but there was hardly a single tax which did not suffer from evasion.

Apart from deliberate fraud, tax receipts fell below optimal levels through negligence on the part of officials. Of course it might be argued that the incompetence of officials created possibilities for evasion, but two parties were involved and it is hardly fair to ascribe all frauds on the Exchequer to the low quality of administration. Successful evasion also depended upon the skill of those who sought to defraud and that varied over time. Loss of revenue through negligence cannot be measured but might be understood from a description of revenue administration. Furthermore, receipts at the Exchequer were also diminished by the expense of collecting taxes and when departments grew more incompetent, costs per unit of revenue collected rose and less money became available for the central Government.

Fraud was the most important problem. Even the Eminent Commissioner for Customs in Scotland, Adam Smith, said "to pretend to have any scruple about buying smuggled goods... seems only to expose him who effects to practice it to a suspicion of being a greater knave than most of his neighbours" (Cross, 1928: 26). In 1791 an Inspector of Excise sadly recognised that "to evade a revenue law is no disgrace and many people of property have made fortunes out it" (Hamilton, 1791: 52). At a time when Government expenditure was not generally recognised as making a contribution to social welfare, it is not surprising to find that people deeply disliked paying taxes, were imbued with contempt for Customs and Excise Officers and often evinced sympathy for smugglers and others who defrauded the revenue (MacArthur, 1801: 75; Leftwich, 1930: 950; Hughes, 1934: 191 and 328).

Unfortunately official estimates of the extent to which the revenue sustained losses on account of fraud cannot be regarded as other than in-

formed guesses.<sup>1</sup> Commissioners, who enquired into the subject in 1783, noted that illegal sales of imported tea, coffee and brandy exceeded the quantities taxed,<sup>2</sup> but evasion of taxes upon tea and imported spirits was far greater than for any other commodities, with the possible exception of tobacco and whisky distilled in Scotland. Tea, tobacco and spirits formed a large part of the wares of the professional smuggler and cannot be used as indicators for the overall extent of fraud (Cole, 1958: 408-09; Mui, 1975: 29-43). Contemporaries agreed that the Government lost substantial amounts of revenue from fraud and losses had increased considerably during and after the American War.

Frauds occurred in two distinct ways: commodities might be concealed from the Customs or Excise authorities, or they might come within their purview but remain untaxed because of collusion to defraud between officials and those liable to pay tax.<sup>3</sup> From all accounts it seems that the former mode of evasion was far more prevalent. The propensity of merchants to defraud could be influenced decisively by the level of duty and risks of detection. By evading tax they could undersell and capture markets from their more honest competitors and the higher the ad valorem rate of tax levied on any commodity the more profitable illicit practices became (Hamilton, 1791: 51, 57, 67). With a rate of tax on salt at 70% ad valorem it is not surprising to find an account written in 1817 which asserted that only a third of total consumption in England and Wales paid duty (CC. on Use of Rack Salt, 1817, 3: 142). Parliamentary Committees correctly declaimed that "the great and infallible remedy towards prevention of fraud is undoubtedly to be found only in the reduction of duties" (CC. on Illicit Practises, RCHC 11, 1783-84: 228, 230, 265, 286-88; Pitt Papers, 274). In Robert Hamilton, an Inspector for Excise, also wrote a lengthy plea for reducing duties as a way of curbing evasion, but he pointed out for many commodities tax rates had to be cut considerably in order to produce the required effect (Hamilton, 1791). Pitt did just this when

<sup>1</sup> CC.1 on Illicit Practices, RCHC 11, 1783: 234 put frauds on the revenue at £2 million a year from a total tax income of approximately E13 million. Mortimer estimated fraud at about 7% for 1771 (1801: 449).

<sup>2</sup> CC. on Illicit Practises, RCHC 11, 1783: 229-30. Estimates of the extent of smuggling for the early 1780's abound. The range of variation is so wide and since they cannot be other than guesses they are impossible to appraise. See Pitt Papers, 283, 294; Cross, 1978: 27; McPherson, 1805: 49-51; PH. 24, 1008.

<sup>3</sup> The revenue also lost from plunderage while certain commodities such as coffee were in bond. See Pitt Papers, 301; T1/897/544.



he reduced duties on tea in 1784 from around 112% to 12% ad valorem and the subsequent decline in smuggling of tea seems to have justified his expectations (Acs., 1898, 85: 199; Rase, 1792: 5-6; Pitt Papers, 294; Cole, 1958: 409; Mui, 1975: 28-30, 40-42; Ehrman, 1969: 242-46). Yet the prime difficulty of effecting reductions over a wide area lay in finding other sources of revenue and Pitt incurred strong opposition and charges of impartiality towards the East India Company in commuting duties on tea for higher taxes upon windows (Thompson, 1786: 6, 18, 28, 36; Sinclair, 1802, 2: 396-397; Pitt Papers, 294). He managed, however, to affect sharp reductions in the duties on wine, coffee, cocoa, muslins and calicoes, and given time, he might have accomplished similar results for other taxes (Dowell, 1888, 4: 254; McPherson, 1805: 21; Pitt Papers, 295; Ehrman, 1969, 1: 245-46).

Severe penalties for fraud invariably included forfeiture of the concealed commodities as well as any transport employed in smuggling. Merchants caught selling illicit products often had their licence to trade revoked and incurred heavy fines and lengthy prison sentences. If public opinion tolerated tax evaders, the law compensated by harshness and the legislature frequently reacted to reports of increased evasion by raising penalties. Heavy duties on a commodity thus frequently conjoined with commensurate punishments and when high profits could be made from tax evasion Parliament ensured that risks stood at a comparable premium (Hamilton, 1791: 57; Customs, 1818).

Possibilities for fraud and the risk of apprehension varied from commodity to commodity, county to county and between departments responsible for tax collection. Outlay taxes came under the jurisdiction of four departments: the Customs retained responsibility for duties levied upon imports, exports and goods carried coastwide; the Excise Department collected taxes upon domestically produced goods and services; the Board of Stamps supervised duties imposed on a wide range of legal and commercial transactions and the Salt Commissioners managed the levy on salt. Just before the French wars the Excise Department collected the highest proportion of total tax revenue followed by the Customs, the Board of Stamps, the Board of Taxes (responsible for direct taxes) and the Commissioners for Salt.<sup>4</sup>

<sup>4</sup> CC. on Income and Expenditure, RCHC 11, 1791:, appdx. A.1. I have excluded from consideration the Commissioners for Hawkers and Pedlars, the Commissioners for

The departments cannot be clearly demarcated by the type of taxes they managed. For example, the Excise Commissioners shared responsibility with the Customs for collecting duties on imported tea, tobacco, wines and spirits. Not all taxes managed by the Board of Stamps were imposed by way of affixing official stamps to legal and commercial documents. Furthermore the Commissioners for Customs exercised wide executive responsibilities for a complicated network of shipping and navigation laws (Binney, 1958: 29-31; Nodin, 1792). For present purposes it is, however, sufficient to consider smuggling as a concern for the Customs administration; evasion of taxes upon domestically produced goods as a matter for the Excise and the non-payment of dues and fees upon legal and commercial instruments as a problem for the Board of Stamps.

Contemporary comment suggests the ratio of actual to possible tax receipts from the Customs fell below that for other departments. Reasons for accepting this opinion are not difficult to find. Tariffs generally attained far higher levels than taxes upon domestic products, partly to protect industry from foreign competition. But since highly taxed imports yielded little income for the State they are not my concern, except in so far as they gave impetus to smuggling in general (Nodin, 1792; Acs. 1830, 25: 1-19). Only a narrow range of imports made significant contributions - tax revenue - tea, tobacco, wine, spirits, sugar, dried fruit, raw and thrown silk, Indian textiles, hemp, timber, iron, and coal carried coastwise (See Table 1). From this list the Government had imposed relatively low tariffs on industrial raw materials. Moreover, timber, iron, hemp, and coal hardly met the smugglers' requirements for commodities light in weight, easily concealable and with wide markets inland. Other imports listed above fit these criteria and it is hardly surprising to find such commodities as tea, wine, tobacco, brandy, silks, cambrics, muslins, calicoes and lawns frequently mentioned in contemporary reports of smuggling (Pitt Papers, 283, 294, 295, 298; T1/754/3678; T1/825/2825; CC. on Illicit Practices, RCHC 11, 1783: 228, 229, 231; Cross, 1978: 308; Hamilton, 1791: 18).

The Customs Department faced a highly organised conspiracy to defraud the revenue. After the American War smuggling was carried on by

gangs of skilled seamen, sailing speedy vessels, fully armed to resist arrest on sea or land. Companies, set up on the European mainland, managed the business of running goods into Britain and established entrepôts at Jersey, the Isle of Man, or more commonly, Ireland, for the transshipment of produce into smaller and lighter craft properly equipped for the trade (CC. on Illicit Practices, RCHC 11, 1783: 228-231, 263; TI/825/2825; TI/754/3678; TI/755/4016; Pitt Papers, 283, 294, 298; Liverpool Papers, 38262/186; Atton, 1908: 184, 293, 331; Cross, 1978: 239, 315). The re-export trade also provided smugglers with great opportunities for fraud. Imports re-exported from Britain received drawbacks, that is a repayment of the duties levied when the goods first landed. Smugglers reloaded tobacco, spirits or silks onto vessels designed to run contraband, falsely declared the ship was bound for foreign ports and relanded the cargo along the coast (Nash, 1982; Pitt Papers 297; CC. on Illicit Practices, RCHC 11, 1784, 85: 273, 285; Rive, 1929: 560). Once ashore contraband passed quickly into the hands of consumers through equally well established channels of internal distribution, embodying as one letter to Pitt put it, "opulent farmers, overgrown landlords and dealers in spirits and tea who revel in luxury at the expense of the public" (Pitt Papers, 274). Sometimes smugglers became powerful enough to forcibly run contraband under the eyes of intimidated revenue officials, but more frequently they utilized inaccessible or remote creeks and inlets along the coasts of Scotland and North or South Western England to conceal their illegal trade (Nash, 1982; Pitt Papers, 283; Cross, 1928: 239, 308; Rive, 1929: 565-66). At all times they exploited weaknesses in the local Customs service and derived protection from the sympathetic attitude of the populace, including those responsible for upholding law and order (Atton, 1908: 84). Thus ferocious punishment proved to be an inadequate deterrent because it prompted people to aid smugglers to escape grim sentences and justices to be more than merciful in enforcing legislation (Hamilton, 1791: 51,128; Hughes, 1934: 200, 330; Leftwich, 1930). Prevention, the Committee Investigating Illicit Practices recognised, "depends upon executive power not just laws" (CC. on Illicit Practices, RCHC 11, 1785: 284). Unfortunately, the Preventive Service suffered from all the weaknesses of Customs administration in general as well as being afflicted by several inefficiencies of its own. That service included organized patrols by revenue cruisers around the coastline, backed up by mounted patrols of "Riding Officers" along the shore and an intelligence service which through the medium of well rewarded in-

formers, provided the Board of Customs with information about smugglers' plans in particular localities. On their side the smugglers planted agents within the Customs service and the violence they wreaked upon known informers was extremely savage (CC. on Illicit Practices, RCHC 11, 1785: 285; Atton, 1908: 241, 296; Hoon, 1938: 187, 230, 233, 316; Customs, 1780-1814: 495, 514; Customs, 1-15).

Administrative exertions to put down smuggling became more vigorous in the later years of the century. Between 1763 and 1783 the number of armed cutters employed by the Customs nearly doubled. Their rights to detain ships sailing along the coast extended by the Hovering Acts of 1784 and 1786 (CC. on Illicit Practices, RCHC 11, 1783: 228, appdx. 1; 24 G.3.c.2; 26 G.3.c.40). As a result, in just over two decades the value of contraband seized by the Customs also doubled - which might, however, be more an indication of the enlarged scale of smuggling than a tribute to the improved efficiency of the Preventive Service (Cross, 1928: 256). Although the crews of revenue cruisers received a bonus, varying between 30% and 50% of the seized contraband, Customs Commissioners, experienced great difficulty in keeping cruisers at sea. The need for the entire force to be always afloat must, however, have arisen because the total number of vessels and mariners available for patrol proved inadequate to the demands made upon them. Furthermore, the durable and seaworthy craft employed by the Customs often proved too slow to apprehend the lighter and more speedy boats used by smugglers (Pitt Papers, 284; Hoon, 1938: 180-181, 219, 235, 286; Leftwich, 1930: 196-197; CC. on Public Accounts, HCJ, 42, 1787). Here a misplaced emphasis by Parliament on reducing the cost of collecting revenue probably cost considerably more than it saved.

But the land Guard constituted the weakest link in the Preventive Service (CC. on Illicit Practices, RCHC 11, 1783: 228; O'Brien, 1988). Mounted and well armed, Riding Officers had not, according to Musgrave (Commissioner for the Custom in 1782) shown themselves "sufficiently numerous or resolute to prove any serious obstacle to the large bodies of armed smugglers that infest the coast" (Hoon, 1938: 185; T1/794/4027). They could cope only with isolated and small scale evasion, not with the organized and systematic smuggling of the late eighteenth century.

Just prior to the wars with France the Government introduced several measures designed to help the administration cope with the enlarged scale of smuggling. Apart from tightening the laws restricting ships hov-

ering off shore, in 1786 Pitt introduced the Manifest Act which compelled vessels engaged in the coasting trade to obtain manifests of their cargoes which could be checked by Customs officials on landing. Ships from foreign ports obtained manifests from local British consuls. George Page, the Secretary to the Treasury, declared the Hovering and Manifest Acts checked smuggling, but how effectively is impossible to say (Rose, 1792: 5-6; T1/754/3801).

Pitt's other reforms aimed to control inland channels of distribution of smuggled goods. Thus he extended the system of dividing the assessment of duties upon cocoa, coffee, tea, spirits, wine, and tobacco between the Customs and Excise departments. Tariffs continued to be collected by the Customs as these products arrived at British ports but Excise officers levied duties upon licenced dealers in beverages, tobacco, and spirits. Assessment took the form of periodic checks upon their stocks and included a check upon records of receipts and sales. By controlling internal trade Pitt hoped to detect contraband and thus to arrest both smuggling and fraud by Customs officers. But excise officers found the task of checking the stocks and sales of traders very difficult, particularly in districts where numerous merchants operated in a very small scale. In time administration became less and Excise officers tended to rely on the dealers own reports on the volume of his stock and traders found it easier to conceal contraband. This Survey and Permit Law did, however, have the merit of associating the Excise in the battle against smugglers (CC on Excise, 1833, 21: 422-428, 435, 457; CC on Excise, 1834, 24: 239, 242, 245, 249, 260, 277; Hersee, 1829: 251, 261, 451; PH 25: 1434-36; Mui, 1964: 234, 245-253).

By comparison the problems encountered checking the evasion of excise duties proved much less intractable. Excise duties were collected from manufacturers of beer, bricks, candles, cider, glass, malt, paper, spirits, soap, starch, stone bottles, sweets, vinegar, and gold and silver wire; the tanners of hides and skins, the growers of hops and the printers of silks, muslins, calicoes, and linens. The department also collected from the manufacturers of all exciseable commodities, as well as from dealers in tea, coffee, cocoa, wine and spirits, tobacco and silver and gold plate. In addition it administered the duty upon all sales of property by auction and shared responsibility with the Customs for taxes upon imported tea, coffee, cocoa, tobacco, wines and spirits (E/11863; E/11894; Nodin, 1792). Since an excise, strictly defined, is a tax levied upon a domestically manufactured product, the Excise officers clearly

had responsibilities wider than the assessment and collection of excise taxes, but the bulk of revenue collected by this department came from excises proper.

From a local office, officials called Gaugers, made periodic visits to plants making taxed commodities and calculated the quantities liable to tax. By 1778 all makes of exciseable goods were surveyed daily. Gaugers' surveys were aggregated and the required sum collected about every six weeks by local Collectors.<sup>5</sup> Evasion of excise duties arose in two ways: first through production by illicit manufacturers who deliberately refrained from registering with the Department; secondly licensed manufacturers could defraud by concealing part of their output from the Gauger. The relative importance of these distinct modes of evasion varied from tax to tax and depended to a considerable extent upon the possibilities open for fraud with different processes of production. Illicit manufacture flourished when the excised product would be made rapidly, unobtrusively and with relatively little equipment. Commodities which met such conditions included candles, soap, starch, spirits, beer and malt. For this group clandestine manufacture posed a definite problem to the Department (Owens, 1879: 77, 334, 340; T1/754/3803; T1/754/3801; T1/754/3803; T1/868/4372; T1/984/3295; Pitt Papers, 274, 296, 301; Hamilton, 1791: 38). At least this kind of fraud was more common than for the manufacture of commodities like glass, paper, and bricks; the tanning of leather, the refining of salt or the printing of textiles.<sup>6</sup> Up to 1780 the law permitted private manufacture of malt, spirits, beer, cider and candles for family consumption, but people so abused these concessions that by 1792 they all had been revoked except for beer and cider. Despite Pitt's intention, he was not able to prevent private brewing from continuing to be a source of tax evasion ("Instructions for Country Excise", 1781; Hamilton, 1791: 40; Smith, 1776: 845; Owens, 1879: 77, 340; T1/754/3801). Frauds in relation to salt occurred principally as a result of the privileges afforded fish curers (who could buy their salt duty free and transport it coastwise to their plant) and also because of the lower duties paid on Scottish salt, clandestinely ex-

<sup>5</sup> The system is described fully in "Instructions to Officers of the Excise". Several volumes of these instructions for the period 1778 to 1828 survive at the Library of Customs and Excise. See also CC. 2 on the Irish Revenue, 1822, 1: appdx. 62.

<sup>6</sup> "Instructions to Officers of Excise" for these commodities, dd. 1778, 1781, 1814, 1816, 1818 and 1828

ported to England (CC. on Salt, 1801: 506-512; TI/754/3683; TI/726; HCJ 10).

Licensed manufacturers had a positive interest in concealing from the Gauger, but their propensity to evade tax varied not merely with the rate of tax, but also with the scale of production. Larger firms, the Excise discovered, were less prone to risk fraud than smaller enterprises anxious to expand and with little to lose if detected. For this reason, and because it took less time and expense to survey a few large enterprises, Excise Officials preferred large firms and the regulations governing certain taxes prescribed for the capacity of plant which could be licensed, for example, to distil spirits, or to make soap and starch (CC. on Illicit Practices, RCHC 11, 1785: 287-288; CC.7 on Excise, 1835: 301, 10-14; Hamilton, 1791: 117; CC. on Scottish Distilleries, RCHC 11, 1798: 308). Manufacturers of most excised products found themselves tightly regulated. For example, glass manufacturers had to notify the local Excise Office before they commenced operations and a Gauger had to be present during production. Similarly every step in the process of making starch, soap, and tobacco was controlled by officials (O'Brien, 1988). Excise officials stamped leather, paper and textiles which had paid tax, a device which, if the manufacturer tried to sell contraband produce, added to his risk ("Instructions to Excise Officers"; TI/754/3801; TI/868/4372). Over the 18th century as they gained experience and knowledge, the Commissioners for Excise framed codes governing the assessment of taxes in order to make it difficult for licensed firms to evade liability. Moreover, the capacity of manufacturers under their survey was usually known at the Local Excise Office. Inexplicable fluctuations in production immediately aroused suspicion, and when the Commissioners on Illicit Practices reported in 1783, they found the system of regulations governing the manufacture of spirits and beer inadequate for protecting the revenue, and recommended that Excise Officials be allowed wider rights of access and be given more controls over the process of brewing and distillation (CC. on Illicit Practices, 1783: 232; TI/754/3801; Excise, "Town Instructions", 1781: 25-77). Yet, overall, it seems reasonable to conclude that the volume of production concealed from the Excise by licensed firms probably constituted a less important source of loss to the State than illicit manufacture.

Not all duties collected by the Commissioners for Stamps represented payment for the impressment of stamps upon legal and commercial documents. The Commissioners also managed taxes levied on the pro-

duction of newspapers, cards, dice and gold and silver plate; on the sale of advertising space by newspapers, patent medicines, perfumes, toilet requisites and gloves; and upon the hire of carriages and horses. They also collected licence fees for their occupations from pawnbrokers, attorneys, notaries, gamekeepers, pedlars, hawkers, conveyancers, horse dealers, and coach proprietors.<sup>7</sup>

But the bulk of revenue paid into the Exchequer by the Commissioners consisted of stamp duties payable in respect of property deeds, bonds, marriage certificates, the transfer of stocks, the admission to a wide range of professions, degree certificates, articles of apprenticeship, affidavits, probates, and other legal documents. Stamps had also to be affixed to fire insurance policies, bills of exchange and commercial receipts (I Comms. of Inland Revenue, 1857, 4: 20-31). Since the documents or instruments drawn up for such commercial or legal transactions could not be produced in a court of law unless stamped it was in the interest of the parties concerned to meet their liabilities. To protect the revenue still further the law imposed heavy penalties on lawyers who drew up unstamped legal documents (Hughes, 1941: 249, 252). Some fire insurance companies evaded tax by issuing continuation certificates instead of new policies to their clients, and the probate duty could be avoided by executors not proving wills. Yet compared to almost all other taxes, evasion of stamp duties seems minor. Neither the Commissioners on Illicit Practices of 1783, nor the Finance Committee of 1797 considered the department worth investigation (Pitt Papers, 274, 277, 290). Sheridan rightly observed that losses incurred by the Commissioners for Stamps arose principally from small groups of taxes not stamp duties at all (PH 25: 1421) such as cards and dice, patent medicines, and above, all, through fraud by the proprietors of stage coaches (Dowell, 1888: 366-67; CC.14 on Irish Revenue, 1826, 10: 80). For this last tax, imposed at a penny per mile travelled by any public coach, the department found impossible to check the underdeclaration of mileage accounts rendered by carriage proprietors. It appointed Inspectors to travel the roads and survey coach routes. Occasionally the Commissioners enlisted operators of turnpike trusts to keep records of coach movements for the

<sup>7</sup> This list is not intended to be exhaustive. It is difficult to find breakdowns of stamp revenue for the years before the war. See CC. on Income and Expenditure, RCHC 11, 1786: appdx. A 1 and C17/17 for 1795.



department, but the nature of the tax made it all too simple to defraud with impunity (IR/547). Similar problems had arisen with the duty imposed on post horses let out to hire - also rated on a per mile basis. Here the temptation for proprietors to charge the duty and pocket most of the proceeds proved so strong that in 1787 Pitt took the unusual step of farming the tax (Binney, 1958: 44-45; PH 26: 1035).

Total receipts available for the Central Government were further reduced by the administrative charges of collection. During the late 18th century Parliamentary attention appears to have been focussed primarily upon the possibilities for lowering these charges. Almost all Committees reporting upon the public income, published statistics which showed up disparities in cost per unit of revenue collected between different departments. Politicians widely and uncritically accepted this ratio as an index of efficiency and regarded its variations over time as signs of improvement or deterioration in the competence of the departments (CC. 14 on Public Accounts, HCJ 41, 1786: 9; CC.4 on Finance, RCHC 12, 1797, 54; CC.8 on Finance, RCHC 12, 1797: appdx. A.9, 223-225; Anon, 1781: 72-73). Thus the Commissioners for Customs, Excise and Stamps made every effort to avoid enquiries from Ministers as to why their collection charges had risen. But, as a standard of comparison, the ratio of management charges to total tax receipts had definite deficiencies. The Commissioners for Customs administered the country's navigation laws, quarantine regulations, commercial policy and coastal protection, but the Treasury compared departments' total management charges (expressed as a ratio of duties collected) to the chagrin of the Commissioners, with that of the Excise department which did little more than administer internal taxes (4 Comm. on Finance, RCHC 12, 1797, appdx. A). Some taxes inevitably became more difficult and costly to collect than others, because they opened different opportunities for evasion. Thus excise duties, difficult to evade, were intrinsically cheaper to collect than Customs duties. Furthermore, any factor which added to the revenue gathered by a given department (such as increases to the volumes of production and trade), without at the same time raising management charges, lowered unit costs of collection.

The central weakness of this ratio is best revealed by the approval bestowed upon the collection of direct taxes for being "cheap". Of course amateur administration was cheap, but it was also grossly incompetent looked at in relation to the amount of revenue which might have been collected by a professional organisation applying the letter of the law. No

doubt the movement for "Economical Reform" accomplished some necessary reductions in the salary bill by abolishing a number of sinecures in the Customs; but they were insignificant compared to what might have been achieved if Parliament had paid full attention to the overall problem of administrative efficiency (Norris, 1963: 199-201, 210-11; 14 Comm. on Public Accounts, RCHC 11, 1786: 10-11, 18-21, 24-25; 4 Comm. on Finance (RCHC 12, 1797, 57-58). More revenue would have been collected at lower cost if departments had been staffed and organized with an eye to maximising yield from taxation.

Administrative efficiency depends principally upon creating the kind of organization appropriate to its tasks; appointing people to different posts within each Department and creating a balance of initiative and control which ensures diligence and application to duty. Appointments to the Customs department were made either by the Commissioners for Customs, the Treasury or the Crown. The Crown held title to a number of important posts in the service, called patent offices. Some had become outright sinecures, but to others definite and important duties attached. Aristocratic nominees usually filled patent offices and they seldom took a direct part in administration, but appointed deputies to undertake their duties in return for part of the emoluments attached to the job (Noon, 1938: 7-17, 20-25, 131, 167, 196; 14 Comm. on Public Accounts, HCJ 41, 1786, 10-11; Pitt Papers, 285). Minor posts throughout the service were filled by the Commissioners for Customs but most of the more responsible jobs in the department (including sometimes deputies, nominally appointed by the Patent Officers of the Crown) came under Treasury control or influence. Appointments to the Customs formed part of the 18th century system of political patronage with posts filled by the nominees of aristocrats or members of Parliament whose patrons thus received reward from My Lords of the Treasury for their support of Governments of the day (Noon, 1938: 20-22, 50, 197, 200-202; Thompson, 1938: 234-37).

Patronage can be defined as a system of appointment in contradistinction to selection through competitive methods and implies that jobs in the public service went to those who enjoyed the favour of men with powers of nomination. Treasury patronage managed with a view to the Government's political advantage, led to a greater inefficiency than appointment by Commissioners heading departments, who under pressure had at least some interest in the competence of the men under their command, pressure from Parliament to collect their taxes as cheaply

as possible.<sup>8</sup> Patronage does not necessarily mean the incompetent obtain office, but unless certain criteria for nomination or some system of training are established this is likely to result. Yet not until 1786 did the Treasury fix a general age limit of 45 for admission to the Customs. For a number of subordinate posts some ability, after training, had to be demonstrated before the Commissioners confirmed appointment and for the senior positions of collector and controller (the officials in charge of managing the outports) in 1787 they imposed six months' training after admittance to the department (Noon, 1938: 204-207). From all accounts the calibre of men appointed to manage and collect tariffs seems anything but impressive. In 1782 a Commissioner of the Customs deplored the appointment to the important office of Collector of "Country Fox-hunters, Bankrupt Merchants and Officers of the Army and Navy - without the least previous knowledge of the business of the Revenue and too late in life to acquire it - so that they are totally unfit to keep good order in the port or to be the representatives of the Board..." (Cross, 1928: 1250). Hoon's survey of Customs personnel leads her to the conclusion that "customs offices of the 18th century sometimes existed less for the collection of revenue than for the collection of favours" and that "the appointment system was open to abuse at every turn and efficiency suffered accordingly".<sup>9</sup>

Appointments to the Salt Department also suffered from Treasury patronage and a report of 1796 suggested that "the present relaxed state of discipline and inattention to duty in the officers in some places are principally owing to a defect in the judgement and experience of the collectors or chief officers appointed over them" (Hughes, 1934: 306, 308, 311). Administration of stamp revenue differed from other departments in that tax payers made their liability known as and when they required stamps. Commissioners for Stamps did not therefore supervise a body of officials charged with the assessment of recalcitrant taxpayers, but collected duties difficult to evade. Stamps reached the public through Distributors, who in effect retailed stamps for the Government at a poundage rate of 1/- for every £100 of stamps issued (Hughes, 1941:

<sup>8</sup> E. Hughes, (1934: 267-69, 306-08) considers that Treasury interference led to inefficiency but Norris, (1963: 210-13) regards the influence of the Treasury with favour.

<sup>9</sup> Noon, 1938: 202, 211, 229. The Commissioners for Customs in 1857 noted that officers in the outports were "too often people who had fallen in trade", 1 Comm. for Customs, 1857, 43: 3-8.

246; CC. on Starnps, 1821, 10: 274-276; CC.6 on Finance, RCHC, 12, 1797: appdx. 7). On appointment distributors gave heavy security for their office as a precaution against default and they appointed sub-distributors for the particular areas under their charge (15 CC. on Irish Revenue, 1828, 13: 27-28). Thus administrative problems in the Stamp Department were concerned less with personnel and more with creating a system of accountability to prevent stamps reaching the public through illegal channels. Here the head office was sought to protect the revenue from internal fraud by checking and counter-checking the distribution of stamps and stamped paper. No information is available on how well the department performed this important function but in the early 19th century reports revealed an unfortunate lack of diligence (CC. 13 on Irish Revenue, 1826, 101: 8-14).

On matters of selection, training and promotion of personnel the Department of Excise enjoyed approbation as a model of revenue administration (Smith, 1776: 835; Binney, 1958: 41; CC. 20 on Excise, 1836, 26: 183; Owens, 1879: 9-10). Top jobs in the department such as the Commissioners and Solicitor General came under the Crown but all other posts remained at the discretion of the Commissioners themselves and they demanded fairly strict qualifications as to age, literacy and numeracy from candidates seeking entry as Excise Officers. Candidates received appointments as "expectants" and a thorough training before being admitted to the permanent staff. Compared with their Irish counterparts, who came from a higher social strata, English Officers, as one Solicitor to the Excise observed, were "sober and industrious" (Pitt Papers, 317; Acs. 1823, 121: 635; CC. on Irish Revenue, 1822, 20: appdx. 73, 94). The feature of Excise administration which excited most praise was its system of promotion. Except for very top appointments, promotion normally went to officials within the service who had, over a lengthy and carefully observed probationary period, demonstrated their merit, a sharp contrast to Customs Administration where senior officials often originated from outside the Service.<sup>10</sup>

Honesty and application on the part of revenue officials also depended on the levels of salaries and modes of remuneration adopted for the

<sup>10</sup> The system is described in Pitt Papers, 317; E/8088-93; "Expectants, Appointments and Instructions", 1790-1822; Excise Minute E540/387 et seq. and Owens, 1879: 125, 176, 410.

payment of public servants. But concern with the ratio of management charges to tax receipts encouraged the Commissioners of Excise to be myopic in their attitude towards Salary revision. After years of discontent and agitation, the Excise Officers secured a general rise in 1788; their first for a century. Apparently the Commissioners were pushed into pressuring the Treasury for the increase because many excise officers had found it necessary to take part-time jobs in order to supplement their earnings.<sup>11</sup> According to a Survey of 1796, salaries in the Salt Department stood at a level which made officers "liable to pecuniary temptations and bribes" (Hughes, 1934: 346; Pitt Papers, 292). The remuneration for distributors of stamps by a poundage rate fixed in 1765 had resulted, with the rise in the average rate and extension of stamp duties to a whole range of new legal instruments, in some unnecessary collection costs and the Select Committee of 1797 felt the rate might be reduced without endangering the revenue, an opinion not shared by the Commissioners for Stamps (6 Cttee. on Finance, RCHC 12, 1797: appdx. 7; Pitt Papers, 290; T1/842/3769).

But the mode of remuneration which compelled merchants, manufacturers and other taxpayers to pay, over and above their tax liability, fees to the officials who had assessed them, constituted a danger to the revenue and infuriated taxpayers. By 1790 fees had almost disappeared from excise and stamp assessments but remained a significant part of the emoluments for officials in the Customs (E/10776; Ownes, 1879: 25-28; Hersee, 1829: 130). Fees and perquisites paid by merchants to Customs Officers for the complicated tasks involved in assessing their liability to import duties derived both from usage and acts of Parliament but with the tradition of fees went low fixed salaries - too low in many cases for the subsistence of officers (Pitt Papers, 285; CC. 15 on Public Accounts, RCJ, 42, 1787: 2, 28-31; 4 Cttee. on Finance RCHC 12, 1797: appdx. D.4: Noon, 1938: 145, 212, 215). Fees probably originated in an attempt to institute some kind of incentive payments for a department where the amount of work fluctuated with the volume of trade. No doubt the system persisted because the Commissioners wished to avoid adding to costs of collection by paying their officers fixed and regular salaries (Pitt Papers, 285). But, whatever

<sup>11</sup> Pitt Papers, 290; Hughes, 1936: 260-261. The officers petitioned for further increases in 1796, see T.44/38

their origins or rationale, several Parliamentary Committees forcibly condemned fees for the encouragement they gave to collusion between merchants and officials to defraud the revenue. Merchants frequently withheld fees grounded upon usage unless favourably treated by their assessors. As the Commissioners of 1787 saw it "The revenue of the customs rests and must rest upon the integrity and diligence of officers not high in the official scale" who, they noticed, "were continually placed in a situation where the rights of the public and the interests of individual s was opposed" (CC. 15 on Public Accounts, HCJ 42, 1787: 28-29). To protect the revenue from fraud and the merchant from extortion no less than 4 Committees in the late 18th century recommended the abolition of fees. Pitt agreed but the advent of war interrupted his legislation proposals designed to affect drastic changes in the mode of remunerating Customs Officials (Pitt Papers, 285; CC. on Illicit Practices, RCHC 11, 1783: 229; CC. on Illicit Practices, RCHC 11, 1785: 285; Binney, 1958: 32-33).

Given the quality of the personnel, administrative efficiency may still be secured by the creation of the kind of organization within which inattention to duty, mistakes or culpable dishonesty are readily detected. How far 18th century revenue departments secured accountability at all levels of administration is difficult to judge without detailed case studies of their day-to-day business. Their formal administrative structures certainly provided for an elaborate system of check and counter-check upon nearly every task connected with the assessment and collection of taxes. A striking feature of 18th century revenue administration was the large number of officials, whose jobs consisted in checking the functions performed by more junior officers. For example: the basic unit of Excise administration was the district. Within each district gaugers assessed the liability of manufacturers to tax. Supervisors, in charge of districts, made continual checks on gaugers' assessments. Their own efficiency was in turn subjected to random check by travelling Inspectors directly responsible to the Board in London. The entire system came under further scrutiny by a group of officials called Surveying General Examiners, who analysed office management, assessment procedures and tax laws in order to bring about improvements (Pitt Papers, 317; CC. 5 on Finance, RCHC 12, 1797: appdx. C.1; 20 Comms. on Excise, 1836, 26: 237, 255-57; Hamilton, 1791). Furthermore, the Board moved Officers to a new district every four years to make persistent collusion with local traders difficult, but whether this device gave any real protection to

the revenue is a moot point. One memo to Pitt argued it had little effect because if an officer became corrupt in one locality he would remain so in another (Pitt Papers, 290; E/27019).

Formal procedures for assessing import duties appear equally involved and careful. When a merchant came near port, Customs Officers, called tide waiters, went aboard to check and guard the cargo and remained on the ship until every item of merchandise paid duty. As soon as the ship docked, merchants attended the Customs house with their invoices and other documents from which their liability was calculated. Before the merchants obtained warrants to unload cargoes, this assessment was checked and counter-checked by several clerks. They then passed the warrants to officers at the quayside called land-waiters who supervised the unloading and weighing of the cargo and checked that it accorded with merchants' statements. If a merchant had deliberately, or in error, under-declared his cargo, he could be detected by the land waiter and surcharged. Obviously land waiters were key officials in the assessment of duties; if they became corrupt or negligent the revenue suffered. For this reason the Board compelled them to work in pairs and to keep full records of the unloaded cargo which could be compared with the records at Customs House. Furthermore, their work on the quays was subject to inspection by higher officials called Land Surveyors. In turn the work of both Surveyors and Waiters was superintended by a small group of Inspectors. Throughout the Customs the checks and counter-checks seem numerous and involved, but the ingenuity of those determined to defraud the revenue appears to have been equal to anything the Commissioners for Customs might devise for its protection (Hoon, 1938: 136-138, 141-142, 161, 245-56; Customs, 1809; Customs, 1780-1814).

As a response to the low quality of public servants, those who had constructed the administrative machinery for the assessment and collection of taxes established elaborate and complicated methods to secure accountability. Unfortunately, it is not possible to appraise the workings of the system. No doubt men of the right calibre are more important than administrative machinery. In defence of revenue officials, it must be pointed out the Government called upon them to work within a system of public accounting and administer a network of laws which would have tried the efficiency of any civil service, no matter how competent and qualified. Parliament had imposed upon its undeveloped public service extremely complicated revenue legislation which provided tax-

payers with numerous opportunities for evasion and officials with excuses for negligence. It was often noticed for example that the legislation administered by the Customs Department stood in a class of its own for sheer complexity (Acs. 1898, 85: 12-13; 1 Comms. of Customs, 1857, 3: 323-25; CC.4 on Finance, RCHC 12, 1797: 60). Tariffs reflected the diverse functions performed by the department in collecting revenue, administering the Navigation Laws and protecting domestic industry. Thus a duty on a commodity might vary with its country of origin (Portuguese wines paid lower duties than French clarets) or with the nationality of the ship which transported the merchandise to England (the law imposed higher taxes on goods imported in foreign vessels). Where customs duties had been decreed ad valorem the department employed usually a fixed valuation in order to simplify the procedure, but for a minority of commodities its officers attempted to obtain a current valuation by compelling merchants to declare the worth of their imports. This mode of assessment gave rise to disputes between the merchant and officials and provided both with ways of defrauding the revenue (Acs., 1898, 85: 13-16; Nodin, 1792).

Before the Consolidation Act of 1787, the system of public accounting appropriated duties to particular items of expenditure. Consequently any import might be liable to tax under several acts of Parliament and in some extreme cases commodities could be assessed under as many as thirteen headings. To calculate tax liability required experts who had mastered one or other of those technical guides published to assist both merchants and officials through the maze of legislation (Pope, 1812-14; Nodin, 1792). Furthermore, each tax had to be accounted for separately which made the task of detecting mistakes in the original assessment almost impossible. Pitt's reform of 1787 by consolidating all duties levied upon a commodity under a single head simplified the work of Customs administration considerably (Rase, 1792: 15; Pitt Papers, 305). Pitt also replaced many ad valorem duties by specific taxes which also added to the security of the revenue and brought the Customs into line with other departments. Except for certain imports like tea, coffee, cocoa and spices, sold by public auction in London, the practice of levying ad valorem taxes strained the competence of the revenue departments. Even after his Consolidation Act "the merchant and shipowner still required expert help to enable him to cope with the intricacies" because the new tariff still contained "1200 articles and the laws relative to the Customs filled six large folio volumes" (Acs. 1898, 85: 13).



Excise duties were specific but the Consolidation Act simplified assessment and departmental accounting. Compared to the Customs, excise laws appear reasonably clear, because they consisted of defining liability in relation to fairly specific commodities such as bricks, candles, malt, etc. Complications arose (and with them occasions for fraud and error) when the good could not be classified easily. For example: the numerous grades of paper or tanned hides taxed in different ways and at varying rates of duty engendered perplexity among officials and manufacturers alike. Furthermore, the lower rates of tax, permitted on products delivered as inputs to other industries (salt used to cure fish or hard soap to wash wool) also occasioned fraud disputes and administrative confusion. But in general excise legislation was promulgated simply to provide the State with revenue and was not rendered complex by other aspects of economic policy (Blackader, 1810).

### 3. Taxes and Politics

#### 3.1. *Cannons of Taxation*

In taxation policy the Government also found its initiative limited by Parliament and pressure groups. Only if proposals accorded with the accepted canons of taxation and did not arouse the opposition of politically powerful interest groups could Ministers hope to persuade Parliament to give them legal sanction.

Prevailing notions of distributive justice formed a common basis for opposing or supporting particular taxes (PH, 1782-1792). Most people agreed they should contribute to the needs of the State in proportion to their incomes. Pitt considered it "justice to tax the wealthier in preference to the more indigent part of the community" (PH 25: 552; McArthur, 1801, 4; Pitt Papers, 294). As a corollary to this broad general principle, Parliamentary and public opinion held that the necessities of the poor should be taxed moderately or preferably exempt from taxation, but taxes on luxuries usually received approbation (Kennedy, 1913: 98, 102, 104, 106, 131, 136; Anon, 1771: 65-66; Sinclair, 1802, 2: 6, 167-369; Seligman, 1932: 79, 87-88; PH 25: 552, 787-788; Smith, 1776: 846). The definitions of "superfluous" or "essential" did not worry contemporaries unduly because the essence of the distinction remained normative and few investigated the consumption patterns of various

social classes. Members of Parliament considered tax in isolation and simply assumed that the poor needed to consume certain things (necessities) and if they chose to buy other highly taxed commodities like wine and citrus fruits (luxuries) they did so “voluntarily” and accepted the consequences. They regarded taxes on salt, candles, beer, cider, soap, coal, starch, leather, and malt as departures from the principle of not taxing necessities (Sinclair, 1802, 2: 367, 375; Smith, 1776: 839, 842; Kames, 1774: 484; PH 24: 1029; PH 28: 1192, 1201; Dobbs, 1784: 4). On the other hand, contemporaries accepted duties on male (but not female) servants, carriages, pleasure horses, larger houses, wine, spirits, imported foodstuffs (such as sugar, dried fruit, nuts, citrus fruits, spices, etc.) glass, printed muslins, calicoes, and linens, tobacco and all stamp duties as taxes on luxuries (Sinclair, 1802, 2: 379; Smith, 1776: 836-837; Whately, 1769: 6; PH 25: 558-562, 812). They considered spirits a particularly eligible luxury because whisky and gin consumption had such infelicitous effects upon the health and morals of the labouring classes (Hamilton, 1791: 35; Smith, 1776: 842; CC. on Scots. Distillery, RCHC 11, 1798: 322; Sinclair, 1802, 2: 367). Tea gave rise to some contention as its status changed from a luxury to a necessity (PH 24: 1342-1345; Pitt Papers, 294). Finally, because several major excise duties fell upon necessities and some customs revenue came from imported luxuries, indiscriminate opinion tended to condemn all excises as taxes on necessities and approve of customs duties for falling upon foreign superfluities (Kennedy, 1913: 29, 30, 37, 98, 136; Mortimer, 1801: 450; Seligman, 1932: 780).

Another corollary of the general tenet that taxes should be levied in accordance with people's ability to pay, was that partial taxes should not be sanctioned. Thus Fox warned Pitt, “in imposing new taxes care should and might be taken to avoid the imposition of any that were grossly partial and oppressive upon one description of people” (PH 25: 782, 480; Anon, 1785: 4). The Chancellor concurred. Partial taxes seem difficult to define and Lord Grenville pointed out, every tax must be more or less partial (PH 28: 1021, Lawson, 1984). But Grenville spoke disingenuously. Men condemned taxes as partial if they clearly offended the cannon of ability to pay and fell upon particular social groups. They rarely opposed taxes upon luxuries as being partial, even though luxuries were consumed by a small class. The stamp duty on commercial receipts was condemned by Lord Sheffield and Henry Thornton resisted on such grounds because they maintained the tax fell with particular

severity upon middling tradesmen (PH 24: 101 and 109). Pitt regarded the coal duty, paid almost entirely by London consumers, as partial, but he refused to accept that his shop tax of 1785 favoured certain kinds of shopkeepers over others (PH 24: 1027; PH 25: 559, 779-82, 786, 793-94, 1234-35; Pitt Papers, 301). On the other hand contemporaries considered it laudable to single out for higher taxes certain groups who incurred social disapproval, such as bachelors, for failure to propagate the English race, hawkers for acting as agents to smugglers and shopkeepers for being parasitic members of society (Gray, 1786, 8: 10-12, 34).

Time after time during the 18th century whenever a Chancellor proposed excise duties he aroused the cry of liberty. Vociferous opposition to excises upon political grounds, conspicuous during the eighties, echoed a tradition which went back to Walpole's excise scheme of 1733 and Bute's cyder tax of 1763; and unless we agree with Steuart's cynical comment that "the objection from the infringement of liberty is more a pretext in order to facilitate fraud than anything else", the basis of the objection must be found elsewhere (Steuart, 1767: 516; Turner, 1927: 35-39; Brisco, 1907: 105-111; Steven-Watson, 1960: 60-64; PH 25: 541-546, 795-811, 1438; PH 26: 116-118; PH 28: 231-233, 248-250, 277, 654-655, 665-678; Sinclair, 1802, 2: 366). Sheridan candidly revealed his prejudice when he pointed out that "the collection of taxes required revenue officers the appointment of these being on the executive government would necessarily extend the influence of the crown and that extension must necessarily be at the expense of the right of the people" (PH 25: 651). This particular objection seems to apply, however, to taxes in general, but granted the need for public finance, there remained two objections of substance to excise duties. First, most offenders against excise laws had their trials conducted by excise officials and not by ordinary courts. Dr. Johnson's Dictionary defined excise as "a hateful tax levied on commodities and adjudged not by common judges of property but by wretches hired by those to whom Excise is paid" (Owens, 1879: 2; Hughes, 1934: 327-331; CC.9 on Irish Revenue, 1824, 11: 307-323, appdx. 4). But in official eyes administrative justice seemed cheap and speedy and had the merit of being an efficient deterrent to tax evasion. For its opponents such procedures represented nothing but "foul despotism" (Hughes, 1934: 327-332; PH 25: 541-546, 795-811; PH 26: 116-118, 123-124; PH 28: 669-688). Whether administrative justice could be described as moderately or tyrannically imparted by Excise Commissioners cannot be determined, except by careful evaluation of

particular cases, but Pitt appeared sufficiently worried by the attacks made upon his policy of transferring import duties to Excise management that in 1790 he investigated the department's judicial process (Pitt Papers, 290). As he made no attempt to reform it, we might assume that in the opinion of a Prime Minister, who (at that time) could not be described as indifferent to questions of freedom, the system afforded adequate protection both to the subject and to the revenue.

Another political objection to excise duties arose from the very wide powers exercised by revenue officials over manufacturers and their property, and perusal of the excise statutes in operation will certainly reveal the force of this contention. The excise officers afforded rights of entry to all places where excised commodities were manufactured and for some goods it prescribed the type of equipment which could be used and the times when production might take place (Blakader, 1810; E/11356; "Instructions for Country Excise", 1778). No doubt Chancellors found it necessary to protect the revenue from fraud, but equally Fox and many like him felt impelled to resist all extensions of excise. As one City member declaimed "we might pay too dearly even for revenue" (PH 28: 182, 255). Certainly in the range and stringency of its regulations as well as in the provisions for punishing those who infringed the statutes, excise legislation exhibited features (not characteristic of other branches of revenue) which made it repugnant to the liberal sentiments of the age.

### 3.2. *Pressure Groups*

No good study has yet been made of the organization and mode of pressure group activity in the late 18th century, but it is obvious from the debates on taxation policy that the House of Commons contained spokesmen for the West India planters and traders, for the mercantile marine, for the East India Company, for the Bank of England and for particular industries as well as the more amorphous and less organized groups of members connected with the concerns of the City of London, and a majority who spoke for agriculture as a whole. These men spoke to defend particular industries or sectors of the economy against the exactions of the State and to obtain advantages for the interest they represented vis-à-vis competitors' domestic and foreign. Thus the West India interest pressured to maintain tariffs on foreign sugar, coffee, cotton and indigo,

at prohibitive heights and to widen the duties on sugar imported from the Caribbean and from Bengal. Given the fluid nature of political allegiance, Governments of the day had to cultivate members of Parliament and to modify taxation policy in order to retain their support.

Another technique open to pressure groups seeking to avoid taxation were to petition Parliament. Journals of the House are full of references against particular taxes, which usually asserted that the tax in question would ruin the industry involved or in some way react adversely on the national interest. These petitions often formed the subject of investigation by Committees of the House who reported to the Government on the potential effects of the proposed changes in taxation. Petitions sometimes formed part of a well organized campaign designed to mobilise public opinion against changes in taxation.

Pressure groups also attempted to exercise influence directly upon Ministers and departments of State concerned with revenue such as the Treasury and the Committee on Trade and Plantations. The papers of Pitt, Huskisson, Vansittart and Liverpool contain abundant examples of letters and memoranda designed to prevent or modify some proposed change in taxation. Statesmen sometimes consulted interested parties before proceeding with a new tax. Letters to the Treasury and to the departments responsible for the collection of revenue are on the whole concerned with the interpretation of tax law. But letters to the Committee on Trade contain more evidence of the attempts by interest groups to influence the formation of policy. Manufacturers might for example request the Committee to impose higher duties on rival products imported from overseas or merchants sought to bring about reductions in the tariff (Series T.I. under Customs, Excise, Stamps and Taxes, E/48/26-70 A Correspondence with Treasury; Customs, 30/9 - Correspondence with the Treasury, BT4 and BT5).

Towards the end of the century pressure from traders and manufacturers became a more obvious influence on questions of economic policy particularly taxation. While the extent of this influence is more often assumed than proved, it has been traced for the commercial negotiations with Ireland during 1785 when Pitt's attempt to place the tariff systems of both countries on a footing of equality was frustrated in large part by the organized pressure of commercial interests who opposed alterations to the system of Imperial trade (Harlow, 1952, 1: 565, 569, 592, 595, 597, 607-609; McPherson, 1805, 4: 85-92; Holland-Rose, 1911: 249, 251, 256-266; Pitt Papers, 352). Conversely information and support

from several groups of merchants and manufacturers helped in negotiations for the Anglo-French treaty of 1786. Commercial policy and customs revenue intertwined, but internal taxes were also subject to the influence of pressure group activity (Bowden, 1923: 655-674). During the 1780s organized extra Parliamentary activity prevented a tax being imposed on coal at the mine head and what both Fox and Pitt contemptuously termed "popular clamour" played some part in forcing the Chancellor to abandon taxes on hops and printed cottons (PH 24: 98, 101, 995, 998, 1027; PH 25: 479-482, 780-81, 1165, 1177; PH 27: 1340-63; Dowell, 1888, 3: 19; Stanhope, 1861-2: 222; Pitt Papers, 292, 301; McPherson, 1805, 4: 71).

Apart from raising specific objections to particular taxes (usually to the effect that the tax would ruin the industry concerned) propagandists for commercial and manufacturing interests attempted to induce acceptance of the notion that economic progress depended intimately upon the development of industry and trade and that no tax should be imposed which might impede their growth. They also maintained that excise regulations which restricted the initiative of manufacturers and traders positively impeded industrial progress (Anon, 1785: 3-4, 7, 11, 15, 25; Anon, 1784: 21, 35; Anon, 1785: 3-9-11, 12-19; Wright, 1785: 10, 23, 25, 41-46). Furthermore, several recognised authorities on economic matters pronounced it inexpedient to tax necessities, not on distributional grounds, but because such duties would raise prices; higher prices would lead to higher wages, industrial costs would then rise and British merchandise would be priced out of world markets (Kennedy, 1963: 111, 113, 120-121, 143, 148; Kames, 1774: 470, 477, 484; Dobbs, 1784: 3-4; Smith, 1776: 823-825).

There is little evidence to suggest that views propagated by the manufacturing or commercial interests found strong support among ministers or members of Parliament. On the contrary both Pitt and Fox rejected such ideas (Ehrman, 1962: 180-181, 208-209). MPs who criticised excise regulations, seldom described them as anything stronger than "vexatious" or "oppressive". Pitt was, however, aware that an excise survey might well be "inconvenient" and, in considering a tax on printed cottons in 1785, he consulted the manufacturers as to how it might best be imposed (PH 24: 78-79). From 1782 to 1792 no member of the Commons employed the wage fund argument against taxing necessities, although the objection on distributional grounds found place in most debates. Ideological arguments against Govern-

ment interference with industry and trade probably derived more significance from creating a feeling of common interest among merchants and manufacturers than for their direct impact upon the views of the ruling class.

Government and Parliament had, however, long accepted the view that rates of taxation should not be carried to heights which actively discouraged the development of industry or the growth of exports. Moreover, since the balance of payments formed the focus of mercantilist thought, opposition to taxes on trade derived strength from the prevailing ideology. Thus Ministers considered it best to avoid all levies on exports, except for cases like coal where they thought Britain could turn the terms of trade in her favour (Kames, 1774: 483, 488; Beaumont, 1789: 21-25). Excised products received drawbacks when sold abroad (Blackader, 1810), and certain major industries, like woollens, whose contributions to exports was regarded as vital, did not pay excise duties at all, while "infant manufacturers", such as cotton textiles, pottery, iron ore and metallic products largely escaped taxation. The State fostered industrial development by heavy protection and seldom relaxed it to feed the revenue. Thus essential raw materials not supplied domestically or by English colonies (such as raw cotton, hemp, bristles, certain kinds of timber, barilla, kelp, indigo, and cochineal) remained relatively free from import duties (Nodin, 1792; C/10901). Products utilised as inputs for other industries (for example, soap delivered to the woollen industry, salt used to cure fish, or bleach cloth, starch for the linen industry or tiles for agricultural drains (Blackader, 1810), often obtained exemption or were taxed at less than the standard rate. Pitt recognized this principle in 1784, when he proposed to tax coal entering ports outside London, but promised to except certain kinds of manufacture from the incidence of the tax (PH 24: 1028; Pitt Papers, 222, 301).

In altering or imposing taxes a Chancellor found himself definitely constrained by the tradition of regulation related to Britain's shipping and colonial interests. Since the late 17th century British policy had attempted to monopolize the Empire's carrying trade and with certain exceptions, produce from Asia, Africa, America and British colonies could only be imported in British boats. For the European trade, legislators recognized they could not restrict trade to native ships, but they encouraged merchants to utilise English shipping by levying higher customs duties on goods arriving in foreign vessels (Harper, 1939: 388, 404, 408-409; Beer, 1912: 58-62).

Colonial produce obtained almost a complete monopoly of the domestic market, but (with some exceptions) all commodities traded between various parts of the Empire had at some stage of their journey to be landed in Britain. This imperial entrepot trade provided revenue because colonial produce or foreign exports destined for the colonies paid customs duties on arrival at the metropolitan country, not entirely repaid upon re-export (Beer, 1912: 64, 72, 137, 161, 168). By the end of the 18th century the British navigation code and system of Imperial preference had become a deeply entrenched part of commercial and revenue policy and (as Pitt's attempt of 1785 to liberalize trade with Ireland illustrates) proved difficult to alter without arousing sectional opposition. Certainly the trading system of the Empire could not be manipulated for purposes of raising revenue. Furthermore, over time a great deal of non-Imperial trade came to be conducted within a network of bilateral agreements which circumscribed still more the Government's initiative in collecting customs revenue (C/10901; Nodin, 1792). To disturb the tariff for fiscal purposes proved difficult without breaking trade agreements and inviting retaliation upon British exports. Changes in customs legislation appeared more often as the outcome of protracted diplomatic negotiations than as unilateral acts of Ways and Means by the British Parliament (Ehrman, 1962). Excluding the regulations to check smuggling, very few of the alterations made to taxation law between 1783 and 1792 involved customs duties (Rase, 1792).

Although taxation policy at the close of the 18th century operated within a fairly restricted tradition of laws and conventions, one acceptable plea open to a Chancellor seeking new ways of financing expenditure was one of necessity. Parliament recognized Government had to be carried on and shared Pitt's opinion that "it was difficult to find any tax against which plausible exceptions might be made", because "all the more obvious and eligible objects of taxation were already pre-occupied and almost exhausted, the finding out new sources of revenue therefore was become in a greater degree than it ever had been known an option of evils" (PH 24: 1007; PH 25: 551, 785, 1176). Although his new taxes upon bricks and receipts as well as the additions to levies on candles and coal offended orthodox cannons of taxation, Parliament accepted them as productive ways of raising revenue. Moreover members who opposed revenue proposals felt obliged to suggest alternative taxes (often of a wildly implausible kind) as being less offensive to orthodox doctrine (PH 24: 1350; PH 25: 784). Pitt's attempts to abolish sinecures



in the public service and above all his sinking fund made almost all taxes more palatable because Englishmen could anticipate the day when their burdens would be lightened by the repayment of the national debt. To them the sinking fund represented a trusted promise that taxes, however high or offensive to the orthodoxy of their age, would not persist indefinitely (Sinclair, 1802, 1: 486-87, 496, 499; Grenville, 1828).

## **Conclusions**

By the end of the 18th century the Governments ability to appropriate a greater share of the nation's income was circumscribed in several ways. Most obviously by the perceptible but relatively slow rise in real output. A growth rate of less than 1% per annum was not really rapid enough to finance anything other than comparable increments to public expenditure. Any more expenditure had to be funded by additions to tax rates, administrative reform or an extension of the base for taxation. Most taxes fell upon commodities and services not highly responsive to changes in price and the State could most easily push up revenue by raising tax rates, provided Governments of the day could persuade a Parliament hostile to any additional expenditure to vote the money. Ministers had then to select taxes congruent with the cannons of the age, which did not arouse strong opposition from powerful interest groups such as landowners, the City of London or those influential fraternities of merchants trading with the East and West Indies. Chancellors found themselves circumscribed by the whole system of tariffs, Imperial preferences export bounties and shipping regulations which constituted the core of mercantilist policy. Major amendment to that system, as Pitt discovered in negotiations over Ireland and with France, aroused antipathy from interested groups often powerful enough to modify a minister's plans.

Taxes also had to be feasible. Feasible implied that objects selected for taxation could be defined in law and administered more or less effectively. To an extent impossible to imagine today, the low quality of public administration available to the State narrowed the area of choice in fiscal policy and reduced tax income below possible levels. For stamp duties, the nature of the levies imposed on legal instruments made evasion difficult. For an 18th century department the Excise had attained a remarkable level of efficiency. In contrast the Customs administration had obviously failed to check the vigorous efforts of smugglers and merchants

to defraud his majesty's revenue. As for direct taxes, the insistence of country gentlemen in keeping levies on their property firmly under their own thumbs frustrated the efforts of the Treasury to introduce some measure of central control into their assessment and collection.

Scope for widening the tax base certainly existed, particularly as the most dynamic sectors of industry such as metallurgy, cotton and woollen, textiles, pottery and canal transport remained untapped. But the yield from new forms of indirect taxes seemed unlikely to provide sufficient funds for yet another war and the Government's ability to find money for its foreign policy depended more upon reforms to direct taxes. Here insuperable political and administrative difficulties nullified the effective employment of the land tax while direct outlay taxes (on houses, horses, carriages, and servants) levied on the more affluent classes could be avoided by alterations to expenditure patterns (O'Brien, 1985).

Several suggestions had been mooted for a direct tax on income but one of the most frequent and pertinent objections advanced against it was that the intentions of Parliament would be thwarted by the kind of administrative bottlenecks which marked the history of land tax. Because the land tax had been assessed badly men concluded that other attempts to tax incomes equitably would also fail (O'Brien, 1985; Beckett, 1985; Sinclair, 1802, 2: 18; Kennedy, 1913: 169; Shehab, 1953: 32). At the same time the idea that the amateur and incompetent administration for direct taxes could be replaced by professional civil servants with real ability to implement the law remained repugnant to all sections of the ruling class. Resistance to central power had become a political tradition and, no doubt, the arbitrary nature of centrally administered direct taxes in France strengthened the resolve of country gentlemen to maintain control over direct taxes (Norris, 1963: 110, 200-201).

Paradoxically, arguments from principle might have met with less ready acceptance because general opinion subscribed to the precept that taxes ought to be imposed upon citizens in accordance with their ability to contribute to the needs of Government. Taxes were regarded as payments for State protection. As the rich had more to protect than the poor theoretically they should pay more taxes. 18th century opinion certainly favoured exempting the poor from taxation. Both canons of taxation point logically to the need for a tax upon income, but this conclusion received little support because of administrative objections already outlined and the widespread view that expenditure, rather than income formed a better criterion of ability to pay taxes. Expenditure

taxes had the additional merit of being voluntary, in the sense that every citizen retained the option to consume as much of the taxed commodity as his circumstances permitted. Arthur Young exposed a popular prejudice when he wrote “taxes on consumption are the fairest, the most equal and the least burthensome of all others; every class of the people; every individual in the nation bears his share and that a voluntary share because if he forbears consuming he bears no tax” (Young, 1774).

Furthermore, economic arguments against reform of the Land Tax or the introduction of an income tax were forcibly expressed by some of the ablest minds of the age, who maintained that to tax interest or profits would hinder capital accumulation and thus adversely affect national prosperity (Kennedy, 1913: 125-126). Adam Smith supposed capital would migrate in face of an income tax (Smith, 1776: 800). Commercial and industrial interests readily assented to a reassessment of the tax on land so as to make it more equitable and productive (Brand, 1793: 39, 41, 45-46, 51; Anon., 1784: 19-21; Mortimer, 1801: 444). Landowners and their supporters claimed that reform would be unjust to those who had recently acquired estates because the purchase price of land had been computed in relation to a fixed charge for the Land Tax (O’Brien, 1985; Brand, 1793: 20-23, Beckett, 1985; Turner, 1986). Their more serious objection held that higher taxes upon land would “hinder improvement” or in modern parlance, reduce the rate of investment in agriculture (Young, 1774: 7-8; Steuart, 1767, 2: 518; Kames, 1774: 467). This argument paralleled the case against taxing profits. At the close of the 18th century both the landed and industrial interests were united behind strongly held arguments against reforming Land Tax or imposing an income tax.



# **Administrative and Accounting System of the Army Treasuries: The Treasuries of the Kingdoms of the Crown of Aragón From 1755 to 1765**

*Sergio Solbes Ferri*

This article aims to delve into the eighteenth-century attempts in Spain to set up a more centralised, better informed administrative apparatus with a greater capacity of intervention in the management of the Crown's own fiscal resources. The sinews of war, and even, we might add, of the monarchy's day-to-day government, are represented not only by the money to hand but also by the ability to mobilise it and place the resources in the right place at the right time. The first part of the study looks at the *raison d'être* of the *Tesorería General* (General Treasury) as an institution and analyses its relationship with the provincial *Tesorerías de Ejército* (army treasuries); a model accounting system is then established for analysing the income and expenditure procedures of the *Tesorerías de Ejército*; finally a specific study is made of the performance of the particular treasuries of the old territories of the Crown of Aragón in the period 1755-65, paying special attention to the changes undergone during the Portugal campaign of 1762.

## **1. *Tesorería General* and *Tesorerías de Ejército***

Torres Sánchez's recent study of the *Tesorería General de la Real Hacienda* (General Treasury of the Royal Exchequer) reveals the difficulties in applying a blanket political philosophy during the whole *Ancien Régime* in general and in particular during the eighteenth century, when this aspiration was, if anything, even more to the fore (Torres, 2006 accounting figures in Pieper, 1992: 97-135). This organisation, a *sine qua non* of any administrative overhaul that aimed to centralise revenue and

expenses, was foreshadowed right back in the sixteenth century when Charles V created in 1523 the *Consejo de Hacienda* (Exchequer Council) as the supreme body for all financial affairs, but it was not until 1743 that it could really be said to carry out a regular activity (Dedieu, 1994: 77-98; Nava, 2004: 111-131). The *Tesorerías de Ejército* were subordinated to this institution so the start of their activity should also be dated back to the same period of time.

The development of the *Tesorería General* over time could be summed up in a nutshell as follows: in the sixteenth century it was never really able to fulfil its function efficiently; in the seventeenth century its *raison d'être* then became diluted in the upward spiral of public spending. The Crown's failure to bring its fiscal resources under direct control made any centralising project a pipedream, so it turned more towards the field of private activity, negotiating *asientos* (supply agreements) for one-off military operations. The bulk of the reforms at the end of Charles II's reign showed a desire to bring an end to this progressive dispersion of royal authority. One of the most interesting reforms was the creation of the *tesorerías provinciales*, direct antecedents of our *Tesorerías de Ejército*, with the aim of concentrating the administration and collection of royal revenue in a given geographical area and with subordination to the *Superintendente General* (Gelabert, 1997: 275 and Sánchez, 1996: 49-54). This marked the seminal idea of a new and progressive administrative centralisation but there was still some way to go before it would become effective in practice.

The advent of the French dynasty gave a strong boost to the endeavours in this direction but, as with so many other aspects, the application of any long-term reforms would have to wait for the end of the war of succession, while stopgap solutions were brought in to deal with each passing urgency. In 1703 Orry set up a *Tesorería Mayor de Guerra* (Major War Treasury); this remained up and running until 1718, exercising the functions assigned to the old *Tesorería General* with an eminently executive approach and concentrating on military expenditure (Dubet, 2006; Castro, 2004: 75-78). Its relation with the more long-standing institutions was prickly and its money-drawing power was limited, but it could be said to have consolidated the aforementioned trend towards the concentration of the yield of ordinary revenue in a smaller clutch of treasuries and payment offices. In July 1718 this administrative model was dropped and its functions passed over to a resurrected *Tesorería General* with the decided purpose of ensuring that *all the funds belonging to the*

*Real Erario* (Royal Treasury) are received and paid under a single income and single expenditure procedure<sup>1</sup>.

The existence of the organisation had now been consolidated in this second version but the fall of Alberoni was to bring about a new slow-down or suspension of its administrative conformation. A new lease of life came with the consolidation of Patiño at the helm of the *Secretaría de Marina y Guerra* (Secretariat of Navy and War) in about 1726. This ensured the undisputable superiority of the *Tesorería General* in the management of the royal revenue, defining the funds falling within its remit, the characteristics of its accounts management and its relation with the provincial treasuries that were also receiving their definitive shape at that time as *Tesorerías de Ejército*. The authority of this central body received a further boost in the aftermath of the suspension of payments of 1739, when José Campillo revived the policy of replacing tax farmers by direct administration of royal revenue as well as boosting the *Secretaría de Hacienda* (Exchequer Secretariat) while trimming back the *Consejo de Hacienda's* role to justice tasks (Fernández, 1977: 51-85). Direct revenue administration was the definitive step towards concentration of the accounting system in the *Tesorería General* of Madrid and the effective distribution of funds through the *Tesorerías de Ejército*. This process, as we have already pointed out, could be regarded as complete by 1743; an *Instrucción* published in 1753 signed and rubber stamped the pre-established provisions<sup>2</sup>. From then on and throughout the second half of the eighteenth century these treasuries would be increasingly used as financial intermediaries for payments between the *Real Hacienda*, private individuals and institutions. This institutional set-up was then maintained for quite some time, lasting, with only one break for the independence conflict, until the liberal administrative overhaul began in 1820.

The authority of the *tesorero general* (treasurer general) was subordinated only to the *Superintendente General de la Real Hacienda* (General Superintendent of the Royal Exchequer) and *Secretario de Hacienda* (Exchequer Secretary) and outranked the army treasurers and the rest of the payers, tax farmers or depositors who, although being whittled

<sup>1</sup> *Instrucción 4 julio 1718* (Archivo Histórico Nacional, *Hacienda*, libro 8011, nº 277).

<sup>2</sup> The year-on, year-off system and the indispensable unity of the accounting model was enshrined by *Real Orden* (Royal Order) 24 January 1753 while Nicolás de Francia was treasurer general.

down, still existed in significant clusters around many treasuries. He was empowered to claim any type of accounting information from the *Contadurías Generales* (General Comptroller's Offices) but was also under the obligation to send them an annual report on his own activity for approval and *fenecimiento* (conclusion) (Torres Sánchez, 2006: 6)<sup>3</sup>. His management remit took in the whole net product of royal revenue, funds from the Americas and ecclesiastical revenue, i.e., 99 percent of the yield deriving from regal revenue, not to say 100 percent. This post and that of the army treasurer were *alternating*, for their tenure holders were bound by law to alternate a year in the post with a year off. In practice therefore there were two people alternating in the same post, one governing while the other stood down to carry out what, in accounting terms, are called tasks of *ordenación* (organisation), i.e., presenting the accounts for the year and answering any qualms presented by the *Contaduría* (Canga, 1834/1968, I: 39)<sup>4</sup>.

## 2. *Tesorerías de Ejército*: analysis of an administrative-accounting organisation model

The establishment of the provincial *Tesorerías de Ejército* was marked by the abovementioned development of the dominant institution (Franch Benavent and Jiménez Chornet, 2003: 105-129 and Solbes, 2007:193-218). They were probably up and running from 1727 to 1820 but the documentation is trustworthy only from the period 1744 to 1807 – *Archivo General de Simancas, Dirección General del Tesoro, Inventario 16* (hereinafter, AGS, DGT, Inv<sup>o</sup> 16), *guiones* 6 to 17. The various treasuries were spread throughout the whole of Spain wherever the armies

<sup>3</sup> The number of *contadurías* in the *Consejo de Hacienda* was cut down from eleven to three in 1717: the *Contaduría de Millones*, not dealt with in our study, together with the *Contaduría General de Valores* and the *Contaduría General de Distribución* (pre-committed income) appearing under the denomination of *Contaduría Mayor de Cuentas*.

<sup>4</sup> The year-on year-off system was enshrined in a *Real Decreto* (Royal Decree) of 1753 but was applied earlier; the reason for the system is that employees of this type could not possibly furnish a bond big enough to secure the huge sums of money they handled. The Crown tried, however, to turn their experience and expertise to good account during their fallow year, employing them in other tasks bound up with the management of the king's finances.



were based, to favour the concentration of financial resources, speed up payments and the effective use of the funds demanded by troops or fortifications. During the period of interest to us here there were nine permanent treasuries. From north to south, west to east, there were the treasuries of Galicia, Old Castile, the four treasuries of Aragón, Catalonia, Valencia and Majorca, to be analysed below, Extremadura, Andalusia and Cádiz, reserved for the funds coming in from the Americas<sup>5</sup>. As we have already pointed out the *Tesorerías de Ejército* became responsible for receiving and distributing an increasing share of fiscal revenue in the reigns of Ferdinand VI and Charles III with practically the sole exception of the ecclesiastical revenue, which remained under the direct and exclusive control of the *tesorero general*<sup>6</sup>. The *tesorero general* trusted the uprightness of the *tesoreros militares* as those responsible for proposing the candidate to occupy the post and also because they were bound to send him annual income and expenditure (charge and discharge) statements to account for their joint activity before the *Contaduría Mayor*. Their management was also overseen by a *contador* (comptroller) resident in the same locality, who checked the daily cash procedures and certified the final account.

The income account had to be drawn up in the first months of the year off and sent, together with the corresponding letters of payment, to the *contador* to check them against the ledgers kept by himself. Once approved it was sent back to the treasurer who would add on the expenditure and determine any balance (normally inexistent because any excess would be passed on to the next treasurer). Bypassing the *contador* this time, the document would then be sent straight to Madrid.

<sup>5</sup> The Galicia treasury normally included the yield of the royal revenue of Asturias (Solbes, 2007: 193-218); while the Aragón treasury covered Navarre, the *Provincias Exentas* (Exempt Provinces) and, on occasions, Cantabria; Valencia covered Murcia (Franch 2003: 105-129); Extremadura received revenue from what would today be Castilla la Mancha; Andalusia, based in Seville, received the revenue from the Andalusian kingdoms, while Cádiz acted as *Depositaria de Indias* (Barbier, 1980: 335-353). To these must be added the *Tesorería de Navarra* which appeared in 1727 but was then abolished in 1749; the accounts of the paymaster of the three minor penitentiaries of Africa and of the treasurers of Oran (1731-1791) and Ceuta; later there was a treasury located in Minorca from 1802 to 1820. The salaries consigned to each provincial treasurer in the last years of the eighteenth century ranged from the 50,000 reales of the Cádiz treasurer to the 30,000 of the Majorcan (Canga, 1834/1968, II: 522-23).

<sup>6</sup> In 1774 only 9.7 % of the tobacco revenue arrived physically in Madrid, 11 % of general revenue, 13 % of provincial revenue and 17 % of salt revenue (Torres, 2006: 11).

In the summer months the outgoing treasurer would receive only the resolution and conclusion of his account from the *Contaduría*. This would record the crosscheck of the income with the figures of the serving *Tesorería General*, the off-year treasurer plus the various certificates and receipts, while the expenditure figure would be checked against the letters of payment obtained along with the various payments. The overriding aim of this procedure was to ensure that the *tesorero general* could keep more or less abreast of the financial situation of each provincial treasurer. Uniting this with his own cash record he could then fulfil the desire of reflecting the state of the *Hacienda Real* in a single income and expenditure procedure. We will now outline a model of the income and expenditure arrangements for the *Tesorerías de Ejército* in force at least for the second half of the eighteenth century.

### 2.1. *Income*

The income account of all *Tesorerías de Ejército* is made up by three sections usually presented in the following order: funds carried over from the preceding treasurer, financial movements coordinated by the *Tesorería General* and, thirdly, the yield of the royal revenue within the assigned territory.

2.1.1. *Preceding Treasurer.* This first item varied in value from year to year but always added up to a sizeable sum of about 10 percent of the funds available. There are no difficulties in interpreting this concept because it involves the excess funds from the previous year that the outgoing treasurer records as expenditure in his account and the incoming treasurer has to record as income. Usually they are money sums with the occasional inclusion of a discounted receipt that had not fallen due in the year or was not collected in time. Such sums have to be carefully discounted to obtain a trustworthy idea in accounts terms of the amount actually received by each treasurer.

2.1.2. *Financial movements coordinated by the Tesorería General.* There are three grounds for financial support by the central institution of its corresponding provincial offices: firstly, when the revenue yield is lower than the expenditure recorded; secondly, when one-off wars or other conflicts led to an unforeseen spending surge and, finally, when funds

were deposited to be recovered in another treasury. Between the three of them they facilitate various ways of transferring the funds:

– *Bills of exchange and credits.* The bill of exchange is a payment order or promise with authorised due date. The drawer issues it to a drawee, whom he asks to pay a given sum on a given date to the bill holder. The drawer is a private individual, merchant or financier that owes money or grants a loan to the government; the drawee is normally a financial institution that collaborates with the drawer in a distant territory; the bill holder is, in this case, the *Tesorería General*, which transfers the sum by endorsing collection by the *tesorero provincial* concerned so that he comes into possession of the capital on the due date.

The credit is a sum of money consigned by a private individual or financial agent as loan to the *Real Hacienda*, which the *Tesorería General* transfers for its use or discount in the desired geographical district. In essence it is the same loan concept as the bill of exchange but without the intervention of a financial intermediary.

– *Discounted receipts.* Early settlement of money owed by the crown to various persons, normally the salaries of soldiers or public employees, paid before the official payment date. This is a way of avoiding superfluous movements of funds within the same geographical area where the funds, due to collection arrangements, are closer to the last creditor than the main treasury; the simplest example would be the receipt of his salary by the receiver of the revenue himself. In this case the creditor accepts the money received as an interim payment and sends on the corresponding receipt to the treasurer who has to enter it in his pre-committed income accounts. Discounted receipts can therefore bring into relation different employees or treasuries of bodies belonging to the Army or government.

– *Drafts against a Bull of the Holy Crusade.* Revenue of an ecclesiastical origin belonging to the *Real Hacienda* remained in principle under the exclusive control of the *tesorero general* since it had not been assigned *de facto* to the military treasurers like the rest of the royal revenue. Arrangements for reserved use thereof were made in the provinces by means of payments ordered on a one-off basis by the treasurer, in the form of drafts issued against those bodies physically possessing the funds, i.e., the churches of the various bishoprics. Each provincial treasurer thus possessed a variable percentage of the yield from ecclesiastical revenue but always limited to the sum deemed fitting by the *tesorero general*, who had *carte blanche* in this affair.

– *Money transfers*. This refers to the physical conveyance of money from one treasury to another. It requires no further explanation other than to point out that it was reserved for really exceptional cases inasmuch as it ran counter to the founding idea of provincial treasuries. Such transfers include those made from the *Tesorería General* to any *Tesorería de Ejército* but also those made between these provincial treasuries themselves, a fairly common arrangement.

– *Received as cash or supplied by the Tesorería General*. This refers to a cash deposit in a provincial treasury to finance private activities, debts against the *Hacienda*, welfare funds, etc., offering the possibility of being recovered in another royal treasury either in Madrid or in any province. This would be done through the same person or by authorised agents, giving the requisite notice. Such options open up many possibilities of financial intermediation and solve many problems of liquidity and management. As yet, however, such arrangements could not be defined as real banking transactions because they did not involve the charging of any interest or commission<sup>7</sup>.

2.1.3. *Revenue Yield*: For the revenue received to be analysed on an accounting basis, various deductions have to be made from the entire or gross value received from any tax. Firstly allowance has to be made for the cost of employees' salaries and management expenses. This gives us the net value but there may still be a series of consignments or encumbrances ordered by various government authorities and these also have to be discounted. This gives us the useful or disposable liquid value of the revenue and is entered in accounts in favour of the *Tesorería General* while the money is sent to the provincial treasury by means of cash deposits (with cash receipts), letters of payment or consent deposits<sup>8</sup>. We should therefore not confuse the figures analysed in this study with the net or gross yield of royal revenue; neither do the ups and downs in value necessarily reflect the revenue trend, for the administration costs or revenue consignments may vary over time.

<sup>7</sup> This is the conclusion drawn by González Enciso (2000: 49-51) in his analysis of the use of provincial treasuries of tobacco revenue.

<sup>8</sup> This claim is borne out by comparing the gross values of tobacco revenue in Valencia (Solbes, 2006a: 309-316) with the study of this same *Tesorería de Ejército* (Franch and Giménez, 2003: 110).

We have tried to break down a wide-ranging panoply of twenty-odd revenue sources, differing from kingdom to kingdom, into six great groups (Pieper, 1992: 97; Artola, 1982: 301-312; Merino, 1987: 35-40, Franch, 2003: 120-121): four of them refer to individualised fiscal concepts such as *provinciales-equivalentes* (provincial-equivalent), *rentas generales*, the monopoly trades of *tobacco* and *salt*; to which we add a double section of *sundry*, a pot-pourri of many different types of revenue adding up to less value than the former groups, breaking them down only into the two sections of *habitual* and *extraordinary*<sup>9</sup>. In the simplest way possible we will now analyse the theory underlying each of these groups and their development in the eighteenth century.

– *Provinciales* and *Equivalentes*. It is not necessary and probably not even possible to detail the whole series of taxes (sales taxes like *alcabalas* and *cientos*, services rendered for the state like *millones*, *servicio* or tithes like *tercias*, among others) making up this taxation system, which takes its name “equivalent” precisely from the desire to even out the tax burden between regions (García-Lombadero, 1978: 63-87; Zafra, 1991; Angulo, 2002: 479-507). There were many ways of collecting these taxes; they could be farmed out, collected directly by the state or raised by *encabezamiento*, i.e., global sums agreed by the Cortes and charged by the individual towns as they saw fit, normally by indirect means. Throughout the 1740s most of the provinces were finally brought into direct administration. The revenue thus raised was fairly stable, since the charge itself would not vary unless the state thought fit to review the *encabezamientos* or phase in an extraordinary tax, such as the *renta de aguardiente* (spirit tax) or the army-funding tax called *contribución de paja y utensilios*<sup>10</sup>.

<sup>9</sup> The *provinciales* represented in this period 1755-65 nearly 30 % of the revenue income assumed by the *tesorero general*, the tobacco input was 24%, *generales* 20%, salt 7% while *ordinarios* and *extraordinarios* accounted for the remaining 19 percent (Pieper, 1992: 99). We have reduced our percentage calculation to the revenue income although it should be borne in mind that nearly half the *tesorero general*'s fund inputs came from items sent from army treasurers, credits, deposits, backlogs and others.

<sup>10</sup> By Royal Decree 19 July 1746, to offset the abolition of the *estanco del aguardiente* (spirit monopoly), a quota was established equivalent to the yield from the spirit previously imported, with separate entries and administered jointly with the *rentas provinciales*. The sizeable input from the *contribución de utensilios* was collected from towns instead of their troop-billeting obligations. Due largely to its high value this tax was also brought into the remit of the administrator of *rentas provinciales*.

The abolition of the *fueros* (idiosyncratic regional independence) of the old kingdoms of the Crown of Aragón was followed by a fiscal reform to incorporate the old revenue sources of the regional *haciendas* while bringing the Aragón taxation system into line with the Castilian one. After several setbacks, however, it was decided to bring in a contribution equivalent to the revenue obtained from provincial taxes, leaving it up to the towns themselves to redistribute it among the population in the form of a direct tax on town and country property, trading profits, industrial profits and the wage-earning population (García, 1999). In 1715 the *equivalente* began to be collected in Valencia and the *real contribución* (royal contribution) in Aragón as a direct *cupo* tax (based on a government appraisal) rather than a *cuota* (based on taxable income); Catalonia and Majorca were brought into the system forthwith, adopting in their cases the names of *real contribución del catastro* and *talla general*. The taxes tended to ossify during the century, albeit with the addition of the taxes of *aguardiente* and *utensilios*.

– *Rentas Generales de Aduanas y Agregados* (General revenue from customs and associated excise duties) (García-Cuenca, 1983: 237-262). This second tax group is made up by customs duties, *ad valorem* indirect taxes collected in the various customs constituencies of the country under different names and rates in each region and brought under the direct administration of *Real Hacienda* staff in 1740. The term *agregados* stems from the fact that, as with the provincial taxes, the managers of general revenue progressively brought into their trawl other taxes of varied ilk to prevent managerial overlaps. Such was the case of the *renta de lanas* (wool revenue) and the *almirantazgo* customs duty.

– *Renta del Tabaco* (Tobacco revenue) (González, 1999; Luxán, 2000; GRETA, 2002: 313-345; Alonso, 2006). Although the royal monopoly on the production, distribution and sale of this good was established in the Crown of Castile in 1636, its final imposition as part of the monarchy's general *estanco* was finally verified during the War of Succession and the reforms that followed it. The policy of replacing tax-farming arrangements by direct administration was first tried out precisely on this state monopoly as from September 1731 although the practical management rules were topped up by an *Instrucción* published in April 1740. The Crown successfully tried to bring in a unified management model based on a series of *administraciones provinciales*, centralised in the capital of the region containing the *tercenas* (wholesale outlets) and stores and where most of the employees dealing with management, custody

and justice lived (Solbes, 2006b: 121-148). This administration system was applied up to 1740 with a context of continual retail price rises until 1780, after which prices were held steady.

– *Renta de Salinas* (salt revenue) The state monopoly on salt mining and distribution in Castile and Aragón was also brought under direct administration in 1749, allowing the government to establish the retail price at will and organise its supply via a series of provincial warehouses or *alfolies*. Although direct administration had removed special surcharges on the product price, Charles III brought in a new increase in 1761 to fund road and canal building. In 1767 he again increased the price of salt by two reales to finance a new organisation of provincial militias; this happened again in 1779.

– *Tributos ordinarios* (Ordinary taxes). We have broken down ordinary revenue into four subsections based on the origin of the many different sorts of taxes involved: *real patrimonio* (crown property), taxes on products, taxes on persons and taxes on towns. The *real patrimonio* varied from region to region, making an individualised analysis necessary. Under the heading of taxes on goods or products we include the *siete rentillas* or seven minor revenues (mercury, sulphur, gunpowder, lead, cards, saltfish and ice) plus the revenue from *papel sellado* (stamped paper tax) and, from 1764 onwards, the *lotería* (state lottery). Royal rights over municipal revenue were implemented in the form of the *real valimiento* (the “royal availment”, initially a 4 percent share of each municipality’s trawl from its “*propios y arbitrios*” [local land revenue]; this share was reduced to 2 percent in 1761); to this must be added the *renta de estafetas* (post office revenue) and any income received from royal rights on *tabernas* (inns and taverns) The taxes on social groups or persons included the *derecho de lanzas* as a tax levied on the bearer of any noble title and salary withholdings to cover *medias annatas* (half annate), *montepío* (welfare tax) or *gran masa*<sup>11</sup>, although the main component of this section, as we will see, was *rentas eclesiásticas* (ecclesiastical revenue) which was paid in as ordinary income rather than transfers from the *tesorero general*.

<sup>11</sup> The *media annata* was a first fruits tax on half the yield in the first year of holding public and religious office or from the inheritance of a *mayorazgo* (primogeniture and entail); the *montepío* was based on salary withholdings of military or administration staff; the *gran masa* or *masita* consisted in a withholding on money deposits; treasurers would enter them in accounts as just one more entry, subsequently having to enter any payments made by widows’ or orphan’s pensions, etc, as expenditure.

– *Extraordinary effects*. Lastly we include a catch-all category for all the one-off and irregular revenue sources recorded in the treasurer's books. An explanation will be given in each case.

## 2.2. *Expenditure*

Expenditure accounting can be broken down into three groups. The most important is the use of funds for payment of salaries and each treasurer's own expenses but consideration here has to be given to the fact that the accounting information includes as expenditure not only money carried over to the next treasurer but also transfers made to other treasuries.

2.2.1. *Successive treasurer*. As on the income side, the expenditure had to be accounted for in a final balance that the outgoing treasurer recorded as expenditure in his account while the incoming one took it on as income. This figure must logically be discounted to find out the net payments made by each treasurer.

2.2.2. *Fund transfers between treasuries*. Fund transfers between treasuries have to be recorded as expenditure of the treasury sending the funds and as income in the treasury receiving them. This may involve a transfer from the *Tesorería General* or be done directly between provincial treasuries. As in the previous case, consideration has to be given to the fact that the money has not been used within the geographical framework we are speaking of and that another treasurer has taken it on as income, including it in his accounts procedures and making the funds available for use.

2.2.3. *Use of funds*. The expenditure information to hand is not as detailed as the income information, failing to individualise payments and giving very little detail on them. Basically, we are told the sums passed on by the treasurer to other paymasters, administrators or treasurers, who would in turn proceed to make individualised payments. We will therefore limit our account to the various items making up the expenditure consigned to provincial treasuries.

Its main function is the maintenance of the royal administration and the army within the geographical area where their income is raised.



Nonetheless, the main character of the expenditure is military. Small wonder, when the treasury itself is military and also in view of the fact that about 70-75 percent of the monarchy's total expenditure from 1753 to 1780 is known to have been spent on keeping up the armies<sup>12</sup>. In our case we would hazard the educated guess that the provincial treasuries spent 90 percent of their income on financing military type stipends. To differentiate the various concepts we need to bear in mind three ideas: the aforementioned separation of civil and military expenditure; the fact that most of the accounts procedures of the *Ancien Régime* made a distinction between, on the one hand, the payment of public employees' salaries as reward for services rendered and, on the other, the payments of suppliers, *asentistas* (contracted suppliers) or financiers (the payments of widows' pensions and alms were, curiously enough, recorded under this second heading) as part of their own administrative expenses. A third distinction might be made in the military field between the royal army and the navy. Thus, the accounting model for the use of funds by army treasurers can be broken down into the following categories:

– *Expenses of a civil character*. These were payments made to sustain the monarchy's territorial administration and justice set-up, pride of place here going to the salaries of the ministers of the *Audiencia* (regional court), small payments to dependent personnel of the royal households or pensions of the *hacienda*, plus alms and pensions *de la clase de Hacienda* (exchequer employees)

– *Navy treasury*. The navy reinforcement policy, both in the American colonies and the mother country, got underway in the thirties, closing the long episode of *irredentismo italiano* (Italian irredentism). Patiño, as the almighty director of the Royal Navy until his death in 1737, completely overhauled the Bourbon fleet, reshuffling its administrative hierarchy, and creating the three Naval Departments of Ferrol, Cartagena and Cádiz (attended respectively by the military treasuries of Galicia, Valencia and Cádiz) and a 50-strong fleet, although twenty seven of these ships were lost in the forties. In his *Representación a Fernando VI* (Representation to Ferdinand VI) in late 1751 Ensenada aimed to increase the number of vessels from 33 (18 ships of over 60 cannons, 5 frigates of

<sup>12</sup> Pieper (1992: 165) puts the figure at 70% while Cepeda Gómez (2005: 472) reckons it might have been 75% on the basis of the figures set forth in Ensenada's *Representación* to Ferdinand VI in 1751, with 18.5% spent on the navy and 55.5% on the army.

between 20 and 50 cannons and 10 minor vessels such as packet boats, xebecs, etc.) up to 125 (Cepeda, 2005: 459-469). It was just at this juncture that all this effort began to be called into question.

– *Salaries of the Royal Army*. The Bourbon army, inevitably modelled on French precedents, was structured on two mainstays. The first, territorial in character, was the Provincial Militias, troops on royal service paid by the towns and cities and recruited by the local authorities. Their initial remit was to stand in for garrison soldiers moved elsewhere. Little by little it was decided to make the militia a standby army with a swift recruitment process to fill vacancies. The second mainstay, corporate in character, was the army as such, made up by *quintos* (drafted soldiers), volunteers, mercenaries plus press-ganged ne'er-do-wells and idlers; the *guardia real* (royal bodyguard) was the most professional and select group. It was structured into the regiments of *Infantry*, *Cavalry*, *Dragoons* (soldiers fighting on foot but travelling on horseback) and *Artillery*, comprising battalions in turn broken down into companies (12 companies of 50 men usually made up a regiment). There was also a category of *scattered soldiers* allocated to no battalion or squadron (Martínez, 2005: 422-432). On Ensenada's estimates in his *Representación* the Spanish army boasted 133 battalions shared out between Spanish infantry (62), foreign regiments (28), militias (33) and invalids (10) plus 68 squadrons between cavalry (48) and dragoons (20); his intention, somewhat pie in the sky, was to raise the number of each one to 100 (Cepeda, 2005: 467-69).

The hierarchical set-up was also French; each regiment was headed by a colonel, each battalion by a lieutenant-colonel and each company by a sergeant major, while at the top of the corps of General Officers stood the field marshal. The territorial military administration was organised around the *Capitanías Generales* (Captaincies General) ranging from 10 to 12 in number throughout the century, and the *corregidores militares*, especially in the Crown of Aragon, officers who combined their governing tasks at the head of the councils with the functions of military governor (Andújar, 2004: 291-320). Monarchs were always keen to attract the nobility into a military career but the Spanish army did not yet suffer from the top-heaviness it was plagued with in the nineteenth century.

– *General expenses of the Royal Army*. This section refers to the payment of *asentistas* and financiers for such items, first and foremost, as artillery supplies and fortress repairs, as well as victualling and clothing the various armies and militias. Probably the second most important

expenditure under this heading was the “social” type spending such as hospital assistance for injured soldiers together with the aforementioned pensions stipend for officers’ widows and alms. This expenditure section also included *extraordinary war expenses*, a catch-all category for payments that could not be classified elsewhere.

To finish off this analysis of the accounting-administrative system we should remember that the outgoing army treasurer then had a whole year to tally the income and expenditure for the year in question: sums received in his geographical area and sums spent by him, sums received from other treasuries and sums sent by him thereto and sums accepted from the previous treasurer and sums sent on to the next one.

### 3. The Treasuries of the Army of Aragón, 1755-1765.

We now strike out on our analysis of the practical application of this administrative system in the *Tesorerías de Ejército* of Catalonia, Valencia, Aragón (including in its geographical scope the kingdom of Navarre and the province of San Sebastián) and Majorca<sup>13</sup>. The choice of these four treasuries may owe something to sentimental reasons but above all to chance, for the idea is to take a snapshot of all of them at one given moment. The chosen timeframe does represent a certain desire to examine the efficacy of the studied model during a consolidation phase, after the running repairs of 1753. It was also a period of transition between the reign of two monarchs, representing a policy change from active neutrality to the signing of the *Third Family Compact* in August 1761, the declaration of war on Great Britain in December of that year and the acquired commitment of keeping up a red-herring operation against Portugal to draw the troops of Britain’s allies to this battlefield. The invasion of Portugal, within the context of the Seven Years’ War, began in May 1762 and ended in December of the same year; the armies stationed in our chosen area had to be mobilised and moved to the Portuguese border.

<sup>13</sup> Three treasurers general ran the accounts in this period: Manuel Antonio de Horcasitas, Nicolás de Francia (future Marqués de San Nicolás) and Francisco Antonio de Ibarrola (future Marqués de Zambrano). The post of army treasurer showed a much quicker turnover because we find a total of up to seventeen individuals in the four chosen treasuries in a continual coming and going of transfers and promotions.

### 3.1. *Income Trend*

Table 1 shows that the aggregate income received by the set of four treasuries amounted to a yearly average of 84 million reales, without forgetting that an average sum of nearly 10 million came from the annual amount transferred by the outgoing treasurer to the incoming one (see Subtotal A + B).

Although this is not the established order of things, I would like to analyse first of all the revenue input and then the treasury transfers. The reason for this is because the former is fairly stable over time whereas the latter suffer wilder swings of fortune at each particular historical juncture.

3.1.1. *Revenue earned.* The total input of revenue into the four provincial treasuries added up to a yearly average of 64.7 million reales; according to Pieper's figures, this would represent 16.4 percent of the total revenue accepted as income by the *Tesorería General*. Nearly half of this input came from *equivalentes*; another two fifths from the three individual and indirect taxes of *rentas generales* followed by the revenue from the tobacco monopoly with a significant input also from the salt monopoly; the rest comes from ordinary and extraordinary items. The average values of the revenue as reflected in this table need no further comment. Year to year variations are small within a slight upward trend, except for the *equivalentes*.

The 31.1 million input of *equivalentes* should be brought into relation with the 84 million input of *provinciales* in Castile in the same period. In the mid eighteenth century two thirds of the Spanish population is estimated to have lived in Castile, so the "*equivalente*" in this sense did not really live up to its name (Pieper, 1992: 15)<sup>14</sup>. Even so its proportion is less than 50 percent of the revenue received in all the treasuries, especially the Balearic one, so the traditional thesis about the progressive attenuation of direct taxation pressure in Aragón in comparison to the indirect in Castile may be applied only to a significant but by no means

<sup>14</sup> The treasurers of Valencia and Aragón included within this concept part of the *rentas provinciales* received from assigned Castilian territories such as Soria, Santo Domingo de la Calzada, Logroño or Sigüenza in the case of Aragón (10% of this input) and Murcia or Cartagena in the case of Valencia, where the percentage never rose above 2.3. (AGS, DGT, Inv<sup>o</sup> 16-7, legs. 3-4 e Inv<sup>o</sup> 16-16, legs. 6-9).

Table 1 *Income of the Tesorerías de Ejército of Catalonia, Valencia, Aragón and Majorca (annual averages for the period 1755-1765 in reales de vellón)*

	T <sup>o</sup> Catalonia	%	T <sup>o</sup> Valencia	%	T <sup>o</sup> Aragón	%	T <sup>o</sup> Majorca	%	TOTAL	%
A) Revenue Yield	29,946,016	88.7%	18,259,232	95.2%	12,967,928	78.3%	3,548,409	92.2%	64,721,586	88.2%
1. Provinciales & Equivalentes	15,445,149	45.7%	8,842,798	46.1%	6,100,940	36.9%	757,940	19.7%	31,146,827	42.5%
2. General Revenue	7,031,319	20.8%	1,548,081	8.1%	1,830,119	11.1%	850,827	22.1%	11,260,346	15.4%
3. Tobacco Revenue	3,281,009	9.7%	5,258,084	27.4%	2,138,730	12.9%	472,472	12.3%	11,150,295	15.2%
4. Salt Revenue	2,992,772	8.9%	1,543,055	8.1%	1,403,070	8.5%	421,261	11.0%	6,360,157	8.7%
5. Other ordinary taxes	837,020	2.5%	925,585	4.8%	1,075,655	6.5%	1,019,782	26.5%	3,858,042	5.3%
Crown Property	235,075		126,426		185,663		853,018		1,400,182	
Taxes on products	195,465		169,044		84,370		95,246		544,125	
Taxes on persons	255,123		322,271		608,180		36,842		1,222,416	
Taxes on towns	151,357		307,844		197,442		34,676		691,319	
6. Extraordinary effects	358,746	1.1%	141,629	0.7%	359,960	2.2%	26,128	0.7%	886,464	1.2%
B) Transfers by Gral. T <sup>a</sup>	3,823,158	11.3%	914,777	4.8%	3,584,018	21.7%	298,567	7.8%	8,620,519	11.8%
1. Ordinary	1,869,292	5.5%	914,776	4.8%	2,598,837	15.7%	71,940	1.9%	5,454,845	7.4%
2. Extraordinary	1,953,866	5.8%	-	0.0%	985,181	6.0%	226,627	5.9%	3,165,673	4.3%
SUBTOTAL A + B	33,769,174	100.0%	19,174,009	100.0%	16,551,946	100.0%	3,846,976	100.0%	73,342,104	100.0%
C) Preceding Treasurer	3,665,722		2,858,385		3,418,464		795,597		9,965,183	
TOTAL	37,434,896		22,032,394		19,970,410		4,642,572		84,080,273	

majority percentage of the revenue received (Franch and Giménez, 2003: 113).

Two thirds of the *rentas generales* came from Catalonia; Majorca's figures are similar in percentage terms to those of Catalonia, although insignificant in absolute terms. It is notable that in Valencia the figure falls below 10 percent, with a considerable input from wool revenue, while barely rising above this percentage in Aragón, which also had wool revenue plus the yield from the *Tablas de Navarra* (dry port customs), customs of Vitoria-San Sebastián and further customs-based items from Ágreda and Logroño (Solbes, 1999, 2005: 73-100). The aggregate tobacco revenue figures, for their part, show percentage values similar to those of Castile, albeit with new surprises in terms of the share-out between kingdoms, for it turns out that half the money came from Valencia, by then the monarchy's second biggest provincial revenue authority after Seville, while in the other treasuries it accounted for only 10 percent of the input (Solbes, 2006a: 291-320)<sup>15</sup>. The revenue from the salt monopoly held fairly steady at about 10 percent of the total in all cases. This suggests that the Catalonian treasury was a special case not only because of the strong impact of the *catastro* in its revenue set-up but also because its *rentas generales* doubled the tobacco revenue. In Valencia the situation was exactly the opposite, with tobacco revenue tripling the meagre return from *rentas generales*. The explanation is probably to be found in the contraband tobacco activity perpetrated on the Catalonia-France border.

The items lumped together in *other habitual taxes* are not quantitatively important but they do give interesting insights in some cases, especially in terms of the *real patrimonio* in the Balearic treasury and the trend of ecclesiastical revenue in general. In the first case it is noteworthy that the lion's share came not from Catalonia, Aragón or Valencia (concentrating on harnessing the Albufera) but rather from Majorca and Ibiza where these taxes contributed the biggest input even over and above the *talla*<sup>16</sup>. In the second case regular ecclesiastical revenue was

<sup>15</sup> In 1755-56 and 1758-59 Majorca's total input from tobacco revenue was sent to the Treasury of Catalonia (AGS, DGT, Inv<sup>o</sup> 16- 8, leg. 3).

<sup>16</sup> The *real patrimonio* of Majorca included the *diezmo de granos* (grain tithe) of Pollensa, debts from *censos* (ground rent), *laudemios* (emphyteusis fee) *amortizaciones* (redemptions) and *diezmos* (tithes), the administration of the land of La Puebla; on the island of Ibiza there was a tax collector for certain revenue used for assistance of the Hos-

negligible in all cases until 1760 since, as we have already pointed out, the military treasuries only had access thereto on the rebound by drafts from the treasurer general; in 1761, however, the Valencia treasury began to receive on a regular basis certain ecclesiastical revenue such as *derechos de amortización y sello* and *rentas dominicales*, while the Aragon treasury took on regular inputs from the *bula de cruzada y excusado* from the kingdoms of Aragón and Navarre, the Catalanian treasury following suit in 1763; even the Balearic treasury began to receive such revenue in 1765. My opinion here is that Madrid cottoned on to the fact that such revenue had by now become essential to cover the costs of these treasuries and finally decided to consign it on a regular and permanent basis instead of the one-off allowances as hitherto.

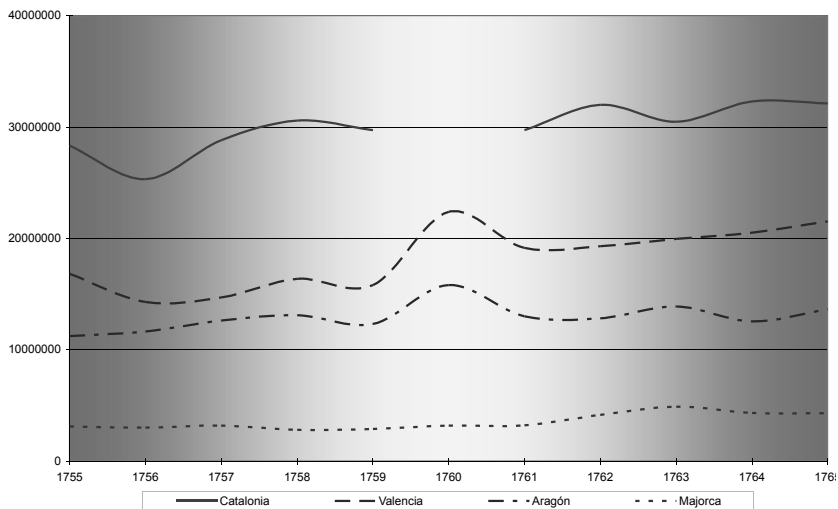
Without getting too bogged down in this item of *extraordinarios*, we will wind up by calling attention to the presence in the Aragón treasury of revenue from *venta de paños de las fábricas de Guadalajara* (broadcloth sales from the Guadalajara state textile factory) or the 650,000 reales that appeared in 1756 in the Valencia treasury, corresponding to the old *derechos de Generalidades*<sup>17</sup>; it is also surprising to find some items deriving from the sale of *bienes secuestrados* (confiscated property) from subjects who had supported Archduke Charles together with the normal fines (*multas* or *penas de cámara*) imposed by the courts.

The relative importance of each region (graph 1) throws up no surprises: Catalonia handled nearly half the funds, followed by Valencia with 28 percent, Aragón with 20 percent while the Majorca treasury chipped in with the remaining 5.5 percent. The aforementioned slightly upward trend in revenue has different causes in each case: Majorca's funds increased because of the end of tobacco revenue transfers to Catalonia; the Catalanian treasury increased its funds from 1762 on the strength of an upturn in its *rentas generales* and the aforementioned assignments from indulgence sales; the same occurred in Valencia but in 1760 with

*pital Real* in Ibiza together with the *diezmo de granos* from the island of Formentera (AGS, DGT, Inv<sup>o</sup> 16-8, legs. 3-4).

<sup>17</sup> The old revenue of the *Generalidad* (regional government) passed into the hands of a specific treasury granted to Gaspar Pastor under a *juro de heredad* (grant in perpetuity) in 1744; his underhand dealings came to light after an enquiry conducted by the *intendente* (intendant) José Avilés in 1762 who then decided that the funds should be transferred to the *Tesorería de Ejército* (Franch and Giménez, 2003: 108-109). The item we are discussing here, however, refers to 1756 and we have no more information on the matter.

Graph 1 *Income Trend per Revenue Source of the Tesorerías de Ejército of Catalonia, Valencia, Aragón and Majorca, 1755-1765 (reales de vellón)*



additional sizeable inputs from *equivalentes* (backlogs?) and salt revenue. Aragón revenue peaked in 1760 with the coincidence in time of the Castilian provincial revenue from bordering territories (soon to disappear) and the start of the consignments on ecclesiastical revenue.

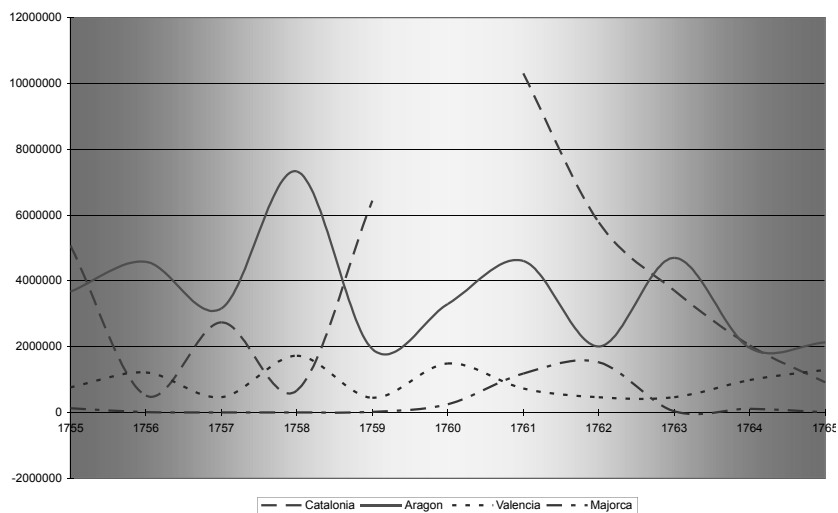
3.1.2. *Financial Activity.* This section deals basically with the transfers made to compensate for any discrepancy between the revenue input and expenditure needs. The treasuries differed greatly in this respect. Valencia and Majorca, for example, carried out very few financial transfers while Catalonia and Aragón were much more active. The 8.6 million received per year from transfers has to be added to the 64.7 revenue input; there were also notable year-to-year swings as shown in graph 2.

The Valencia treasury received from the *Tesorería General* between half a million and one-and-a-half million reales a year in bills and credits, discounted receipts and drafts against ecclesiastical revenue; a paltry sum in comparison to the revenue figure of 18 million, almost enough in itself, it would seem, to cover the total expenditure. Neither were there any signs of increased activity during the Portugal campaign. The same goes for the Majorcan treasury, for the extraordinary sums received from



Madrid were negligible, adding up to less than 100,000 reales a year. The fact that in previous years part of the tobacco revenue (nearly a million a year) was sent to the Catalanian treasury and the absence of transfers thereafter tell us that the island's revenue was more than sufficient to meet its fairly modest expenditure needs. Here, however, there were a couple of eye-catching movements related to the military mobilisation. In 1761 the Balearic treasury received one million reales on a mailboat sent from Barcelona, this sum rising the next year to 1.5 million reales, with the same origin and purpose; in 1763 it slipped back to its former somnolent levels.

Graph 2 *Income Trend from Transfers by the Tesorería General to the Tesorerías de Ejército of Catalonia, Valencia, Aragón and Majorca, 1755-1765 (reales de vellón)*



The Catalonia treasury normally received about two million a year from the *Tesorería General* in the form of ordinary transfers as receipts, bills or drafts. This is double Valencia's figure and there were also wild year-to-year swings (ranging from 3.5 million reales in 1755 to 100,000 reales in 1765). This shows a surprising fleet-footedness in shifting public funds to a territory where the 30 million reales revenue was clearly not enough to meet the huge military outlay. As well as this ordinary activity, which, as we will see, was conducted on a pre-committed income

basis, the Catalonian treasury turned out to play the most active role in moving men and money for the war with Portugal: in 1755 it had been sent 1.5 million from Aragón as a fund top-up; in 1759 Madrid sent it 5 million reales in cash; in 1760 4 million in credits charged to Juan de Huerta; in 1761 another 2 million in cash together with several large credits (one from the privileged trading company, the *Compañía Guipuzcoana de Caracas*) and 3.7 million from the Aragón treasury; in the Portuguese campaign year it received 4.5 million from Madrid; in 1763 2.5 million from Aragón; in 1764 another 1.2 million from Aragón; and finally, in 1765, 800,000 reales consigned from Majorca as compensation for the money previously sent. It would therefore seem to be clear that this treasury ran up a huge deficit between 1759 and 1765, in which period a total input of 23.7 million was received from extraordinary items. This is indeed a healthy sum but pales somewhat when we consider that it is not even tantamount to one year's ordinary revenue in the principality. Worthy of particular mention here is this treasury's innovation in the form of the so-called *caudales ingresados por particulares*, consisting in the depositing of money in the Barcelona treasury by the Duque de Medinaceli and the Marqués de Cogolludo to be able to draw on it in other regions for payment of companies formed at their expense (under this heading they paid in 1.5 million in 1761, nearly a million in 1762 and 750,000 reales in 1763).

The treasurers of Catalonia and Aragón shared the cost of defending the French border. Although the Aragón treasury handled less money than Catalonia, it received more ordinary transfers to cover these defence commitments, receiving about 13 million in revenue and usually receiving another 2.5 million in transfers. It should not be forgotten here that the region falling within the Aragón treasurer's remit included the kingdom of Navarre and the province of Guipúzcoa, generating between them a sizeable added military cost without much of a concomitant input due to their tax privileges. The inputs of extraordinary funds was therefore more regular than in the Catalonian case, never dropping below 2 million, impinging especially on the ecclesiastical revenue of Navarre and Aragón. We know that in 1755 the Aragón treasurer sent 1.5 million to Barcelona; less familiar is the fact that in 1756 he was in turn sent 750,000 reales in cash from Madrid and 1.5 million from Valencia; the funds sent on to the next treasurer tell us that this money was really necessary because it was almost completely used up. There was another change in the situation in 1758 when the Aragón treasurer

received up to 7 million<sup>18</sup>; in 1759 he received over 6 million reales, with 2 million sent from Madrid in cash and 2.5 million paid in by private individuals. The signing of the Family Compact and the war automatically cut down the importance of this treasury, transfers therefore falling back by 1760 to the more habitual figure of 3 million reales in the form of drafts, bills and receipts (plus the Navarre donation). In the latter year the sum carried over to the next treasurer was more than 5.5 million. This meant that the Aragón treasury stood in no more need of extraordinary transfers since expenditure had fallen due to the transfer of soldiers to the Portuguese border.

### 3.2. *Expenditure Trend: the Portugal Campaign of 1762*

According to Ensenada's *Representación*, 74 of the Royal Army's 133 infantry battalions were considered to be necessary for the defence of fortified towns: 20 of these were in Catalonia, 6 in Valencia, 3 in the Balearic Islands, 4 in Aragón and 5 in Navarre-Guipúzcoa, giving a total of 38 battalions. As for the 68 squadrons of cavalry and dragoons, 25 were apparently necessary for the defence of fortified towns: 6 were in Catalonia, 3 in Majorca and 6 in Valencia-Murcia, giving a total of 15 regiments. To these must be added the royal bodyguards in Catalonia as well as the naval base of Cartagena, financed from Valencia. Whichever way we look at it, it would seem clear that the Aragón kingdoms normally accounted for nearly half the Bourbon army and navy's men. Moreover, according to González Enciso, practically half the 40,000 people affected by mobilisation for the Portugal campaign of 1762 were in Catalonia<sup>19</sup>.

<sup>18</sup> This comprised 1.1 million sent from Madrid in bullion for payment of the Swiss regiments of Don Carlos and Don José de Reding; 1.5 million from the navy commissioner and *juez de arribadas* (port judge) of San Sebastián against the funds sent by the Governor of Caracas in the frigate *Santa Ana* of the trading company called *Compañía Guipuzcoana*; plus a 1 million real donation from the *Cortes Generales* of Navarre in 1757 (Solbes, 1999: 269-276). To this must be added a 3.6 million draft on the Crusade of Aragón.

<sup>19</sup> In December 1761 the *intendente* of Barcelona was ordered to mobilise 10 battalions of Spanish and Walloon infantry guards, 8 regiments of infantry and 4 squadrons of cavalry in coordination with the *Capitán General* of Catalonia and the corresponding *asentistas*. The *intendente* of Aragón was also informed of the imminent arrival of the troops, to be joined by 2 battalions and 2 squadrons in this kingdom and another 2

The cost of the transfer, military salaries and fees of *asentistas* were to be defrayed by the units of origin up to the month of April 1762 inclusive; from May to December these payments were taken on by a treasurer of the campaign army called Ventades, who would not be responsible for the subsequent costs of redeploying the troops to their home bases. The budget mustered for and used by said Ventades during the campaign is reckoned to be 75 million reales, taken between 1762 and 1763 from a “reserved deposit” built up from previous savings, without touching the ordinary budget (González Enciso, 2005: 551-564)<sup>20</sup>. This sum would not seem to be excessive in light of table 2, which shows that it was tantamount to a little more one year’s joint expenditure of the Aragón treasuries, which also obviously took a direct part in financing the war.

This table shows the same scheme of annual averages for the period under study, broken down in this case into subtotals of the expenditure of each treasurer within its geographical income framework to separate it off from the money transferred to treasuries or treasurers of other territories.

The civil expenditure accounted for only 7 percent of payments. Particularly noteworthy here is the fact that the cost of royal and court employees, in their respective *Audiencias* and *oidores*, did not even represent the biggest item, since most of the money was spent on widows’ pensions *de la clase de Hacienda* and *extraordinario de Hacienda*, this expenditure soaring after 1761<sup>21</sup>. Next we see that the Valencia treasury spent half of its annual budget on the navy treasury of Cartagena, at an average figure of over 8 million, and frequent fluctuations from 4 to 12 million. The *Ejército Real* meanwhile received over 40 million a year in salaries and 15 million in expenses: half came from Catalonia, a quar-

squadrons of Navarre, while the *intendente* of Castile was notified of the imminent arrival of the army by way of Soria (González, 2005: 551-564).

<sup>20</sup> The basis of his analysis are the accounts of the extraordinary army treasurer, since the documentation in question was generated by Juan Felipe Castañón for the army *intendencia* and, more specifically, the *Cuenta General* (general account) given by his treasurer Miguel Ventades.

<sup>21</sup> Payments to widows of employees of the *Real Hacienda* and of military officers were broken down into three categories: the *fijas* received fixed pensions worth 6000 doubloons; the *interinas* received interim pensions until such time as they qualified for the 6000 doubloon pension; while the *créditos de testamentaria* were a widows payment brought in by Philip V as a one-off payment, thence discounted from the accrued salaries of their deceased husbands until in 1761 they could draw down 6% a year.

Table 2 Expenditure of the Tesorerías de Ejército of Catalonia, Valencia, Aragón and Majorca (annual averages for the period 1755-1765 in reales de vellón)

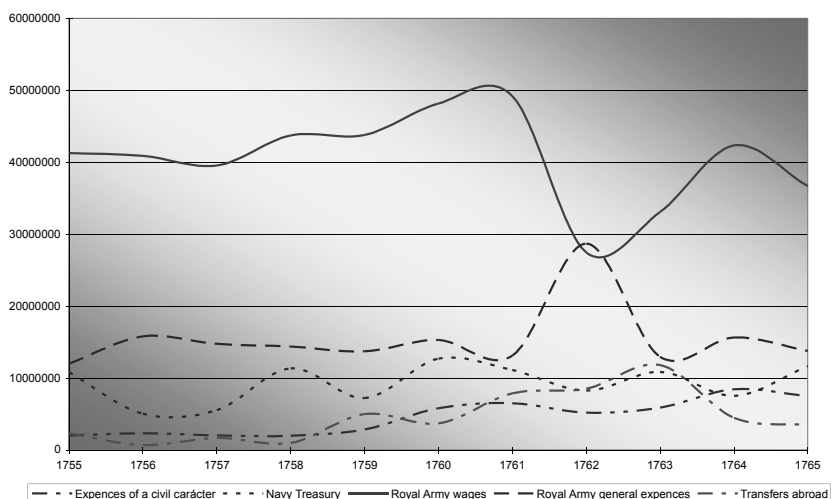
	Catalonia	%	Valencia	%	Aragón	%	Majorca	%	TOTAL	%
A) Expenses of a civil character	2,325,426	7.3%	1,217,879	6.5%	1,077,578	7.0%	450,451	12.3%	5,071,333	7.3%
Royal Household	31,089		49,049		7,311		-		87,450	
Finances Secretary & General Treasury	141,302		71,219		114,868		61,375		388,763	
Justice Court	429,374		284,183		352,863		144,480		1,210,900	
Pensions for Finances widows & alms	744,260		212,012		515,194		241,067		1,712,533	
Extraordinary for Finances	979,400		601,417		87,342		3,529		1,671,688	
B) Expenses of a military character	29,738,744	92.7%	17,461,620	93.5%	14,324,888	93.0%	3,205,952	87.7%	64,731,204	92.7%
1. Navy	813,898	2.5%	8,235,264	44.1%	-	0.0%	98,497	2.7%	9,147,659	13.1%
Navy treasury	-		8,218,961		-		-		8,218,961	
Other expenses	813,898		16,303		-		98,497		928,698	
2. Royal Army	20,071,513	62.6%	6,986,917	37.4%	11,116,866	72.2%	2,397,017	65.6%	40,572,313	58.1%
Reg <sup>o</sup> Infantry, Militia & Disabled	8,200,915		3,355,260		6,839,697		1,317,282		19,713,155	
Royal Bodyguard	5,372,473		-		-		-		5,372,473	
Reg <sup>o</sup> Artillery	753,384		214,340		284,199		67,734		1,319,656	
Reg <sup>o</sup> Cavalry & Dragoons	2,730,940		1,835,676		2,040,644		422,474		7,029,734	
Ingentry Corps	302,295		156,318		164,282		36,587		659,482	
Scattered Soldiers	38,822		6,891		48,998		-		94,710	
Staff of Towns	1,168,617		706,626		808,515		208,283		2,892,042	
Staff of Artillery	254,336		105,853		-		49,046		409,235	
General Officers	622,885		328,206		628,754		144,572		1,724,417	
War & Finances Ministry	626,845		277,748		301,778		151,039		1,357,410	
3. General Expenses	8,853,334	27.6%	2,239,439	12.0%	3,208,022	20.8%	710,438	19.4%	15,011,232	21.5%
Fortifications & Artillery	3,997,826		192,235		460,706		136,297		4,787,064	
Clothing & Supplies	601,627		124,325		27,705		3,744		757,401	
Hospital Assistance	930,149		750,013		433,447		179,483		2,293,091	
Pensions for War widows & alms	1,293,696		226,944		895,011		258,126		1,724,775	
Extraordinary for War	2,030,036		945,922		1,391,153		218,440		4,585,550	
<b>SUBTOTAL A + B</b>	<b>32,064,170</b>	<b>100.0%</b>	<b>18,679,499</b>	<b>100.0%</b>	<b>15,402,466</b>	<b>100.0%</b>	<b>3,656,403</b>	<b>100.0%</b>	<b>69,802,537</b>	<b>100.0%</b>
C) Transfer between treasuries	2,375,968		362,133		1,798,118		202,423		4,738,641	
To General Treasury	1,595,089		362,133		604,225		62,097		2,623,543	
To other treasuries	780,879		-		1,193,893		140,327		2,115,099	
D) Successive treasurer	2,994,761		2,990,901		2,769,826		783,747		9,539,234	
<b>TOTAL</b>	<b>37,434,898</b>	<b>116.7%</b>	<b>22,032,532</b>	<b>118.0%</b>	<b>19,970,410</b>	<b>129.7%</b>	<b>4,642,572</b>	<b>127.0%</b>	<b>84,080,413</b>	<b>120.5%</b>

ter from Aragón and the other quarter from Valencia-Majorca. Troop payments (sections 1 to 6) accounted for 17 million a year from Catalonia while Aragón paid more money under this heading than Valencia spent on the navy. The payment of officers and military administration is another significant item but lagging well behind the troop cost. As for overheads or *gastos generales*, a surprisingly small portion was spent on provisions and clothing. As under the *hacienda* heading there was also a notable increase in wartime pensions, *pensiones y extraordinario de la clase de Guerra*, including payment of *créditos de testamentaria* (historical debt) and a large part of the costs of the Portuguese campaign.

The Valencia treasury, practically self-sufficient, concentrated in this period half and half on the financing of the Cartagena base and the army based in its territory. In the Majorcan treasury the cost of maintaining its infantry and militia troops doubled after 1762; this explains the end of the transfers from tobacco revenue to Catalonia and the eventual receipt of extraordinary funds. Until 1759 Aragón included two million a year for payment of the Spanish and Walloon infantry guards, disappearing thereafter; the allocation to fortifications also fell after the signing of the Family Compact while, in 1762, over half a million was paid to foremen of the mule and cart brigade for carrying war artillery and munitions from Zaragoza to Badajoz and Ciudad Rodrigo. In Barcelona there are records of the payment for artillery transporters to Zamora, Ciudad Rodrigo and Zaragoza, whereupon *extraordinario de Guerra* soared from 300,000 reales in 1755-59 to an average of 3 million between 1760 and 1765; the habitual 5 million for payment of infantry regiments rose to 15 million in the 1759-61 period; payments to the cavalry, on the other hand, fell from 4 million to one million when they were transferred to Portugal.

Graph 3 shows that the payment of army salaries, an expenditure item normally standing at about 40 million a year, began to rise in 1758 and peaked in 1761, reflecting the troop concentration process in this territory in preparation for the Portugal campaign. This led to an extraordinary cost that we have estimated to be at least 25 million reales, to be added to the 75 million run by Ventades. The subsequent gradual return of this expenditure to the pre-conflict situation shows clearly how the troops left this territory in 1762. The fall in salary costs in the years 1762-63 was offset by a concomitant increase in army expenditure, especially notable in the *extraordinario de guerra* and specifically in the financing of the transport of troops and artillery to the Portuguese border.

Graph 3 *Expenditure Trend in the Tesorerías de Ejército of Catalonia, Valencia, Aragón and Majorca, 1755-1765 (reales de vellón)*



In line with past trends, the Valencia and Balearic treasuries made very few fund transfers to external treasuries. A sizeable sum was sent, however, from Barcelona to Madrid, soon holding steady at 2 million a year. This tallies with the item studied on the income side and therefore seems to bear out that it was run on a pre-committed income basis. Sums transferred from Catalonia to other treasuries (6 million redistributed between 1760 and 1763, mostly to the Balearic treasury) were lower than sums received (nearly 24 million from 1759 to 1765) so the Catalan treasury was a net fund receiver in this period. Aragón's case is less clear cut; the sum sent to Madrid does not offset the 2.5 million regularly transferred from Madrid, all of which remained in principle, within the region. In the period 1758-59 7-8 million was received as extraordinary cash receipts, but it turns out that from 1761 to 1764 more than 15 million reales left Aragón to be spent elsewhere, in keeping with the region's reduced strategic importance. In one way or another the Aragón treasury's financial activity seemed to be brisk, the inputs of some years being offset by the outputs of others.

In sum, the 30 million input from Catalonia's revenue was not sufficient to meet this treasury's expenditure commitments; neither was

Aragón's 13 million, so both treasuries stood in need of ordinary transfers. Valencia's 18 million revenue bore up well in comparison with its expenditure while Majorca may even have run up a certain surplus, normally consigned to the Catalonia treasury. Financing of the spadework for the Portuguese campaign affected the Aragón treasury but after the signing of the Family Compact and the subsequent development of the campaign, the cost burden switched largely to Catalonia, increasing this treasury's deficit, which then had to be offset from big extraordinary inputs. All this, in short, paints a picture of a slow consolidation of a centralised and better informed administrative and accounting system, with a certain capacity of moving funds from one part of Spain to another. The conclusion must be drawn, however, that most of the funds handled in each of the treasuries studied were raised in adjacent territories and were mostly spent on activities carried out in the same geographical area.



# **“Auspicio Regis et Senatus Angliae”: The Political Foundations of the East India Company’s Incorporation into the British Military–Fiscal State**

*Philip J. Stern*

It has become almost a cliché to observe that the English East India Company was critical to the growth of the eighteenth-century British military-fiscal state. The Company was a principal state creditor, provided great revenues through excise and customs, and, by the second half of the century, was obliged to pay an annuity out of its territorial revenues. The Company itself obviously played a significant part in imperial expansion in Asia, while its role as a supplier of necessary goods, most notably saltpetre, and employer of sailors, soldiers, clerks, administrators, and shipbuilders, made it a constitutive element of an expanding British state and empire. Meanwhile, its trade in spices, tea, and textiles indirectly stimulated a range of commercial and industrial activity – from timber to milk to Wedgwood’s “China” – as well as the burgeoning infrastructure of roads, shops, coffee houses, newspaper trades, and other forms of political, commercial, and cultural communication so important to the expansion of the modern state. Even if the degree of its contribution might be debated, it seems doubtless that ultimately the East India Company was a crucial element in the formation of the arms of the state, the limbs of finance, and, of course, as John Brewer famously put it, the *sinews of power* (1989: 120).

That the Company underwrote the rise of the eighteenth-century British empire seems undeniable, yet how and why such an arrangement came to be acceptable and even expected is perhaps less obvious. The history of the military-fiscal state, both from its political and economic perspectives, has tended to focus its attention on the Company’s role both in fiscally underwriting state expansion while pulling Britain into imperial governance in South Asia. In the process, the right of that state to regulate, manipulate, and capitalize on the Company’s expand-

ing commercial and political empire tends to be treated as somewhat self-evident, obvious, and uncontested. Yet, such political oversight and intervention, unquestioned by the early nineteenth century, was not so clear just over a century earlier. Between the seventeenth and eighteenth centuries, the East India Company's contributions to state coffers changed from a political tool and matter of negotiation – intermittent, to some extent invited and voluntary, and employed in the service of defending its own political and institutional autonomy – to a regular and even permanent source of national revenue, expected by the agents of the state increasingly on behalf of an abstract entity known as the “public.”

While the political process by which this occurred following the Company's large-scale territorial acquisitions in Bengal in the 1750s and 1760s has been fairly well-documented (see Bowen, 1991), the groundwork for such a transformation was to be found a half-century earlier, in the aftermath of the Glorious Revolution. Still, while the fiscal or ideological reorientations of the 1690s have been given a great deal of attention as foundational to the changing relationship between corporate bodies like the Company and military-fiscal state, a close look at the evolving role of politics and political language in this revolution reveals a story that seems much less inexorable and inevitable. From this vantage, at least one critical aspect of this state fiscal and martial power seems much less impulse from within the state itself than the product of the attempts of others, such as the Company and its rivals, to manipulate national politics for their own corporate purposes. Yet, as interlopers and Company adversaries successfully appealed to Parliamentarians' desperation to assert their political authority, they unwittingly opened the door to greater state oversight and involvement in Company affairs. Meanwhile, the leadership of the older East India Company remained slow to adapt, treating the Glorious Revolution not as a unique circumstance but as fundamentally similar to the regicide, republic, and restoration they had endured. When the dust settled in the eighteenth century, a Company that had previously used its fiscal might to maintain political and fiscal independence in the seventeenth century found itself unwittingly rendered an extension of the national state, setting the stage for a gradual erosion of its rights in Britain and thus, the direct involvement of Company in state finance and of the British Empire in India.

I

The East India Company was first chartered in 1600, and, but for a temporary and disastrous four-year experiment in the middle of the seventeenth century where its exclusive trade was suspended, its first century was a story of ever increasing rights, immunities, and autonomies with respect to both the English state and Asian powers. After 1607, the Company was endowed with “perpetual succession,” which, after 1657, was matched with a permanent joint-stock and, through the restoration, an unprecedented set of rights, privileges, and immunities to prohibit the East Indies to be “visited, frequented or haunted” by *any English subject* without Company permission, and recognized its rights: to appoint “governors and officers” abroad; to make civil and martial law and to erect courts; to judge and sentence offenders; to coin money; to fortify cities and factories; and to make war and peace against non-Christians on its own terms and in its own name (Lawson, 1993: 39-40).<sup>1</sup>

Under this new security, the Company revolutionized its capitalization. From the mid-1660s, money raised from stocks and fixed property grew as a permanent and untouchable capital stock, with dividends raised from profit not principal. This rendered the Company much more liquid, more stable, and as K.N. Chaudhuri has argued “something approaching modern Company financing.” (1978: 412). Meanwhile, the Company had come into a number of independent, fortified settlements, which became the backbone of its later “presidency” system. Madras was acquired in 1639 from the South Indian *nayak* Damarla Venkatappa. Bombay in 1668 on patents from the English Crown, and Calcutta in the 1690s as a *zamindari* from the Mughal emperor and *nawab* of Bengal. Meanwhile, the Company also acquired the island of St. Helena in the South Atlantic, the city of Cuddalore and Fort St. David in Southern India, and the fortification of Bengkulu on Sumatra, as well as a network of factories and privileges ranging from Persia to China. In the independent settlements, Company leaders sought to emulate Dutch practice by increasing population in order to raise local revenue for defence, infrastructure, and expansion. Thus, in Asia, the late sev-

<sup>1</sup> See, for example, Letters Patents Granted to the Governor and Company of Merchants of London, Trading into the East-Indies, 3 April 1661, 5 Oct 1677, and 9 Aug 1683. (*Charters*, 1773: 54-79, 108-24).

enteenth-century Company sought after a kind of military-fiscal apparatus of its own, mirroring processes underway in European states but independent of them (Stern, 2004; Bayly, 1994: 322-28).

All in all, as Cawston and Keane noted over a century ago, after the Restoration charters, “The Company was thus constituted a sovereign State,” with the caveat that they were still, “subject only to the supreme authority of the Crown of England” (1896: 106). Still, it is unclear how true this conventional wisdom was in fact. While of course the monarchy and the inchoate national state attempted to use the Company’s financial power to its advantage, so too did the Company attempt to discipline Crown and state resources to its own political and commercial purposes (Braddick, 2000: 400-01). As Niels Steensgaard has noted, “The firm attitude of the [Company’s Governing] Court of Committees at this early stage...anticipated a policy that was maintained throughout the whole of the 17<sup>th</sup> and most of the 18<sup>th</sup> centuries. The Company not only emphasized its formal independence of the English Crown, but also avoided indirect political infiltration through the right of patronage” (1973: 115). The Company, like a colony or an incorporated town, was its own body politic, with traditional rights to independence and autonomy; as F.W. Maitland noted almost a century ago, “the king was no more a corporator of Rhode Island than he was a corporator of the city of Norwich or of the East India Company.” (1901: 131-46). Despite the claims of some eighteenth-century historians – and some modern followers – no English monarch ever “presided...at the meetings of the Court of Directors.” (Macpherson, 1779: 11; Scott, 1903: 245). The Crown was limited in its ability to manipulate the internal workings of the Company. By 1687, Company Governor Josia Child had even succeeded in persuading James II that the Crown should not meddle in affairs in India, which “must be always in some measure Subject to the Controul” of the Company’s local governors in India. (British Library, London [henceforth BL], Oriental and India Office Collection, India Office Records [henceforth IOR]: E/3/91 f. 231: East India Company [henceforth EIC] to Elihu Yale, 12 Dec. 1687). Company foreign policy in Asia also often contradicted that of England, and again there was little recourse possible from state officials. For example, when the Company conspired with the Persian *shah* to seize Hormuz from the Portuguese in 1622, all it took to assuage English officials’ objections was an offer of a share of the spoils. As Steensgaard has again noted, this “raises the question of the Crown’s freedom of action in relation to the Company

rather than that of the Company’s freedom of action in relation to the Crown” (1973: 117).

The Company kept the Crown at an arm’s length much as it secured its rights and privileges in Asia: through financial contributions and rendering itself indispensable to the state. On the eve of Civil War, demands from Charles I for low-cost pepper – generally regarded as a quintessential example of the early Company’s vulnerability to the whims of Stuart absolutism – appears to have been a deal the Company welcomed and may even have contrived, as a way of buttressing its own political authority and commercial independence (Foster, 1904). The Company maintained a standing solicitor, vigilantly used the English legal system to protect its privileges, and maintained a powerful influence at Court through what one scholar has termed its “lobby” (Sherman, 1976: 331). Many principal officeholders in national and local government were famously stakeholders or even amongst the leadership of the East India Company (Ashton, 1979: 37), though it is not self-evident to which body politic they owed first allegiance. Patronage, gifts and gratuities in cash, spices, and novelties bound officials of the customs, the post, and docklands to the Company, while tying prominent figures in the provinces and port towns to its concerns as well (Thomas, 2002). Certainly gifts to the Crown were a common tool in lubricating the wheels of politics, such as the annual payment the Company made in the 1680s of 10,000 guineas, intended to win the favour of Charles II in the fight against interloping. Less dramatic gifts at Court were also routine. At one point, two “dwarfs” were requested on the King’s behalf from Western India. (IOR E/3/90 f. 72 and f. 82: EIC to Surat, 4 May 1683 and EIC to Madras, 31 May 1683). Madras was also instructed in early 1685 to obtain the “5 or 6 Canisters of the very best and freshest Thea.” Madras was ordered to secure as “wee have occasion to make presents therein to our great friends at Court.” (IOR E/3/90 f. 256: EIC to Madras, 13 Feb. 1684/5; Lawson, 1997). The purchase of all of these efforts were clear, intended as they were to “vouchsafe us all possible encouragement in the carrying on our trade.” (IOR E/3/90 f. 262: EIC to Bengal, 13 Feb. 1684/5; IOR B/39 f. 81: Court Minutes, 30 Nov. 1687).

The trade itself also did a great deal to render the Company indispensable and thus to some extent inviolable. The India trade was a great source of customs and excise revenues, as well as a supplier of raw materials for manufactures (such as silk and indigo), spices, and, of course, martial and naval supplies, most significantly saltpetre. As Robert Fergusson ar-

gued on the Company's behalf, "The *Saltpetre* is of absolute necessity, that without it, we should be like the *Israelites* under the Bondage of the *Philistines*, without means of defending ourselves." (1677: 9). Its advocates insisted it created jobs and supplied much demanded luxuries, like coffee and later tea, which Company promoters repeatedly attempted to redefine as "useful and necessary" (Barber, 1975: 32). Moreover, Company leaders argued relentlessly if not persuasively that the simple fact of its trade and navigation supported English maritime power and even liberty itself: "All tyrannies in the World," one pamphleteer wrote, "are supported by Land-Armies: No absolute Princes have great Navies, or great Trades." The Company with its trained seamen, fleets, and mere volume of traffic in and out of the Isles was the greatest asset to naval strength England had (Philopatris, 1681: 28; Barber, 1975: 33). By the last decade of the seventeenth century, the Company had rendered itself indispensable to English state and society, adding a *de facto* political immortality to the permanence it had at law.

## II

Despite – or perhaps due to – the crucial place the Company came to have in the politics of the nation, it also accumulated its share of enemies, ranging from those that demanded an expanded stock so they may invest to those who wanted a free and open East India trade. At several significant points in the seventeenth century, syndicates of interlopers temporarily managed to acquire privileges from English monarchs to operate in contravention of the Company's monopoly privileges, but in each case – most notably, the so-called "Courteen Association" in the 1630s and the withdrawal of the Company's monopoly entirely in the 1650s – these experiments ended in failure and resulted in an even greater ambit for Company power when restored. However, the accession of William and Mary to the English throne in 1688 presented a remarkable opportunity to renew assaults on the Company's exclusive privileges and its alliance with the English state. This so-called Glorious Revolution not only brought with it new forms of fiscal, bureaucratic, and revenue systems; it also catapulted Parliament, and particularly the Commons, into an unprecedented role in English and Scottish politics. Its power of the purse, control of the army, and claims to represent the "nation" and the "public" now ensured that politics and political language would now be oriented towards Parlia-

ment, in addition to and at times instead of the Crown (Hoak, 1996: 5-6; Hoppit, 2000: 39-50; Speck, 1998: 139-65).

These new circumstances opened up a new opportunity for interlopers and others seeking to break into the East India trade or simply to break the East India Company. There was a long tradition of appealing to Parliament in voicing dissent against the restricted East India trade. (Bohun, 1993: 64; Sacks, 1995: 272-73). Interlopers tended to regard the Commons and the common law as a natural ally in their anti-monopolist arguments for a free and unrestricted trade. Still, as one Company's lawyer keenly pointed out during a suit against an interloper in the mid-1680s, though the Company was created during one of the most anti-monopolist Parliaments in memory, “in all the catalogue, and in all the debates of parliament at that time, there's not one word mentioned of the East-India company's charter.” The judges agreed, one noting that the Company's exclusive trade “never hath been questioned as such by parliament, though they have looked narrowly into the king's prerogative, even to the questioning some things that were his undoubted right.” (Howell, 1816: 380-81, 517). So, as concerned the East India trade, for a century Parliament had been largely a paper tiger.

However, in a Parliament now more eager and able than ever to establish its pride of place in English politics, the East India Company's adversaries found a golden opportunity to draw the Commons into an adversarial relationship with the East India Company it might not have been inclined to have on its own accord. Petitions and complaints about company seizures of interlopers over the previous decade flooded in (Scott, 1912: vol 2, 150-51). Company leaders, however, remained unfazed, confident this was the

lightness and vanity which they have always abounded in, especially upon every Change of the Government or lesser Changes of Ministers of State or favourites, But their Boastings have always come to nought, and so they will now, all Governments being wiser than to be swayed by such irregular disorderly vain men, tho they may sometimes seem to give them a little ear and countenance for reasons not to be mentioned, as also for the enlargement of their own understandings in so abstruse an affair as that of the East Indies is to Noblemen and Gentlemen that have not been conversant in busyness of that nature. (IOR E/3/91 f. 6: EIC to General and Council of India, 15 Feb. 1688/9).

In fact, the legislators did indeed ignore many of these petitions, even dismissing charges made against Company Governor Josia Child, since

seizures of interlopers he had authorized in the 1680s were certainly considered valid at the time they were made (Letwin, 1959: 23).

If the neither Company's enforcement of its monopoly nor its fiscal might were able to turn the Commons into an ally of the interlopers, in late 1689, word that Bombay had been invaded and occupied by Mughal forces, in the words of the Company's leadership, "raised the Spirits & Wings of our old adversaries." Rumours spread that the entirety of the Company's system in India was crumbling. A coalition of Company opponents "filled the ears of the house of Commons by scurrilous papers," including petitions demanding the creation of an entirely new East India Company. At the same time, pamphlet after pamphlet took aim not on the issues of political economy germane to the Company's trade and finance, but on its use of political power: not just the Mughal war, but also war fought with Siam in the mid-1680s and the Company's use of capital punishment and martial law in its south Atlantic island-colony of St. Helena (IOR E/3/92 f. 78: EIC to Bombay, 31 Jan. 1689/90).

Among the most vocal critics of the Company were the brothers Samuel and George White. Samuel had been a former Company employee who had taken up the position of *shahbandar* in the Siamese government at Mergui. Their mutual efforts to recover his losses from the condemnation of his ship and cargo by a Company Admiralty Court during the war with Siam, however, moved well beyond any argument about monopoly powers or political economy. Indeed, they focused their accusations on the Company's political power in Asia, emphasizing its contravention of the prerogative of both King and Parliament. John Child, the Company's General and head of its affairs in Asia, was described as having "declare[d] he has DESPOTICK POWER AND SOVEREIGN AUTHORITY *in his breast*" (White, 1688: 3-4). They observed that another Company advocate had referred to the Company's employees as the "Company's Subjects under the King," an "*Ambitious Exorbitancies*, lest the *True Sovereign Authority* shou'd be at length provok'd to Convince him of his *Error*." (White, 1688: 4-5). The Commons failing to offer compensation for Samuel, George later turned his attention to the critiquing the Company's government at St. Helena, which he framed as no less than a conspiracy against the English state. The island's Deputy Governor, he insisted, "had been order'd by SOME-BODY to begin the setting up a *New Sovereignty* there in the Name of the *Company*; telling the Inhabitants they were no more the *King's*, but the *Company's Subjects* (White, 1689: 5).



In issuing their complaints not in terms of the commercial rights of Englishmen but as a threat to Parliamentary sovereignty and the very foundation of English political liberty, the Company’s opponents had found a winning argument. On 6 November 1689, the House appointed its first ever *ad hoc* committee empowered to subpoena “psons, paps & records” of the East India Company, not to examine its monopoly but rather its use of martial law in governing St Helena (BL: Additional Manuscripts [henceforth AddMS] 22185 f. 15, “Committee of the House of Commons to examine...martial law in St Helena, 6 Nov. 1689). The Company leadership dismissed this simply as a formality, a symbolic gesture by Parliament to assert that “such Commissions [to exercise martial law] ought not to be granted by the Crown or otherwise than by Act of Parliament” (IOR E/3/92 f. 30: EIC to St Helena, 15 Jun. 1689). The Company’s governing Court of Committees also stalled in providing the requested documents, delaying sending a copy of the island’s charter for two weeks and its instructions about the administration of law for about six months, insisting “That according to the ancient usage of their Predecessors they might legally manage their trade & establish & govern Colonies Forts & Garrisons of their property within the Limits of their respective Charters” (IOR B/39 f. 205-6, 231-2: Court Minutes, 10 and 28 May 1689, 19 Nov. 1689).

Surprisingly, the *ad hoc* committee decided against the Company, finding the “putting to Death severall English Subjects by the Company’s Directors to be Murther” (BL AddMS 22185 f. 29) and recommended the Company’s charter be revoked and a new one erected in its stead. Despite what should have been a shocking turn of events, Company leaders nonetheless persisted in their belief that the Commons was merely posturing, and that its leadership would eventually come to their senses. This “new” Company, they were convinced, would simply be the old Company chartered by statute rather than letters patents (IOR E/3/92 f. 78: EIC to Bombay, 30 Jan. 1689/90).

In the short-term, their confidence seemed well-placed. A new Parliament gave two readings to a bill to confirm the Company, and by May 1690, had also confirmed the Hudson’s Bay Company’s charter and introduced a bill to confirm the Royal African Company (IOR E/3/92 f. 101: EIC to Madras, 9 May 1690). Yet, despite these favourable signs, the new Commons continued the *ad hoc* committee of inquiry, though with a vastly expanded purview. In 1691, a parade of anti-Company witnesses were brought before the committee: some of the most “no-

torious” interlopers of the 1670s and 1680s, the dismissed and deeply disaffected former Admiralty Judge at Bombay, and, of course, George White. The committee heard information about everything from debts contracted in India to highly unflattering accounts of wars fought at Bombay and Bengal. Not unlike Edmund Burke a century later, several witnesses also impeached the Company as having abused its political power through the ill-treatment of South Asians. The witnesses seemed to agree that charged that such ill-government spread from London, where the chief Company leadership had become a despotic oligarchy, amassing a great amounts of stock and declaring extremely high dividends, whereby a “few particular persons to engross to themselves the Government as well as the Advantages of the trade.” One witness went so far as to insist that this was a deliberate and present threat to the Commons itself, as it was alleged that Company leaders “openly used as an Argument...that their making such Divisions was the only way to keep them out of the Power of the Parliament.” (BL AddMS 22185 f. 23-35). Meanwhile, their ill-begotten wealth imperilled the very social foundations of England; as one pamphleteer insisted, in this manner, Company leaders had amassed enough wealth for “2 or 3 particular Men to make them as great as Dukes.” (*Reasons Proposed*, 1693?: 8). In Thomas Babington Macaulay’s words a century and a half later, Josia Child in particular became “the despot of Leadenhall Street...libeled in prose and verse. Wretched puns were made on his name. He was compared to Cromwell, to the King of France, to Goliath of Gath, to the Devil” (Macaulay, 1871: vol 4., 233-34).

It was in this context that a coterie of rival merchants, interlopers, and quite prominent disaffected former Company employees – including a former President of Madras, former Company governors, and other interlopers and, again, George White – also began to strategize how to appeal to Parliament for “a regular & lawfull Establishment of an East India Company on a new nationall joynt stock cleare of all incumbrances.” (Bodleian Library, Oxford [hereinafter Bodl.]: Rawlinson Manuscripts [hereinafter MS. Rawl] C. 449 f. 1: New East India Company Minute Book, 6 Oct. 1692). Citing the “manifold abuses and unlawful Practices of the present *East-India Company*, both at home and abroad,” they sent their first petition on October 23, 1691 (*Journal*, 1693: 2) and were also prominent in lobbying against the renewal of the Company’s charter (IOR A/2/8; Bodl. MS Rawl. A. 303 f. 147-48; IOR B/40 f. 193-96). Though no less based in the capital, they called their

new would-be Company the “*English East India Company*,” desperate to distinguish it as more *national* from the old Company, formally known as the “Governor and Company of Merchants of *London* trading to the East Indies.” In the span of just five or six years, the conflict between the “old” and “new” Companies had become, again in Macaulay’s words, “as serious an impediment to the course of true love in London as the feud of the Capulets and Montagues had been at Verona” (Macaulay, 1871: vol. 4, 238).

In all of this, the rhetoric of the Company’s enemies very acutely played upon the notion that the Company was itself a threat to Parliamentary sovereignty, not only in its traditional ties to monarchical power but also in its very political independence and behaviour. Fairly well convinced, the Commons committee returned a litany of remarkable charges: having intentionally borrowed money with no intent to repay; pirating Mughal ships; having erected an “arbitrary Admiralty court” that seized on the goods of English subjects; and having prosecuted an “unwarrantable war” in which: “1. Many outrages and Violences were committed upon y<sup>e</sup> Innocent Natives on Shoare, 2. Many of them Killed, 3. Their dwelling houses, warehouses & goods burnt & destroyed Their ships at Sea seized & made prize” (BL AddMS 22185 f. 25-30).

As before, the full House failed to act on the committee’s findings, but many other agents of the state began to sense the Company’s weakness and make demands that would have been largely unthinkable a decade earlier. Inexplicably the commissioners of the Treasury and the Ordnance were able to pressure the Company for extremely low prices on saltpetre.<sup>2</sup> In 1691, Customs commissioners made the unprecedented and bewildering demand that the committees begin to provide personal security for payment of taxes on imports; despite numerous enquiries, Company leadership could never be apprised of a reason for the change in policy (IOR B/40 f. 76, B/41 f. 99, 103: Court Minutes, 16 Oct. 1691, 19 Sept. and 14 Oct. 1696). The city of London, the great ally of the Revolution and the Commons (Scott, 2000: 220), along with various wards and parishes within which the Company held property,

<sup>2</sup> In July 1689, the Lords Treasurers requested 500 tons at £45 per ton; the Company answered back with a proposal of £50 per ton, and interest of 6% on the money until paid, but noted in its minutes that “the Compa depending altogether upon his Majesties favour and protection do with all humility Submit the price to what his Majestie will be pleased to order.” IOR B/39 f. 207: Court Minutes, 10 Jul. 1689,

also began to increase their tax demands on the Company. And, perhaps most famously, a few years later, the Exchequer found itself emboldened enough to compel the Company to contribute to a “voluntary” investment scheme for issuing bank notes, one of the first ventures of the newly formed Bank of England.

Instead of retooling their approach, the East India Company leadership responded as it always had. It lobbied, spent money, called in favours, and in 1691, began again to offer an annual present to the King. This was not just similar to tactics used in the 1680s, it was in fact the very same gift, as the Company transferred “the £7000 Credit in the Generall Joynt Stock formerly in the name of the late King James” to the Exchequer in the names of William and Mary (IOR B/39 f. 81-82, B/40 f. 74: Court Minutes 30 Nov. and 7 Dec. 1687, 2 Oct 1691). By early 1692, this seemed to have its desired effects. William and Mary confirmed the Company’s charter as legal and rejected Parliament’s insistence that a new charter be passed as an Act.

However, this was at best a Pyrrhic victory. While the Company had dodged the Commons for the moment, now the Crown began to make unprecedented demands in revising its relationship with the Company. In May 1692, the Company received a list of propositions from the Earl of Nottingham detailing various “suggestions” of regulations that might be made on its operations, the lion’s share of which concerned stockholding and therefore voting in and administration of the Company.<sup>3</sup> The Company rejected the King’s expression of this sort of power as “remarkable” and raised objections as to the particulars. Even the judges and legal advisers consulted were ambivalent, finding that the King certainly had the right to threaten the Company with forfeiture of its charter, but that, paradoxically, the Company’s right to its “forts, cities, towns and territories in India” in perpetuity made any elimination of the body highly problematic (National Archives (formerly Public Record Office), Kew, London [henceforth PRO]: Colonial Office Papers [henceforth CO], CO/77 f. 17; BL Lansdowne MSS 846 f. 250). Always

<sup>3</sup> Including new regulations on stockholding, the withdrawal of all licenses on private trade, an agreement to a fixed annual sum of exports of English goods and imports of saltpeter, and the demand that the Company own all its ships. The Company objected to almost all of them (IOR H/40 f. 175-79: “The Humble Answr of the Governor Deputy Governour and Court,” 20 May 1692; IOR B/40 f. 102: Court Minutes, 29 Feb. 1691/2).

Panglossian, the Company’s leadership read this opinion as a sign that there “wilbe a Company hundreds of Years Or if any Change ever will be like the Change of the Moon, the same again little Alteration of the Persons or Conduct more than what happens by deaths or buying and Selling” (IOR E/3/92 f193, 197: EIC to Madras, 29 Feb. 1691/2, EIC to Bengal, 29 Feb. 1691/2). Some months later, Josia Child, removed but observing these events from his estate at Wanstead, echoed these sentiments: “I believe in my conscience there will be no change of the Company while I live or if any no other than like the change of the Moon... which will serve none of the ends of our furious brainsick adversarys.” Child, now out of formal power, also continued to insist the Company had no responsibility to consult the Crown on its appointments in India, as it had never done so in the past. Even Parliamentary involvement, he predicted, would only entail some “triviall alteracons” to the Company’s affairs. (Bodl. MS. Rawl. A. 303 f. 224, 301: Josia Child to Robert Blackborne, 22 Dec. 1692 and 22 July 1692; IOR H/40 f. 121: Josia Child to Robert Blackborne, 9 Jan. 1691/2).

Given all of this political wrangling, it was perhaps supremely ironic that the decisive break in this political stalemate was the result of an inexplicable bureaucratic accident. In March 1693, the Company paid its quarterly tax a day late, technically rendering its charter forfeit. Some have suggested this was a bureaucratic oversight, others that it was the Company’s ill-conceived ploy to provide an excuse, as before, for a reconfirmation and expansion of its charter. For their part, Company leaders excused it by explaining that the Exchequer’s offices were closed for a holiday (Havlik, 1998: 84n50). Whatever the cause, this non-event became a major political debacle. The Queen appointed the attorney general and solicitor general to look into the matter and heard arguments from various parties against the renewing of the charter, including the would-be proprietors of a “new” East India Company (PRO Privy Council Register: PC/75 f. 132, 192, 197, 205, 228: 13 Apr., 3, 17, and 31 Aug., and 7 Sept. 1693). When a new charter was eventually issued, it formally subjected the Company’s by-laws and administration, for the first time, to Privy Council review (*By-Laws*, 1695). A month later, letters patents, seeking to make “Trade and Traffick to the *East-Indies*...more national, general and extensive than hitherto it hath been,” demanded that the Company increase its capital stock by £744,000 in new subscriptions. Not only was this taxable to a sum of about £2700 per annum, but, it has been suggested by at least one his-

torian, that this was a deliberate attempt by the English politicians to effect a coup within the Company by diluting the power of the leading committees' stock and thus their votes. It also mandated greater transparency, by requiring the accountants' books that the committees had so closely guarded be kept in a "publick office" to "lie open from Time to Time, for the View of all Persons concerned." (Scott, 1912: vol 2, 153-54; *Letters Patents*, 1693).

Thus, by mid-decade, very quickly the kinds of contributions to the state that had been the main source of the Company's power and independence were being rendered statutory obligations. The Company was now *obliged* to import saltpetre. Provincial merchants and woollen manufacturers also pressured Crown and Parliament to insist, somewhat absurdly, that the Company be compelled to export annually £100,000 of the "Woollen and other Goods of the Product & Manufacture of this Kingdom." That there was little demand in India or Persia for these products, the timing of shipping in winter presented practical complications with the dying process, and in any case such stocks were virtually impossible to get on ships for the duration of the war with France, seemed immaterial (IOR B/40 f. 223; H/36 f. 91, 217). The Company also faced higher taxes, newly promulgated sumptuary laws, and wartime exigencies, including a greater dependence upon naval convoys (IOR B/41 f. 35-36: General Court Minutes, 30 Oct 1695) and a constant nuisance of impressments in English, colonial (such as Barbados), or even neutral ports, such as the Cape of Good Hope. Moreover, at least one "great new ship" building at Blackwall, partly rigged and which was designed to carry a large shipment of broadcloth that had already been baled, was bought out from under the Company by the Crown. (IOR E/3/92 f. 128: EIC to Surat, 18 Feb 1690/1). A wartime prohibition on the exportation of bullion, erected in 1695, led to greater competition for silver with the newly created Bank of England, which, as it supplied the army with money, was exempted from the prohibition; this forced the Company to purchase more specie on the Continent, which was not only more expensive but also subjected its activities to review for the first time of the Council (later Board) of Trade (IOR H/26 f. 76-77: Committee for Buying Goods to Josia Child, 14 May 1695).

This all added up. The Company complained in 1698 that for the duration of the war, it had paid over £85,443 in taxes on its stock and almost £295,030 that year alone in customs, without being able to pay out any dividends. The state was benefiting from the trade, but the

Company claimed it was not (IOR B/41 f. 285: Petition to House of Commons, 23 May 1698). Its advocates also fought in print to convince the Commons – and the “publick” – that the aspersions cast upon the Company were “as vile and odious as Malice itself can invent, or a Pen dipt in the very gall of Asps can depaint.” (Tenche, 1690: 1). In petition after petition to the King, the committees “depainted” themselves as the victims of the “violent prosecution” in front of Crown and Parliament, and the “violent persecution of Interlopers and Others their Adherents” (IOR B/40 f. 254, 256: EIC to William III and Mary II, 22 Aug. 1694, and EIC to Mary II, 19 Sept. 1694). None of this reasoning satiated the now popular odium, incited to some extent by the critics’ propaganda machine. The public image of the Company had become so bad that on the evening of January 21, 1697, a “rabble of Weavers” laid siege to the East India House. (IOR B/41 f. 144: Court Minutes, 22 Jan. 1696/7).

Thus somewhat suddenly and unexpectedly, with the political winds blowing as they were, the Company’s business-as-usual came under direct assault. This was no more clear than the attack on the Company’s traditional methods of deploying of gifts, financial, and patronage to keep a scope of independence and autonomy. Tributary payments had formed the backbone of the Company’s political strategy, in Asia and England, and there was little inclination to hide them. Even charges “in their Affairs towards granting a new Charter” in 1693 were openly discussed in the minutes, and reimbursement for such expenditures was clearly demonstrable in the books. (IOR B/40 f. 183: Court Minutes, 13 Apr. 1693). However, by 1694, Parliament had begun to investigate “bribery” in its ranks; the corporation of London fell under similar scrutiny. Rumours of “special service money” spent by the East India Company to secure a new charter – £170,000 in 1693 alone – led the Commons to appoint nine members to inspect its books, believing “an universal corruption had overspread the nation; that court, camp, city, nay and the Parliament it self were infected.” (Bodl. MS. Rawl. D. 747 f. 145-52; *Collection* 1739, 9; Barber, 1975: 45). Unlike with other bodies, like London, again the Company’s specific relationship with Asia also became crucial to the critique, with at least one person insisting that the Company’s behaviour threatened to import Asiatic corruption and luxury of the sort that had brought down Sparta and Rome (*Selection of the Debates*, 1695: iii).

Historians have tended to side with Parliamentary rhetoric in regarding this old system as a set of “practices...which were rightly regarded

as objectionable if not fraudulent” (Chaudhuri and Israel, 1991: 437) and the attack upon it as one of a number of attempts by the Commissioners of Accounts to “[improve] fiscal probity” in the 1690s (Brewer, 1989: 151). However, the quick rearticulation of these kinds of gratuities and tribute payments into “corruption” and “bribes” cannot simply be seen as the uncovering of a conspiracy or a sudden transformation of political ethics. (After all, one the largest lump sums of the Company’s “bribes” was £10,000 intended as a “present” for William and Mary, much like that which had been given to Charles II when the Company had faced similar threats from interlopers) (Chaudhuri and Israel, 1991: 433). Indeed, such efforts by the Commons need to be seen both as a consequence of the ongoing pressures (lubricated, of course, by promises of money as well) from Company critics, as well as the Parliament’s inertia to solidify its ability to discipline the monarchy, chartered corporations, and its own members. In the end, five of the principal Company leaders implicated were actually members of the Commons and the scandal ultimately brought down even the Speaker himself, (Lawson, 1993: 52) even though the Commons was ultimately compelled to admit that no law had been broken and no crime committed (*Collection*, 1739: 17-31).

For its part, the Company leadership responded to this with its usual political strategies, sending envoys to the Privy Council and the King and Queen, lowering its price on saltpetre, and even offering, like the Corporation of London, to raise a company of mounted infantry as a militia to repel a possible French invasion (IOR B/39, f. 233-5, 248, 261-3, B/40 f. 7, 12). But now, it also began to pay much more attention to Parliament. Charles Nowes, the Company’s solicitor, regularly attended both the Commons and the homes of several of its members personally. Company advocates, including Nathaniel Tenche, a prominent Company leader, began to insist (disingenuously) that the Company would have always preferred to have had a Parliamentary settlement of its affairs, but that “the temper of the Princes of the last two Reigns [*i.e.* Charles II and James II], how tender they were upon all the points of their Prerogative” made doing so “next door to an impossibility” (Tenche, 1690: 9). In any event, by March 1697, the Company and the Commons had come to a tentative agreement: in exchange for a loan of £400,000, Parliament would confirm the Company’s charter. Far from an ideal solution, the Company’s executive Court of Committees nonetheless announced itself “Satisfied, That it is the onely expedient that



can be found out for establishing of the Company’s Commerce, after all the Severe troubles & Suffereings, that they have for many years past laboured under.” (IOR B/41 f. 156: Court Minutes, 23 Mar. 1696/7). In fact, they subsequently raised their proposal to £700,000 (though on a longer term, and at a higher interest) in an attempt to pre-empt any offer by these new investors.

Such a move did not intimidate the would-be proprietors of the “new” Company, however. Unlimited by a fixed capital stock, encouraged by political ties to the Exchequer, and unencumbered by actually having to engage in an ongoing India trade, the “new” Company’s leaders made a counteroffer Parliament could not refuse: the staggering sum of £2 million (Lawson, 1993: 55-56). The “old” Company responded with a new proposal of its own, but starved for ready cash and resources during wartime, William III and the Parliament happily accepted the new investors’ scheme and gave notice to the old Company it had three years, as per its charter, to wrap up its affairs (Chaudhuri and Israel, 1991: 437).

Of course, the old Company remained defiant and oddly confident. As its London leadership wrote their subordinates in Bengal:

here is ... a tryall of Skill, you may call it, if you please a civill Battle between Us and the New company, and two or three years strife must end the Controversy, for the Old or the New must give way. Our Joynts are too stiff to yield to our Juniors. We are Veterane Souldiers in this Warfare, and if our Servants abroad in other Places do their parts as well... We don’t doubt of the Victory (IOR E/3/93 f. 102: EIC to Bengal, 26 Aug 1698).

As a first step, the old Company lobbied for a Parliamentary license to continue as a corporate body beyond the three years. Then, in what Company historian Philip Lawson has called a “master-stroke,” the old Company subscribed £318,000 to the new Company’s fund, rendering it the largest but not majority stockholder in the new Company (Lawson, 1993: 55). This not only “undermined” the new Company’s independence. It also gave the old Company solid ground to argue for its continued existence. However, now instead of securing its rights through great tribute at court, revenues through taxation, and supplies of military and commercial goods, Company leaders now had to argue that to abolish it would be to violate the *property rights* of its stockholders – over 1,200 people – which now it held in the form of treaties, infrastructure, and

property in Asia, as well as now a vast amount of stock in the new Company itself (Bodl. MS. Rawl. A. 303 f. 113-14, 147).

Though the old Company had secured its existence, all of this posturing in such a short amount of time dramatically if inadvertently opened the door to an unprecedented amount of state power over East Indian affairs. This was a momentous turn of events. The so-called “£2 Million Act” of 1698 was the first Parliamentary legislation to erect an exclusive overseas trading company to traffic in the East Indies (*Collection*, 1739: 105-16). The mere fact of the chartering of a Company by Parliament rather than the Crown changed the nature of the Company’s relationship with the state. It ensured that from hereon the East India debate would be prosecuted primarily in terms of the “national good” and the rights of the public, and that the old forms of lobbying, gifting, and negotiating would become much more difficult. Charles Davenant, who was deeply involved in these negotiations on the old Company’s behalf, saw this clearly, though understood it as a positive turn of events. As he wrote, “If a Company be Erected by Authority of Parliament *it will become a part of the State* have a better figure a broad & be able to Contend with our Rivals” (PRO PRO 30/24/50 f. 31).

Moreover, the absurd situation of two simultaneous East India Companies begged for resolution. Since the two sides seemed unable to treat civilly, by 1700, William III had offered to arbitrate a “treaty between the two companies...without being partiall to one, or other, But would administer Justice to all” (IOR B/43 f. 115: General Court Minutes, 12 Mar 1699/00). William died soon after, but in 1702 the Companies did agree to such an arrangement with his successor, Anne. And by 1709, a tripartite indenture resulted in the a new body: the *United Company of the Merchants of England Trading to the East Indies*.

### III

In just under a decade, the chaotic and almost fanatical rivalry between the two Companies matched with the incessant desire of certain members of the Commons to assert their own authority as a body had rapidly reoriented the nature of East Indian affairs in England. By framing the debate as a controversy over the Company’s excesses of sovereign power and then encouraging the importance of Parliamentary sanction for a chartered trade, the “old” Company’s enemies managed to transform

the rights of the East India Company from an inviolable and exclusive political autonomy to the character of an East Indian farm, doled out by public and Parliament to the highest bidder (*Collection*, 1739: 109). Thus, though through neither grand intention nor design, but the English, and soon the British, state entered the eighteenth century in a position to capitalize upon the Company’s trade, wealth, and political power to support its infrastructural, martial, and fiscal expansion. The Company’s constitution was now statutory and Parliamentary oversight of its internal governance, its finance, and even its imports and exports an increasingly accepted fact. Indeed, the United Company had become, as Davenant predicted, part of the state quite literally, the terms of the 1709 “award” increasing its £2 million loan by another interest-free £1.2 million by permanently vesting the Company’s stock in the national debt. This permanent investment, as Bruce Carruthers has argued, thus left the Company, as a body, permanently and politically invested in the survival of the English state (1996: 9-10; Chaudhuri, 1978: 436). The symbolism of the United Company’s new arms said it all: in place of the old Company’s motto “*deo ducente nil nocet*,” (under God no harm is done), the Company was now announced as “*auspicio regis et senatus angliae*”: that is, under the authority of the King and Parliament of England.

Thus, the East India Company ultimately survived this seventeenth-century “warfare for rights, in England,” as the eighteenth-century Company historian John Bruce called it (1810: vol 3., 686) financially secure but politically scathed. What in the seventeenth century had seemed an inviolable position, both in principle and practice, was now rendered a more malleable question of property rights and public benefit (Marshall, 1996: 535-6). While the Company continued to be a vehicle for patronage, its old way of doing business always threatened to be attacked as corrupt and venal. Quite famously, a half-century later the Company would again fall under the direct scrutiny of Parliament – first by the ministry’s Attorney and Solicitor Generals after the Company’s victory at the Battle of Plassey (1757) and then with an ad-hoc committee of enquiry in 1767 after the Company’s acquisition of the *diwani*, or rights to revenue over Bengal (1765). Now, the question was not *whether* Parliament had a right to a role in Company’s affairs, but to what extent. With Robert Clive’s quixotic predictions of a windfall of £4 million *per annum* from *diwani* and the state’s wartime debts skyrocketing, the Commons could now take a direct interest in the possibilities of its share

of Indian revenue. Though the Company argued, like before, that such money would be better reinvested in its own military-fiscal system in India, it was unable to resist. In December 1766, it offered what would have been unthinkable less than a century earlier: “one third of the neat Revenues of the Dewanny of the Three Provinces of Bengal Bahar and Orixia be given for the use of the Public.” (IOR A/2/8, no. 38: “Proposal to the Offers to Administration,” 16 Dec. 1766). The Company, for its part, was now “duly sensible of the great obligation they lie under to Government, and that their interests are, and must ever be, inseparable from those of the State” (*Parliamentary Register*, 1766: 471-72).

Of course, the ultimate resolution to the 1767 Parliamentary inquiry did carry with it some remnants of the old system. The Company’s directors were much more willing to offer financial contributions than to allow the state to make a political claim over its governance or sovereignty in India. The compromise solution, reminiscent of its seventeenth-century “gifts” to Charles II, was an annual tribute to the Exchequer of £400,000, for which the state relinquished claims on the direct revenue and thus sovereignty in Bengal, even if now these were seen as rights “bought from the Publick” rather than the other way around (Sen, 1998: 126). As a result of this settlement, as Huw Bowen has noted, “at no time was the Company’s privileged position more secure than in the mid-1760s [and] remained that way until the 1790s” (Bowen, 1991: 21).

Still, if the Company in some respect continued to win the “question of sovereignty” (Bowen, 1988) in the middle of the century, the end was near. Francis Russell, solicitor to the Board of Control and principal advisor to its President, Henry Dundas, noted in 1793 that from the £2 million act until 1767, Parliament had “confined” its legislative interest in the Company “to such Matters” as charters, voting qualifications, dividends, or regulation of Company servants. After 1767, state interests “pointed to the political Government and security of the territorial Acquisitions in India, the Administration of the landed Revenues,” provision of troops and munitions, judicial regulations, and punishment for wrongdoings in India and in Britain (IOR A/2/12: “Mr Russell’s Report,” 1793). From 1767 to 1770, three separate acts of Parliament were established to further regulate elections to and operations of the General Court (Bowen, 1991: 47). In 1773, and again in 1784, Parliament quite famously overhauled its supervision of the Company’s affairs in India and in Britain. Finally, the £400,000 “contribution” continued to come

under review: it was extended in 1769 for another five years and increased in 1793 to £500,000 (*British Parliamentary Papers*, 1985: 6; IOR A/2/11a f. 363: Henry Dundas to Board of Directors, 16 Feb. 1793), though the Company was consistently unable to meet its obligation.

By the end of the century, thus, Dundas was able to make a set of claims that would have seemed preposterous a century earlier: the Board of Control’s commissioner was to be the “real President” of Indian affairs; all appointments of chiefs in India should come directly from the Crown; the secret committee of the Company ought be abolished (and therefore such political correspondence from India to go directly to the board of control); and the army in India should be the King’s and not the Company’s (IOR A/2/11a f. 100-5: Henry Dundas, “Memorandum,” [1792]). It was at this point that Dundas could earnestly write to the Chairman of the Company’s Board of Directors,

... you will recollect that the Public has always maintained, and the ablest Lawyers have recognized its right to the Territorial Revenues which have been obtained in India, either by Cession or Conquest, and the Administration of those Revenues has been permitted to remain in the hands of the Company without any surrender of that Claim on the part of the Public. In truth the Public never can surrender it, and if ever the present system of Indian Government should be changed & a new mode of Remittance adopted, other than through the medium of the East India Company, it would render it necessary to enter into a very complicated investigation & adjustment of the Claims of the Public limited by many fair pretensions on the part of the East India Company (IOR A/2/11a f. 361-2: Henry Dundas to Chairman of Board of Directors, 16 Feb. 1793).

Now, the state and its agents had come to believe that the public had *always* maintained a claim on the Company and its commercial and territorial revenues. Quite remarkably, from a seventeenth century in which the English state’s role in East Indian affairs was ambiguous at best, by 1799 prevailing legal opinion in Britain had come to regard the “Indian empire” as “a limb of the government of the country” (Auber, 1826: vii). As this political argument became a reality, so did the modern British state’s power to capitalize upon bodies like the East India Company to underwrite its infrastructural growth, its ability to finance debt, and its warmaking capacities. Now, as the financier Thomas Walpole warned Chatham at the onset of these political battles over Plassey and *divani*, the state seemed to have not only the right but the obligation to in-

tervene in “that which is too unwieldy for a subordinate body of merchants” (Lawson, 1982: 101).

Thus, even if down to 1834, under the right circumstances, as Cyril Philips has argued, the Company directors “could always effectively resist the Government,” (Philips, 1961: 305) in broad strokes by the dawn of the nineteenth century the Company had been incorporated both into the British empire and into the financial underpinnings of the British state. With no small degree of insight, its seventeenth-century predecessors had been at great pains and expense to keep their governance autonomous through the deployment of financial might. While this contributed to state coffers, it nonetheless limited the degree to which the Company could be considered rightly part of that apparatus. It was amidst the somewhat frenzied and confused politics of the 1690s in which that began to change. Far from a grand plan or teleology in which “private” bodies like the Company were inevitably or self-evidently to be swallowed by the modern state and nation, its ultimate incorporation seems to have resulted both from a number of coincident circumstances: the insatiable demand in the Commons to assert its rights to charter and regulate foreign and domestic affairs; the astute politicking of Company opponents, emphasizing ways in which the Company threatened Parliamentary sovereignty and political power; the overly sanguine expectations of the “old” Company’s leadership that the Glorious Revolution would prove similar to previous upheavals in the seventeenth century; and the eagerness with which “new” Company directors pursued their cause, concerned only with securing the trade, whatever the cost to the independence of the new body that resulted from their settlement. Meanwhile, the fact that the East India Company was rooted in Asia was never divorced from the debate, its expansive commercial and political behaviour abroad and involvement in so alien a place as India serving both as the source of its financial and political power as well as ironically the political pretext for the ultimate erosion of its independence and autonomy, both in the 1690s as well as in the later eighteenth century.

Such an interpretation raises questions about the origins of the military-fiscal state that resists a narrative that emphasizes its inexorable and insatiable growth, swallowing whole everything (like the Company) in its path. Instead, it favours a political vision that is much less unidirectional, understanding that state power arose from the petty desires, political will, or even gross miscalculations of any number of actors within and without the state. Moreover, as Michael Braddick and others have

shown (2000), state formation was quite often the consequence not of impulses from the centre but of the attempts by other political actors to use and manipulate the state as well as the rivalries within it for their own purposes. Such efforts inadvertently and often unwillingly offered opportunities for the state to grow, at the ultimate expense of the autonomy of those that initially sought to exploit it. That the modern state's ability to capitalize – literally and figuratively – on a body like the East India Company owed as much to the inevitable demands of a warmaking state as it did to the exhortations, manipulations, capitulations, and even exploitations by the East India Company, its rivals, and various arms of the English state, encourages us to see as well the various contingent, unforeseen, unremarkable, or at least microscopic events so crucial to such world-historical revolutions as the birth of the modern military-fiscal state.

### **Archival Collections**

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# Comparative Perspectives on the “Fiscal-Military State” in Europe and Japan\*

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The aim of this paper is to compare the Fiscal-Military States of Europe and Japan. The European states began to wage wars outside Europe from the Nine Years' War (1688-97) onwards, and their wars expanded to Africa, the New World, and Asia. In the later nineteenth century, Europe's influence, and its wars, spread all over the world. The “Fiscal-Military State” in Europe led to global imperialism.

Japan also expanded its commercial and military activities in the sixteenth century. Many merchants migrated to other parts of Asia (especially South-East Asia). There were also military actions: Toyotomi Hideyoshi invaded Korea in the 1590s. However, in the 1630s Japan adopted the policy of closing itself off from the outside world (*Sakoku*). Japan did not trade formally except with the Netherlands and China. The Japanese Fiscal-Military State led to a peaceful country in the eighteenth century. Japan became an imperialist power at the end of the nineteenth century, influenced by the European and American imperialist powers. Japan became an imperialist state again in the inter-war period.

We therefore observe a great divergence between the European and Japanese Fiscal-Military States. Here I will point out the fundamental differences and similarities between Europe and Japan. The most important difference was that, unlike Japan, European states waged wars in an international context throughout the seventeenth, eighteenth and nineteenth centuries. The Thirty Years' War, The Eighty Years' War, The War of the Spanish Succession, The Seven Years' War, The War of the Austrian Succession, and the Anglo-Dutch Wars, etc. were not civil

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wars but international ones; while in Japan there were only civil wars, because it is an insular country far from the rest of Asia. Therefore wars were only a national phenomena in Japan. The second difference lies in their response after a period of numerous wars. The Japanese response was to close the country. Japan became a peaceful country under the *Pax Tokugawana*, whereas the European nations continued to experience many wars. The third difference is that Japan fell under the sphere of influence of China, which was by far the strongest state in early modern Asia. In early modern Europe there was no state as dominant as China in Asia so European countries did not come under the strain of a very powerful state.

However, there were similarities between Europe and Japan in the following three respects. Firstly, both Europe and Japan achieved great economic growth during their wars in the early modern age.<sup>1</sup> Secondly, both areas developed a military industry. Thirdly, both of them became more and more centralised.

In the following sections, I will make a comparative study of the Fiscal-Military State in Europe and Japan with reference to these factors.

## 1

More than ten years have passed since *The Economic Systems and State Finance* (Bonney, 1995, 1999; Ormrod, 1999) was published. This is a book written by many specialists on fiscal history in Europe, and it will long be a major resource for comparative fiscal history. The beginning of comparative fiscal history, however, will be sought in an article written by Peter Mathias and Patrick O'Brien in 1976 (Mathias,1976). Patrick O'Brien's "The Political Economy of British Taxation" is also an article of huge importance in this field (O'Brien,1988).

O'Brien has written many articles on the fiscal history of early modern England. He has also compared England or Britain with other states from a fiscal point of view. Inevitably such an approach tends to be Anglocentric because Britain became the hegemonic state after

<sup>1</sup> The Edo Period has been considered as a period of stagnation. Nowadays, the trend is to view the development of Japanese economy in Edo period as paving the way for the economic growth in the Meiji period.

1815, and O'Brien's comparative method focuses on why other states lagged behind Britain. Although O'Brien's "The Political Economy" has been the most important article in fiscal history (at least in English history), it is John Brewer's *The Sinews of Power* which has had the strongest influence beyond the circle of fiscal historians. His term "Fiscal-Military State" (Brewer, 1988) is now well known even among Japanese historians. Brewer borrowed fundamentally from O'Brien's article ("The Political Economy of British Taxation") for his data. As a book of fiscal history, *The Sinews of Power* was not so revolutionary. However, it revolutionised the study of English constitutional history. Although Elton considered the Tudor Age as the key to the revolution in government, (Elton, 1953) O'Brien and Brewer thought, from the viewpoint of fiscal history, that the fundamental constitutional revolution took place during the "Long Eighteenth Century" because of the wars against France.

The most impressive aspect of *The Sinews of Power* is the author's insistence that England became more and more centralised and that administrative specialists (not amateur Justices of the Peace) began to have a strong influence. Before his book was published, England had been considered a very decentralised state, in which only amateur administrators had governed. After the publication of *The Sinews of Power*, such an image very quickly became obsolete.

Here I will summarise my point of view on the study of comparative fiscal history. Firstly, it is fundamentally a constitutional history. Thus, we should study constitutional change while looking into the Fiscal-Military State. Secondly, we have to study "the new ruling class",<sup>2</sup> for in a changing constitution, a new ruling class emerged. In England, for example, the new ruling class was the excise collectors. Thirdly, we should study the extent of centralisation. To wage wars, many states needed a lot of money. This forced them to centralise their administrative systems. Some historians seem to forget these perspectives and have been satisfied with studying merely the increasing size of governments caused by military expenditure.

<sup>2</sup> In England, the "middling sort" were very important for this topic. (Barry, 1994).

## 2

The three most important states for the study of fiscal history in Europe are the Netherlands, Britain, and France.<sup>3</sup> The two most important fiscal historians of the Netherlands are Marjolein 't Hart and Wantje Fritschy.

Marjolein 't Hart has studied the fiscal history of the Dutch "Golden Age" since she published *The Making of a Bourgeois State* (Hart, 1993). According to her, Holland was the most powerful province in the Netherlands, but it was not strong enough to overwhelm the other provinces. She emphasizes the decentralisation of the Dutch Republic and refutes Jan de Vries and Van der Woude's (De Vries, 1995, 1997) claim that a "national economy" existed in the Dutch Republic in the seventeenth century (Hart, 1995). In contrast to Britain, the Netherlands did not reinforce the tendency toward centralization. For example, the Bank of Amsterdam (the Wisselbank) did not become a Central Bank in the Age of the Republic.

Fritschy also confirms the tendency towards decentralisation of the Dutch Republic. She stresses the persistence of the tendency towards decentralization until the Batavian Revolution (Fritschy, 1988). Her attention was formerly mainly focused on the eighteenth and the beginning of the nineteenth centuries, but has shifted to the Financial Revolution of the Dutch Republic, namely in the seventeenth century. In a recent article (Fritschy, 2003) she insisted that a Financial Revolution in England was carried out through the Bank of England's enhancing the nation's credit by issuing long-term national loans but the Dutch Republic increased short-term loans in its Financial Revolution.

Fritschy contends that this reveals the "modernity" of the Dutch Republic. However, I think she clearly demonstrates the backwardness of the Republic in the Financial Revolution compared to England. The Financial Revolution in the Dutch Republic seems to have been inferior to the Financial Revolution in England in that it did not succeed in making long-term loans.

Oscar Gelderblom and Joost Jonker published an article (Gelderblom, 2004) in which they maintain that one of the reasons for the development of the financial market in Amsterdam was the Republic's over-

<sup>3</sup> As for Sweden, see Lindegren, 1985; Glete, 2002.

seas expansion and the transfer possibilities of VOC stock. By 1609 the secondary market had become sufficiently strong to dictate terms for new public debt issues. According to Gelderblom and Jonker, contrary to commonly held notions about the emergence of the secondary market, private finance took precedence over public finance in the Dutch Republic, offering investors plentiful opportunities to earn interest by speculation. Thus, the financial market became extremely active, and various new techniques for obtaining credit were developed. In addition, these writers maintained that the formation of financial markets in the Netherlands was made possible because public finance and private finance happened to be connected in VOC stock in Amsterdam markets.

Dutch historians have often put a lot of emphasis on the “modernity of the Netherlands”. For example, Jan de Vries wrote an article on the modernity of the Dutch Republic (De Vries, 1973). He and Ad Van der Woude wrote *The First Modern Economy*, (De Vries, 1995, 1997)<sup>4</sup> in which they maintain that the Dutch Republic was the first modern economy to experience sustained economic growth. Fritschy points out that the ability of cities to maintain loans played a very important role in the formation of states. Fritschy, ‘t Hart, Tracy (Tracy, 1985), Gelderblom, de Vries, van der Woude, van Zanden and Prak (Zanden and Prak, 2004) have all contended that the modernity of the Dutch Republic is important in European history.

However, their notion of “modernity” is different from mine. At least in fiscal history, the mechanisms in the Netherlands and Britain were very different because the latter established the “Funding System”, but the former developed its fiscal system fundamentally along a mediaeval pattern originating from Italy.

As John Brewer wrote, England became centralised and its public debts were supported by its parliament. England invented “the Funding System”. I consider this to be *the* modern fiscal system,

Immanuel Wallerstein emphasised the role of the Dutch Republic as the first core of the World System (Wallerstein, 1974). In spite of their

<sup>4</sup> The subtitle of the Dutch version will reveal its contents more exactly. Its English subtitle is *Success, Failure, and Perseverance of the Dutch Economy, 1500-1815*. Its Dutch subtitle is *De eerste Ronde van moderne economische Groei* (The First Stage of Modern Economic Growth). The authors suggest that the Netherlands was a country whose economy was in the first stage of modern (sustained) economic growth.

different approaches, de Vries, van der Woude, and Wallerstein share the same view about the positive role of the Dutch Republic. That is, all of them emphasize the importance of Dutch “modernity”.

Amsterdam was also a centre of the arms trade of Europe in the seventeenth century. This trade needed raw materials from Sweden (De Jong, 2005). Louis de Geer exported iron and copper from Sweden to the Trip family in Amsterdam. This “Dutch-Swedish complex” and the arms trade were of great significance for the Dutch economy in the Golden Age. Many countries in Europe bought arms in Amsterdam. Thus the Dutch Republic was able to acquire information on the military strategies of other European countries. It did not need a large army like Prussia’s. The Dutch could fight against its enemies very efficiently even with small forces, thanks to the military intelligence they acquired.

In addition, Amsterdam was a city where many foreign merchants took up long-term (several generation or permanently) or short-term residence (for several years). Merchants could also expect to obtain good commercial information from this city. Amsterdam thus became an information exchange for both commercial and military purposes, and this is what enabled the Dutch Republic to function as a modern economy. This was the situation of the Dutch Republic in the Golden Age in the seventeenth century: it was a decentralised country,<sup>5</sup> yet it was better able to acquire information than any other country in Europe. For example, Tielhof describes the importance of the “price currents” as a means for transmitting commercial information (Tielhof, 2002:149-152). From 1585 a list of prices (price currents) began to be published, originally in Antwerp, but soon disappeared again. In Amsterdam in 1613 the city government started to regulate the publication of the price currents. At first, relatively small numbers of merchants could obtain the price currents. However, they were translated into Italian, English and French during the seventeenth century. Before the introduction of the price currents, information on prices was circulated among private networks, and price information tended to be monopolised. After their introduction, price information was available to everybody, distributed once a week.

The Dutch Republic was the most advanced country in the European economies at that time. Other European countries, lagging behind the

<sup>5</sup> The Netherlands, therefore, cannot be called a Fiscal-Military State in the same sense as England. See Ormrod, 2003.

Netherlands, were forced to become centralised states to catch up. This is the situation of Europe in the seventeenth and eighteenth centuries. In this era, some European countries became absolute states because they concentrated their power in one person or institution, partly in order to be able to wage wars.<sup>6</sup> This was a process of centralisation in Europe in the early modern period. Except for the Dutch Republic, many countries were in a stage of economic backwardness. In order to close the economic gap on the Dutch Republic, other European countries intervened in their economies to help economic development. They needed a great deal of money, and this drove them to become centralised states. The Netherlands, however, did not become a centralised state until the beginning of the nineteenth century. Since the Netherlands was already far more economically advanced than the rest of Europe, it did not feel this pressure to become a centralised state.

### 3

The tendency towards centralisation of government could be seen in many European countries. This tendency might be termed "absolutism" or mercantilist policy. Many of the early modern European states became absolute states; and they were in some sense Fiscal-Military States, since much of their resources were allotted to military purposes. However, many historians do not seem to have noticed that if absolute states wage wars, they have to use money, materials and resources outside of their own boundaries. They have been studying absolute states from the point of view only of national history. The decentralised Dutch system became obsolete in the eighteenth century because the Republic did not become a centralised state, and so it could not use state power as efficiently as Britain or France. The differences between the Britain and the Netherlands are revealed by the different paths they took after suffering financial crises.

At the beginning of the eighteenth century, French finances faced a critical situation (Bonney, 1992, 1993, 2001). Therefore, a Scottish banker John Law introduced the so-called "Law's System" in order to save the French from their financial difficulties. Under this system the

<sup>6</sup> On this point, France was a typical example.

Banque Générale would issue banknotes, the Mississippi Company would undertake them, and the French government would repay its debts using the funds. Banque Générale, moreover, issued fiat money. The stock prices of the Mississippi Company increased very rapidly for a while, but then fell suddenly, and the system collapsed (Murphy, 1997).

The failure of “Law’s System” was similar to the South Sea Bubble in Britain (Dickson, 1993; Carswell, 1993). In France the Mississippi Company, and in Britain the South Sea Company undertook the public debts. The differences between the two bubbles are that the French government issued fiat money but England stuck to the gold standard (Bonney, 2001), and that England recovered from its crisis while France could not do so. One of the reasons suggested for Britain’s recovery is the success of the Funding System. While the British government assured the redemption of national debt, the French government lacked such an assurance. After the South Sea Bubble, Dutch money was invested not in France but in England (Neal, 1990). I would like to suggest that, thanks to the South Sea Bubble, British public finance began to be based on the Bank of England, and therefore, the South Sea Bubble had a very positive impact on British economic growth.

#### 4

The time of the Fiscal-Military State in Europe was an age of economic growth. In other words, Europe experienced economic growth in a time of wars. The Dutch Republic, for example, became a hegemonic state in the seventeenth century while fighting against Spain (The Eighty Years’ War). Britain became a hegemon after long wars against France in “the Long Eighteenth century” (O’Brien, 1998). Moreover it was in this period that the “great divergence” occurred (Pomeranz, 2000). In this section, I would like to consider why this growth was possible. That is, I will explore the positive impact of wars on European economic growth in the early modern period.

In the Netherlands today, there has been some discussion about the relationship between war and economic growth. According to Marjolein ‘t Hart, the Dutch Republic achieved economic growth because wars reduced its transaction costs (Hart, 2005). She adopts an institutional analysis from the viewpoint of national history. I will also discuss this topic from an institutional approach, but in a wider context.



From the beginning of the seventeenth century to 1815, Europe waged many wars and the economies in Europe developed in parallel. In the seventeenth century, these wars were waged only within Europe, but in the eighteenth century they became worldwide. If the European economies had not functioned well, they would not have been able to bear the cost of such wide-ranging wars. I think there are three important reasons why they were able to do this. The first is the increasing role of governments in economic growth. The second is the role of merchant networks. The third is the role of neutrality. I will consider here these three factors.

There is an obvious trend for many European states to become centralised. They needed money for continuing wars and so the governments had to increase tax revenue. *Prima facie* this would be expected to have very negative effects on economic growth. Nevertheless, the European states did experience economic growth. Why?

Frederic Lane insists that reducing protection costs was indispensable for economic growth (Lane, 1979). Entrepreneurs could not carry out their business without providing protection themselves or through outsiders. In mediaeval Europe, for instance, merchants had to fight against attacks by piracy or privateering. They paid protection rent to people or institutions that could protect them from such attacks. Sometimes this rent was excessive. As the number of wars increased, European states began to provide protection to their merchants, partly because the merchants could be expected to contribute to the growth of tax revenue. Indeed, customs were not of *primary* importance for increasing tax revenue, but it was *an* important source of tax revenue. If European states had failed to protect their merchants, their ability to raise tax revenues would have been compromised and they might have been unable to continue to prosecute their wars. Protection costs for merchants were increasingly being covered by the states themselves. Merchants no longer needed to pay private protection rent. They could carry on their business with less expenditure, thus facilitating economic growth.

In early modern Europe, many states were engaged in wars and new nation states began to be born. Fiscal-Military States imposed taxes on people living within their borders. A state had come to mean an area that could be taxed by its central government. This was part of the process of nation state building.

Many European states excluded outsiders from their own states. In France, for example, Huguenots were forced to go to foreign countries

by the revocation of the Edict of Nantes in 1685, and the Huguenot networks then spread to many countries. Thus it became easier for Huguenots to engage in business in foreign countries. It was the same story for many other groups of merchants. With the many wars, merchants were forced to seek refuge in foreign countries. Thus, the scope of the merchant networks expanded greatly.

Borderless merchants exchanged commercial information with their families, friends, and merchants of the same sects in foreign countries. They shared the same commercial information, the same instruction system for teaching merchants, the same commercial cultures, etc. Educational tracts for merchants had already been published in medieval Italy. However, the most important work was to be Jack Savary's *Le parfait Negociant* (Savary, 1675). It was translated into many foreign languages. In this era people did not have a concept of "copyright": copyists and translators would freely add or remove sections to meet their own needs without permission of the author. Daniel Defoe published his *The Complete English Tradesman* (Defoe, 1726). Malachy Postlethwayt wrote *The Universal Dictionary of Trade and Commerce* (Postlethwayt, 1757), which was a translation of *Le parfait Negociant*. In the age of the Fiscal-Military State, merchant networks expanded very rapidly, reducing transaction costs. Thus European economy could grow greatly.

During wars, merchants could not trade formally with enemy countries; but they could still do so informally via neutral states or cities. Hamburg, for example, was eminent for its neutrality. The city on the Elbe became neutral in 1618. Of course, Sweden and Denmark were also important neutral states (Andersen, 2000; Müller, 2006: chap. 7). If wars started, belligerent nations were sometimes forced to use neutral ships, or to raise neutral flags on their own ships, in order to be able to continue trading. European wars, therefore, did not necessarily lead to the downturn of trade. The scale of wars was not so enormous compared to the wars in the twentieth century, so wars in early modern Europe tended to have less devastating effects on European economies.

The age of the Fiscal-Military State stimulated economic growth. The European states experienced economic growth because of their wars, not in spite of them. In the eighteenth century, many states in Western Europe became Fiscal-Military States. Western Europe began to develop institutions suited to economic growth. For example, Britain had waged seven wars against France in the "Long Eighteenth Century". Table I shows its expenditure on wars in this period. This clearly

shows that Britain suffered from a heavy burden for war expenditures. As a result of the costs of The Seven Years’ War, India was incorporated into the financial system of the British central government and became an indispensable part of the British Empire (Bowen, 2006).

Table 1 *Costs Comparison of Eighteenth Century Wars Fought by Great Britain (thousands of pounds sterling)*

<i>Years of War</i>	<i>Total War Expenditure</i>	<i>Income percentage</i>	<i>Debt percentage</i>
1688-1697	32,643.8	67	33
1702-1713	50,685.0	69	31
1718-1721	4,547.3	100	0
1739-1748	43,655.2	69	31
1756-1763	82,623.7	63	37
1776-1785	97,599.3	60	40
1793-1815	831,446.4	74	26

Source: Neal 1977: 31.

After waging so many wars in the early modern period, Britain expanded into Africa, Asia in order to acquire colonies. The early modern states in Europe initiated an Age of Imperialism in world history.

## 5

Studies of fiscal history have inevitably tended to become “static” because of the characteristics of the approach. This is a defect of fiscal history. We have to add dynamic viewpoints to fiscal history.

Today it is often said that we must overcome the limits of national history. Global history has been promoted, and many conferences and workshops have been held to further this cause. Nevertheless, studies of fiscal history still seem to be studies of national history only. Studies of Fiscal-Military States cannot be completed purely within the framework of national history because, as we have noted, the states of early modern Europe began to consume a lot of materials and resources from outside their own territories.

Nowadays, it is well known that merchants in early modern Europe traded basically with their families, friends, or people in the same sects. Because of the shortage of reliable commercial information publicly available, merchants were forced to rely on such means. In early modern Europe, many merchants were obliged to leave their homeland because of religious oppression. Most important among these groups were the Sephardim, the Armenians, the Huguenots, the Jacobites, and the Greeks. These groups had set up commercial networks independent of nation states. The birth of modern nation states was, nevertheless, closely connected with these networks. In particular, the rise of nation states was closely associated with the remittance of money by cosmopolitan merchants. One of the most important contributions to this topic is a book written by Michael de Jong (De Jon, 2005). He suggests that Amsterdam became a centre of the arms trade on the strength of the Dutch merchants who emigrated to Sweden to run Swedish mines; the Amsterdam arms trade could then use imports of Swedish copper and iron.

The formation of a nation state, as I have already pointed out, required the importation of materials and resources from overseas areas. Each state had to use international merchant networks. Therefore, without the support of the merchants scattered across Europe, the formation of Fiscal-Military States would have been impossible. Studies of Fiscal-Military States to date seem to lack a study of these international networks. I will suggest that we should accept the importance of trade and commerce in the making of Fiscal-Military States.

Studies of Fiscal-Military States have also failed to pay enough attention to “institutions”. If Fiscal-Military States could reduce their transaction costs and thus promote economic growth, this must be closely connected with the growth of new institutions.

Moreover, studies of fiscal history have to be brought into close relation with state theory. One of the most important aspects of the theory concerning the nation state system is its emphasis on the composite state. Nowadays the nation state is not considered to be self-evident, and corporate bodies did not play fixed roles in their own states. The various factors and politics and their relations in composite states settled the features of states. The character of composite states changes continuously. Gustafsson’s “Conglomerate State” (Gustaffson, 1998) is one of the results of this tendency.

The fiscal history of Fiscal-Military States becomes a combination of political, economic and social history. I will explore the possibilities

of this approach in reference to British history. We are focusing only on taxation and centralization, influenced by Brewer's book. However, his most important contribution may lie in his emphasis on the interrelationship between the political and social spheres.

Brewer is fundamentally a social historian. In English history, there have been many studies dealing with the power balance between the "court" and the "local" spheres. According to Brewer, the Fiscal-Military State was accepted at the "local" level only through parliamentary intervention. In short, the delicate balance of the "court" and the "local" was maintained by the Fiscal-Military State. John Brewer also edited a book dealing with comparative constitutional history (Brewer, 1999), in which it is suggested that the traditional contrast between British absolutism and Prussian bureaucracy was an illusion. Even in Prussia, the level of bureaucracy did not reach the level Max Weber once assumed. The corporate bodies in France and Prussia became an intermediary of state power, institutions which would protect local autonomy from the attacks of central governments. The state is one of the most important organisations on which historical research focuses, but the state is a complex entity, composed of many networks, regions, corporate bodies and so on. These networks were of great importance in England.

In Britain one of the most serious criticisms of Brewer's Fiscal-Military State idea is that his theory applies only to England, and so it is not properly the British Fiscal-Military State but the English Fiscal-Military State that he analyses. He did not pay attention to Ireland, Scotland, or the colonies in North America. Therefore, we need to study the full British Fiscal-Military State, including Ireland, Scotland, and the colonies.<sup>7</sup> This would become the Fiscal-Military State of the British Empire in the eighteenth century. There is also research to be done on the Fiscal-Military State of the French Empire, of the Swedish Empire, etc.

The approach of focusing on commercial networks is also vital. For example, the Protestant International network based on Geneva expanded to many other areas of Europe. We cannot dismiss the importance of such networks for studying the Fiscal-Military State.

Merchants imported and exported commercial and financial know-how from foreign countries. Many Huguenots emigrated to Stockholm

<sup>7</sup> This is a suggestion of Taro Inai. I am very thankful for his suggestion.

from France after the revocation of the Edict of Nantes, because in Sweden they could become naturalised (Purchasse, 2006: 210–212). Their commercial and financial know-how was thus transplanted into Sweden. The English Financial Revolution was made possible because the Dutch brought their financial know-how to England. Indeed, a kind of Financial Revolution had already occurred before William the Orange became the king of England. However, the Dutch invested in England through their commercial network contacts with the English after the Glorious Revolution especially after South Sea Bubble. Dutch commercial, financial and technological influence was felt most strongly in England. In industry, new Dutch draperies, for example, were introduced into England, and these became import substitutes in England. It is no coincidence that England became a Fiscal-Military State after the Glorious Revolution in 1688 and 1689.

English merchants were also sometimes active as financiers, and they contributed to the growth of public credit. They formed moneyed interests and together with gentlemen, participated in the expansion of the British Empire. They were also immersed in British culture and soon adapted gentlemanly attitudes. Linda Colly maintains that a sense of “Britishness” in the eighteenth century was born because the British had to wage wars against France (Colly, 1992). We cannot ignore the role played by the merchants in British society, since it was impossible to fight against France without the cosmopolitan merchant networks. Cosmopolitan merchants were incorporated into the framework of the British Empire, for Britain was able to control the activities of these merchants. We may assume that “Frenchness”, “Swedishness”, or “Danishness” was also born in this age, because many states waged wars and wars enhance the sense of nationality.

## 6

Thus far, we have been discussing the European Fiscal-Military State. In this section, we will turn our attention to the Japanese Fiscal-Military State.

In 1467, a Japanese civil war (*Ouin no ran*) broke out and continued for ten years. Japanese society plunged into an age of wars. At this time Muromachi Bakuhu governed Japanese society. The following period is called in Japanese “*Sengoku Jidai*”, *The Warring State Period*. It ended

in 1590 with the conquest of all territories in Japan by Toyotomi Hideyoshi. The Edo Period began in 1603, continuing to 1867. During the period from 1637 to 1638, the "*Shimabara no ran*", or *Revolt in Shimabara*, occurred. This was the last civil war in Japan before the age of the Meiji Restoration.

In the eighteenth century Japan was a very peaceful country. There were no big wars at all. This marks quite a contrast to the situation in Europe. Therefore, we cannot consider eighteenth century Japan to be a Fiscal-Military State. However, from the middle of the fifteenth to the middle of sixteenth centuries the situation in Europe and Japan was similar in that many wars were waged in each.

Geoffrey Parker maintained that the most important features of the Military Revolution could be seen in the rise of the West's abilities to wage wars. He wrote (Parker, 1988: 3),

Admittedly, the changes in early modern Europe did not usher in a military system that lasted, more or less intact, for centuries; but, on the other hand, they not only transformed the conduct of war at home but also decisively accelerated the progress of Europe's expansion overseas.

Guns were critically important for the rise of the West. Japan was not inferior to Western Europe in such weapons. In 1543, a ship was wrecked on Tanegashima Island (a remote island, far from Kyushu), and a Portuguese happened to introduce guns into Japan. Japan was very quick to develop its own gun industry, and soon became one of the most important gun-producing countries in the world. In 1575 at *the Battle of Nagashino*, Oda Nobunaga defeated Takeda Katsuyori by employing a large arsenal of guns. (The number has been said to be 3,000, but nowadays it is estimated at around 1,000.) It became impossible to win wars without guns. The city of Sakai was famous for its gun factories. However, at *Osaka Natsumo Jin*, or *The Summer Battle in Osaka*, Hideyori Toyotomi (a son of Toyotomi Hideyoshi) was defeated and the engineers in Sakai were to leave the town. Without doubt, Japan was one of the most powerful military states in the world in the sixteenth century.

Nevertheless, it differed from the European Fiscal-Military States on two important points. The most important of these is that in the warfare period in Japan, many areas fought each other in a national context; there was no international war. After the warfare period, Japan became a peaceful country.

However, Japan became a centralised country, while remaining a feudal country with many Daimyo (landlords), each governing their own territories. At that time (*Sengoku Jidai*) the nominal ruler in Japan was the Emperor, who lived in Kyoto. The military leaders, and the real rulers, the Ashikaga family also lived in Kyoto. It was most important to go to Kyoto if a Daimyo wanted to become a ruler or a shogun because he could become a military guardian for the Emperor. He had to conquer many Daimyo if he wanted to become a Japanese ruler. With the introduction of guns, it was becoming easier to conquer other Daimyo. It was Oda Nobunaga who was one of the first persons to understand the importance of guns for winning battles. He was the most aggressive leader and reformer in Japanese history. He did not heed conventional customs. He was therefore very willing to use guns in battles.

In the fourteenth century, Marco Polo had already described Japan as a golden country. In contrast to Japan today, early modern Japan had abundant mineral resources, especially silver, copper, and iron (Kobata, 1968). Since the Yayoi Period (5<sup>th</sup> century BC – 3<sup>rd</sup> century), Chugoku district had produced great quantities of iron by means of the Tataru iron-making method. Japanese iron was made from iron sand. The quality of the iron was as good as Swedish made by the more usual method. This long tradition of the Japanese iron industry made it possible to develop gun production in the early modern period. Without the use of guns, the period of warfare in Japan could not have ended so early.

During the *Sengoku Jidai*, Oda Nobunaga adopted a policy of *Rakuichi Rakuza*: that is, he established a free market to replace the monopoly of the guilds, thereby supporting the development of commerce. For Daimyo in the *Sengoku Jidai*, it was of great importance to promote economic development because they had to survive their power struggles on the strength of money earned from commerce. The Daimyo who were able to develop the economy in their own territories could then expect to extend their territories and defeat other Daimyo. This was in some sense similar to the situations in Europe at the time. After the Jesuits came to Japan, some Japanese Daimyo converted to Christianity, not only for sincere religious reasons but also for the sake of improving foreign trade. Even the most pious Daimyo, Ohtomo Yoshishige, expected to reinforce his military capability by trading in saltpetre with the Portuguese (Iwao, 1974: 33). He wanted to acquire not only commercial profits but also military power from his dealings with the Portuguese. The Daimyo traded with European countries, especially Portugal, in order to increase



their wealth, which was of course indispensable for winning their wars. The trade between Japan and Portugal is called "*Nanban Boueki*". By this trade, bread, cups, buttons, tobacco, etc. were brought to Japan. The most important product, however, was saltpetre, because without it the Daimyo could not have used their gunpowder. This trade was indispensable for waging wars. Many Daimyo, therefore, entered into this trade. The importance of *Nanban Boueki* would be reduced when Japan became a peaceful country once more.

The history of early modern Japan can be divided into two periods. One is the Age of national Expansion (1500-1630s), and the other is the Age of National Isolation (1630s-1854). Both of them experienced economic growth, but the former age has been regarded as more important for economic development. Until recently the Edo Period has been considered as a period of stagnation. However, it is now coming to be recognised as a period of economic development. Without the economic development of Tokugawa Japan, Japan could not have succeeded in its industrialisation.

I will consider the continuity and discontinuity of these two periods. It is impossible to quantify the rate of economic growth, but we can assume that in these periods Japan experienced gradual or moderate economic growth. It was a Smithian model of economic growth. In the first period, the pattern of economic development was similar to that of Western Europe: in the second, Japanese economic growth pattern was very unusual, occurring as a reaction to the pattern of the preceding period. In the first period, Japan can be considered as a Fiscal-Military State. In the second, it was peaceful and was thus able to decrease the tax burdens on its people. In the next section, I will explore the first period in more detail.

## 7

Every Daimyo had to enrich his own territory if he wanted to survive the constant struggles for power. Oda Nobunaga had increased his territory to about one quarter of all Japan by the time he was assassinated in 1582 in the *Honnoji no Hen* (*The Rebellion at Honnoji Temple*). In his territory, merchants could trade freely. He supported commerce because he realised he needed a lot of money in order to wage wars and become the supreme ruler in Japan. He was also very quick to introduce new

inventions. He was very unusual in this respect, and can perhaps be regarded as the first modern Japanese. There had been very strong Buddhist military groups in Japan during the Middle Ages, but he set fire to their residencies and conquered them. He also suppressed Buddhist rebellions. He was very interested in Christianity, though perhaps mainly because he was interested in the materials the Jesuits brought with them. He did not believe in any gods. His military success would not have been possible without using guns. Most importantly, he organised a standing army for the first time, whereas previously wars in Japan had been fought both by peasants and professional soldiers. Nobunaga also built iron warships (Iwao, 1974: 19).

Oda Nobunaga was a striking example of a Daimyo who encouraged economic growth. Takeda Shingen, another very famous Sengoku Daimyo, possessed gold mines, which helped to develop the economy of his territory. Another famous Daimyo, Uesugi Kenshin, was able to use the salt trade to enrich his territory and to wage his wars. Many Daimyo supported commerce and enriched their territories, but it was Oda Nobunaga who had the greatest success in this, and adopted the most advanced policies for boosting the economy.

In the European countries at this time, the financial system was developing and becoming more sophisticated. In contrast, the Japanese financial system did not develop during the age of the Japanese Fiscal-Military State (*Sengoku Jidai*). Most of the powerful Daimyo had their own silver and/or gold mines. They did not need to borrow money. European states borrowed money during wartime and repaid it during peacetime. Japan did not need such a system. When war broke out, the Daimyo were able to utilize their vassals, who would go into battle at their own accounts. Thus, the Japanese government did not develop a national fiscal system in the *Sengoku Jidai*.

Oda Nobunaga, did not care much about tradition. If he had not been killed by Akechi Mitsuhide in 1582, he might have wrought great changes in Japanese society. Toyotomi Hideyoshi was Nobunaga's vassal. He defeated and killed Akechi Mitsuhide immediately after the *Honnoji no Hen*. He unified Japan in 1590 and became Kanpaku, which was the highest ranking position for a nobleman (although he was only the son of a peasant). His ambition did not stop there, and he made a bold attempt to conquer China. He invaded Korea first, and then planned to send an army to China. This attempt failed and this proved fatal to his dynasty, which ended in the time of his son, Hideyori. If

he had not made this fatal mistake, his dynasty might have continued much longer.

Toyotomi Hideyoshi also did much to support the growth of commerce. He began to trade by *shuin sen*, to which the government issued formal permission to indulge in foreign trade. Before that, the so-called *wako* pirates had haunted the coasts of China and Korea. He wanted to control foreign trade.

Toyotomi Hideyoshi surveyed the land every time he conquered a new territory. He was able to simplify the formerly complex relationships of land and estates and he established a unified land system, which became the basis of *kokudaka-sei* in the Edo Period. Every Daimyo's tax contribution was calculated in terms of rice production. This was called the "*Taikou Kenchi*" (*Taiko* was Hideyoshi's rank and *kenchi* means land survey). It destroyed the old feudal manor system in Japan completely. It meant the end of the medieval era and the beginning of the modern period, encouraging centralisation for the first time. In the Edo Period, every Samurai or a member of the Samurai class received his salary in rice. The Japanese early modern period adopted a rice standard. Hideyoshi's system suited the Japanese economy, and it continued to the end of the Edo Period. He also unified the system of weights and measures, which was a major step forward for the economy.

He also carried out the *Katanagari*, the separation of soldiers from peasants. It became a foundation of the ranking system in Japan. The Samurai were the highest; the second highest was peasants or farmers; the third were craftsman; and the lowest class was merchants. Before Hideyoshi's *Katanagari*, farmers were allowed to have weapons, usually swords, but now they were demilitarised. Through Toyotomi Hideyoshi's administrative reform, the Japanese social hierarchy became fixed. This was a major constitutional revolution in Japanese history.

Toyotomi Hideyoshi at first enjoyed good relations with the Christians, but later he began to suppress Christianity, partly as a precaution against Jesuit invasion. However, he needed to make money from trade with Portugal. His administrative system for the Daimyo followed the traditional pattern. In principle he was himself one of the Daimyo. His revenue was based on his own territory. He had the largest share of *koku-daka* among his peers. However, he wielded ultimate power over the other Daimyo. He could order them to invade Korea and China. They could not resist his will. He was able to promote the centralisation of the Japanese administration partly because of the economic strength

he derived from the many gold and silver mines and important ports in his territory. Moreover, his territory included the most fertile arable areas in Japan. His base lay in Osaka, which was the centre of commerce in Japan. He was thus able to bear the burden of military expenditure for his Daimyo and their vassals because he was probably the most affluent person in Japan. It was for these reasons that Japan did not develop its financial system so much in its period as a Fiscal-Military State.

During the *Sengoku Jidai*, Japanese commercial activities expanded greatly. Some Japanese went overseas, especially to South East Asia. They built *Nihohjin-machi* (colony towns which they used as commercial or military bases).

Many Japanese ex-soldiers came to Ayutthaya in Thailand to find employment during the *Sengoku Jidai*, especially after the *Sekigahara no Tatakai* (*Battle of Sekigahara*), in 1600 and *Osaka Natsumio Jin* in 1615. Ayutthaya needed mercenaries at that time. The number of Japanese mercenaries expanded to perhaps as many as 800. In addition to these soldiers, the *Nihon-machi* in Ayutthaya expanded rapidly owing to the development of its trade, especially with Japan (Japanese swords were imported there from Sakai). However, this prosperity ended when the Tokugawa Shogunate declared *Sakoku* (*closing the country*). There were other *Nihonjin-machi* elsewhere in South-East Asia, but *Sakoku* prevented them from developing too. Nevertheless, the Japanese increased foreign trade substantially during the *Sengoku Jidai*. The expansion of trade was facilitated by the trade-oriented policies of the Daimyo, and was largely based on Japan's abundant mineral resources.

Tokugawa Ieyasu followed and extended Hideyoshi's system of rule. Ieyasu was the founder of the Tokugawa Shogunate (1603-1867), which had seven million *koku*, and governed big cities such as Kyoto, Osaka, Sakai, and Hakata, and important gold mines such as Sado Island, making it clearly pre-eminent among the Daimyo. It was still a feudal system, but now a highly centralised one. Japan became a centralized state with feudal administration. Ieyasu's legacy – mainly in the form of gold and silver – was so large that the Tokugawa Shogunate was given a very firm fiscal foundation. From the closing of the country in 1638 (the so-called *Sakoku*) to 1854, Japan traded officially only with China and the Netherlands. Under *Sakoku*, only the Shogunate was able to obtain detailed information about foreign countries, especially through Dutch merchants and the *Chosen Tsuushinshi* (missions from Korea) (Ichimura, 1995). Therefore, the tendency towards centralisation of power was reinforced.

The policy of *Sakoku* may be attributed to two reasons. One is that the Tokugawa Shogunate was afraid of the influence of the Catholic Church. The Dutch were Protestants, and they were only traders, not missionaries. The other is that Japan’s gold and silver reserves were being depleted because it had an unfavourable balance of trade and was being forced to export bullion to pay off its deficits.

## 8

Here I will examine the exports of bullion more closely and briefly survey the economic change in the Edo Period. At the beginning of this period, Japan had many mines and it exported a great deal of silver and gold, especially to China. However, exports of bullion declined in the eighteenth century. By the middle of the nineteenth century, Japan was not exporting bullion at all; it had been transformed from a resourceful to a resourceless country in terms of precious metals. Japan was a very rich country in the sixteenth and the beginning of the seventeenth centuries. From the 1660s onwards, however, the Shogunate prohibited exports of silver. Nevertheless, exports did not stop, partly because of smuggling (however it was “smuggling” from only the central government’s viewpoint). The Tsushima clan traded with Korea, and the Satsuma clan with Ryukyu (Okinawa), and silver was exported from Ryukyu to China. The Japanese wanted Chinese raw silk and textiles. Raw silk was the indispensable raw material for the manufacture of high quality silk textiles especially in Kyoto. However, import substitution began in Japan, and from the 1710s to 1730s, Japanese raw silk took the place of Chinese raw silk.

Table 2 *Quality of Japanese silver coins*

Keicho-gin	80%
Genrokugin	64%
Houei Futatsu	50%
Eijigin	40%
Mittsu hougin	32%
Yottsu hougin	20%
Genbungin	46%

Source: Tashiro, 2001: 132-135.

From around 960 to around 1560, Japan had not minted its own coins (Okumura, 1973: 3). It had imported copper from China. Japan had utilised Chinese coins. Japan became an independent zone in monetary terms when it became a Fiscal-Military State.

The main silver coin exported to Asia was the *Keicho-gin* coin, whose ratio of silver was eighty per cent. The Shogunate's mint assured the content of the coin, which was very different from the early modern European states, where it was considered impossible to give assurance for the quality of coins minted. The peak in exports of this coin came in the 1660s. From 1670s to 1680s, Nagasaki adopted radical policies to suppress smuggling. In 1695 Ogiwara Shigehide began to debase the quality of Japanese silver coinage. He produced the following silver coins: the *Genrokugin* coin (sixty-four per cent in 1695); the *Houei Futatsu hougín* coin (fifty per cent, in 1706); the *Eijigin* coin (forty per cent in 1710); the *Mitsu hougín* coin thirty-two per cent in 1710); *Yottsú hougín* coin (twenty per cent in 1711). The quality of Japanese silver coins declined dramatically, leading to decreasing credit for Japanese coins in foreign countries. Chinese traders, for example, would not accept the *Eijigin* and the other debased coins. In order to improve the situation, Arai Hakuseki raised the quality of his silver coins (*the Shotokugin*) back to eighty per cent in 1714. Before the next debasement (*the Genbungin* coin - forty-six per cent) was carried out, Japanese silver coins became again the most important coin in Asian trade. In this period China was by far the most powerful state in Asia. Much of the silver in Asia seems to have been absorbed into this state. Ogiwara and Arai adopted opposite policies because the former focused his attention on the domestic economy, while Arai's preoccupation was on foreign trade. The Japanese domestic economy, as I will discuss later, was developing, and Ogiwara wanted to increase the money supply by devaluation. Such a policy, however, had an extremely negative impact on foreign trade. In contrast, Arai's policy brought about deflation in the Japanese economy but improved foreign trade.

Next, we shall turn our attention to the domestic economy in Japan. About sixty or seventy years after 1600, the amount of arable land in Japan began to expand dramatically. This time could be called "the age of the great reclamation". According to Ooshi Shinzaburo, between c. 930 and c. 1450, Japanese arable land increased only by about nine per cent. However, a large-scale expansion of arable land began in about 1450 (See Table 3). This period, however, did not see much development in

agricultural technology. From c. 1450 to c. 1600 arable land increased by forty-two per cent.; and then from c. 1600 to c. 1720, arable land increased by forty-five per cent, but was then fairly static again until the beginning of the Meiji Period in the 1860s. The expansion of arable land had already begun in the *Sengoku Jidai* because the Daimyo needed more and more arable land (Ooishi, 1977, 36-37). Formerly the Edo Period was considered as an age of economic stagnation, but nowadays its economic development is being more widely recognised: the increase in arable land in the Edo Period shows a sustained pattern of economic growth from the *Sengoku Jidai*.

Table 3 *The development of the Arable area (1,000 chobo)*

<i>years</i>	<i>arable area</i>	
c.930	862	91.1
c.1450	946	100.0
c.1600	1,635	172.8
c.1729	2,970	313.9

Source: Ooishi 1977:37.

The most important characteristic of the development of arable land in this period was the dramatic increase in the use of alluvial soil. With this big increase in arable land, agricultural production also increased dramatically. The material prosperity of the Edo Period was established by these factors. In addition, the economic situation of small peasants improved greatly (Ooishi, 1977: 46). However, there were also some problems associated with these changes. One was a shortage of labour to work the new arable land. The other was environmental damage caused by the too rapid and excessive development of the land. Some local governments had to employ convicted felons to carry out land reclamation. And the country experienced several disastrous floods because of the rapid reclamation work carried out in some forest areas (Ooishi, 1977: 51-63).

The population of Japan in 1600 is estimated to have been twelve to eighteen million. It is estimated to have reached thirty-one million in 1721, but it is not thought to have increased much further in the Edo period. The first half of the Edo Period saw a continuing population rise, but in the latter half of the Period the population stagnated.

The population growth in Japan was due to the rise in agricultural production and the result of an increasing variety in meals. Japanese agriculture transformed from subsistence farming to commercial farming in the Edo Period. The turning point was from about 1680 to the 1710s. During these years a lot of *Nosho* (books on the improvement of agriculture) were published. *Nogyo Zensho*, a book published in 1697, dealt with agriculture and the sales of agricultural commodities.

At the beginning of the Edo Period, peasants were forced to live at a subsistence level. With improvements in agricultural methods, they came to be able to produce and store surpluses. The varieties of rice increased. And commercial agriculture based on special agricultural products began to develop from the 1680s to the 1710s. The Japanese started to cultivate new vegetables for sale on the market. The standard of daily meals was thus improved, and life expectancy increased by five or six years in the Edo Period (Kito, 1988: 287-288).

In addition, the commercial world also experienced great changes in this period. From the Toyotomi Period to the beginning of the Tokugawa Period, merchants had to have strong connections and relationships with the Daimyo or the Shogunates. From the 1680s, however, new kind of merchants emerged, whose sales were based upon the public, whose standard of living was increasing (Ooish, 1977: 166-178).

Japan had imported many commodities from China in the sixteenth and seventeenth centuries. However, owing to the *Sakoku* policy and the decrease of silver exports, in the eighteenth century Japan was forced to cultivate some commodities domestically. Four of the most important examples are cotton, sugar, raw silk, and tea. Such commodities could not be cultivated in Europe. Thus, the European countries had to import them from the New World and Asia, and this led them on the path to imperialism.

All of these four had become precious commodities for the Japanese in the sixteenth century, but had then gradually become commodities that many more Japanese could afford to consume. For example, Tokugawa Yoshimune promoted sugar cultivation in Japan during his reign (1716-51) (Kawakatsu, 1994:158-193). Japanese soil was not always fit for cultivation. Nevertheless, the output of rice and other agricultural commodities increased. The peasants were presumably forced to invest more time for their production. This is sometimes called the “industrious revolution”, and it occurred (if it occurred) in the Edo Period (Sato, 116-119), becoming one of the foundations for later Japanese economic



development. Because of the increasing standard of living, the public wanted to imitate the behaviour of people belonging to higher social classes. They began to wear the same kind of clothes. It was forbidden for the public to wear luxurious clothes, so they were sometimes punished. This did not put a stop, however, to their “conspicuous consumption”. The Tokugawa Shogunate forbade the public to wear luxurious clothes many times, but it was unable to achieve any lasting results.

## 9

This is the last and concluding section of this paper. In contrast to Europe, Japan in the eighteenth century was in a country at peace. It was a closed country. Japan’s period as a Fiscal-Military State had effectively ended in the sixteenth century. At that time, Japan had been one of the most powerful military states in the world. It adjusted easily to military situations requiring large arsenals of guns. Sakai became one of the biggest weapon-producing towns in the world. But in the Edo Period, the Japanese abandoned guns and weapons. It is important to recognise that in its period as a Fiscal-Military State, the Japanese economy and its overseas trade expanded. Some of these features of economic development were already present in the *Sengoku Jidai* in Japan. The Japanese Fiscal-Military State did not develop a fiscal system like European countries because Japan had a lot of gold and silver and therefore did not need a refined fiscal system. After Japan used up its gold and silver, it had to adapt to the development of a new fiscal system. However, we cannot say Japan succeeded in doing so. The fiscal system was a defect of the *Tokugawa Shogunate*.

A truly new type of economic growth in Japan began from the 1680s to the 1710s, and became the basis of the eighteenth-century Japanese economy. Unlike Japan, the Western European states waged many wars in this century. Both Europe and Japan experienced a centralisation of their governmental systems. In order to wage wars, the European states had to raise a great deal of money. England, for example, which fought long and very expensive wars, became the most advanced and centralised state. The Bank of England issued long-term public debt and the English government assured its repayment. This “Funding System” was the best mechanism for waging and winning wars in the eighteenth century, namely in the age of the Fiscal-Military State in Europe. Moreo-

ver, Britain protected its economy by its mercantilist policy. Therefore, Britain was able to become “The First Modern Economic State”.

Raising money to fund expensive and protracted wars also called for the development of new bureaucratic mechanisms in European states, as they became more and more centralised. In Japan, the Samurai, or warrior class, was useless in a time of peace. In eighteenth-century Japan, there were no major wars and peasant revolts were only of a small scale. The Japanese did not need their Samurai in such conditions. It became a problem for the Samurai to maintain themselves financially and keep their social status. Europe, in contrast, did not need to concern itself with the problem of its military class becoming unemployed since its imperialist policies kept its armies fully occupied.

With increasing centralization of government in Japan, bureaucrats became more and more important. Even at the end of Hideyoshi's era, there were the *Go Tairou* (the five most powerful Sengoku Daimyo) and the *Go Bugyō* (five bureaucrats responsible for the administration of Hideyoshi's government). Hideyoshi had already understood the importance of bureaucrats in the period of the Japanese Fiscal-Military State before the Edo Period. Such bureaucrats became the new ruling class, and these bureaucrats were the Samurai. In the eighteenth century Samurai were no longer soldiers, but administrators. In the Japanese social system of the Edo Period, the Samurai belonged to the highest class, but within their own ranks there were many further gradations of hierarchy. The highest rank, of course, was Shogun. The Samurai received their salaries in the form of rice (*koku-daka*), which they converted into money. Moreover, their salaries were fixed during the Edo Period.

With the development of the economy, the Samurai's (especially the lowest rank's) economic position declined compared to that of the merchant class. Many clans promoted the cultivation of reclaimed land and new agricultural products. They sometimes issued *han-satsu*, which was a fiat money that could be used only in the clan's territory. Nevertheless, the Shogunate and the clans could not solve the basic problem of increasing tax revenue. The rice standard became an obstacle to the functioning of the government.

In early modern Japan, tax was imposed only on rice and the revenue from it was fairly constant; this was a very important feature of the *koku-daka* system. The Shogunate stuck to the rice standard. The tax burden on merchants was very light. It was impossible to raise the revenue both for Shogunate and the clans. The financial situation of the clans steadily

deteriorated, and they had to face fiscal crises many times. They borrowed money from the merchants, and some of them did not repay their debts, causing many of the merchants to go bankrupt. Hence, the merchants became hesitant to lend money to the Daimyo.

In contrast to the Samurai class, the merchants, farmers and peasants were increasing their wealth. Of course, the merchants benefited more than the farmers or peasants with the development of commerce. At the beginning of the Edo Period, the tax on peasants was about seventy per cent of their rice yield, but it fell to about thirty per cent by about the middle of the Edo Period. Thus, they became able to buy more and more commodities. The proportion of peasants among Japanese population was about eighty per cent. The merchants could expect to increase their sales because the peasants’ disposable income had increased. This level of economic development could support the bureaucratised Samurai.

Moreover, Japan was able to escape the excessive influence of China during the *Sengoku Jidai* and the Edo Period. Japan had been included in the Chinese “tributary system”. For example, the Japanese government had imported copper coins from China for around six hundred years, from c. 960 – c. 1560. After that, Japan developed its own monetary system, and exported a great deal of silver to Ming China, whose monetary system was based on silver. Japan imported many commodities from China. However, owing to *Sakoku*, Japan was forced to promote import substitutes and succeeded in doing so.

Europe and Japan shared the experience of being Fiscal-Military States in the sixteenth century. Europe continued in this condition, but Japan stopped being a Fiscal-Military State around the end of that century or by about the 1630s. Governmental systems in both areas became centralised. Europe developed fiscal systems but Japan did not do so to such an extent because its need was not so great (largely thanks to its resources of precious metals). However, Japan minted its own coins. This was where it differed from the *pre-Sengoku Period*. In this sense the Japanese fiscal system developed and a lot of the resources were allotted to military purposes. Japan underwent economic growth both in its period as a Fiscal-Military State and in times of peace thereafter. However, the level of this development was far lower than that of European states. Thus, when *Kurofune* (four warships from United States) came to Japan in 1854, Japan’s under-development was very evident. After this, the Japanese economy began to develop along the same lines as the European states, and Japan soon became a military and imperialist state.



## **Possibilities and Limits: Testing the Fiscal-Military State in the Anglo-Spanish War of 1779-1783**

*Rafael Torres Sánchez*

When John Brewer coined the term “fiscal-military state” he did so with the aim of explaining how eighteenth-century Great Britain managed to build up and maintain bigger armed forces on the strength of a larger and more efficient state administrative apparatus backed up by a wider-ranging fiscal and financial system, enabling it to win wars and, ultimately, attain world supremacy (Brewer, 1989). Strictly speaking the idea was not new; it drew on a long tradition of historical works on the relations between war, taxation and finances and the construction of the State (Kiser, 2001). Neither should it be restricted to the eighteenth century; works written after Brewer’s stress the fact that, even in Great Britain, the construction of a fiscal-military state was a much broader process, stemming from particular English taxation and administrative structures set up at the end of the fifteenth century (O’Brien, 2005). But the concept does serve as a starting point for making meaningful comparisons between different national cases.

This theory gives a reasonable explanation of Great Britain’s success in mobilising war-winning resources in the eighteenth century and also the failure of the European countries it waged war with (Hoffman, 1997); hence our interest in using it. There is in fact a certain consensus among historians that the other European countries were not capable of emulating Great Britain in building up a fiscal-military state. The key to the English model on this basis would be its different makeup from the models of European Monarchic and absolutist States, mainly France and Spain (O’Brien, 2001). France, on this theory, would have been incapable of building up a fiscal-military state on the English model because its government was unable to mobilise the fiscal resources of its states and was not backed up by an undertaking from its institutions and elites in favour of a greater tax and financial burden. By extension, but with-

out any real justification, exactly the same conclusion is drawn about its Bourbon partner, Spain (Velde, 1992; Stasavage, 2003). According to this explanation the fiscal policy of these European countries was seriously hampered by the fact that the revenue collection was in private hands; the administration was weighed down by venal office holders and the state constantly had to negotiate with the powers and institutions of a regional and local level (Harris, 1976; Kwass, 1998). Great Britain was able to achieve a greater degree of fiscal concentration and secure the commitment of its institutions and elites to an ongoing increase in warfare resources, whereas the belligerent European countries were fettered by considerable limitations. Ironically, as Patrick O'Brien has pointed out, the English parliament and crown built up a state "that may well be represented as virtually the most 'absolutist' fiscal system in Europe" (O'Brien, 2002:17).

The question we ask in this paper is how far Spain could be said to be a fiscal-military state. In other words, what were the Spanish state's possibilities and limits in terms of emulating and following the English model? We also ask whether such an approach might give us a useful purchase on Spain's warfare fund-raising capacity. We have focused on a specific war, the war between Great Britain and Spain from 1779 to 1783. This war was sufficiently important in both countries to call on the utmost effort from their respective states and economies. Spain had the chance in this conflict to put a stop to Great Britain's constant attacks on the Spanish empire during the eighteenth century. But it was not only a territorial question. The feasibility of Spain's whole economic model was also at stake. Spain's economy and taxation system was becoming more and more heavily dependent on colonial trade. Its government had opted to run the American colonies on an increasingly intensive basis, opening up the colonial markets to a greater participation from the whole of the Spanish economy. Heading off Great Britain from the Americas was a golden chance for this Spanish growth model to prosper.

## **1. Military Function and Warfare**

According to Philip Harling, a fiscal-military state is defined by the functions fulfilled by the State. Great Britain ceased to be a fiscal-military state in the first two decades of the nineteenth century, basically

because the State's top-priority functions changed. Up to that moment the English state was a veritable war machine, whose prime goals were security, foreign policy and the financing thereof. Up to the French wars, English legislative activity points to a clear conclusion: "the pre-occupations of the fiscal-military state dominated parliamentary business" (Harling, 1993:52). The commitment of the crown, parliament and its elites to warfare and its financing guaranteed the viability of the state model (Stasavage, 2003), while the successes notched up in the wars justified the changes made and the sacrifices borne and even forged widespread grassroots support (Bowen, 1998, Conway, 2000). But, as Harling reminds us, all this consent and legitimacy vanished after the French wars, and, in the aftermath of the Industrial Revolution, other functions were now demanded from the state. The fiscal-military state was then dismantled and some of the traits of this model, like the construction of a state administration or public debt, then came in for some fierce flak and rejection.

According to this view, what defines a fiscal-military state above all is the dedication to its main function: warfare (waging it, maintaining it and defraying it). It might be well worthwhile to keep this idea firmly in mind (the essential function of the state in the eighteenth century is war) in the Spanish case, for this has been a controversial question in Spanish history writings. Many of the studies of Spain's state finances of the eighteenth century have centred on these finances as an indicator of the Spanish economy's degree of modernisation and as a means of weighing up the reformist policies of Spain's "enlightened despots" (Artola, 1982, Barbier, 1985, Fontana, 1989). Under this interpretation, military spending was a remora sucking the life out of the economy, a wasted investment that hindered the country from performing the really important tasks, which, according to these authors, were investment in infrastructure and economic promotion. Likewise, war has been blamed from this point of view as the main cause of the budget deficits. According to these authors this deficit forced the state to increase the tax burden, thereby balking progress and growth. In Spain, therefore, the view about the effect of war is diametrically opposed to that held in Britain. Among British historians there is a certain consensus about warfare's catalysing effects on the administration, on finances, on economic growth and, in short, on Great Britain's success. In Spain, however, the state's dedication to war has always been seen as a negative factor leading to its failure.

Table 1 *Expenditure Breakdown in Spain and Great Britain (1759-1793)*

	SPAIN						GREAT BRITAIN					
	Spanish Net Public Expenditure (000 Reales de vellón)	Civil Govern- ment	Army	Navy	Defence	Debt	British Net Public Expenditure (000 pounds)	Civil Govern- ment	Army	Navy	Defence	Debt
1759-63	476.421	40.0	32.8	20.2	53.0	6.4	18,450	6.1	39.9	29.4	73.0	20.9
1764-68	491.019	46.0	33.5	16.0	49.4	3.7	10,360	10.3	19.1	21.0	42.8	47.0
1769-73	439.250	30.1	42.5	20.6	63.1	5.6	10,180	11.4	14.9	20.0	38.0	46.3
1774-78	488.220	29.0	40.3	25.9	66.2	3.9	13,435	10.1	26.3	21.8	52.2	35.2
1779-83	686.776	24.7	32.6	28.9	61.5	14.8	24,175	5.3	30.1	28.9	64.7	28.1
1784-88	618.463	29.8	30.8	25.5	56.3	12.8	19,775	7.4	11.7	29.0	43.6	46.6
1789-93	658.261	32.7	33.8	25.6	59.4	6.8	17,478	9.9	14.6	15.7	33.8	53.4
1759-93	551.201	32.3	35.8	24.8	60.6	8.7	16,265	8.1	23.3	24.6	51.8	38.2
1759-63	100	100	100	100	100	100	100	100	100	100	100	100
1764-68	103	119	105	82	96	59	103	56	94	27	40	33
1769-73	92	59	114	115	114	137	92	98	103	21	38	29
1774-78	102	107	105	140	117	77	102	132	119	48	54	52
1779-83	144	120	114	157	131	532	144	180	113	99	129	116
1784-88	130	109	85	80	83	78	130	82	129	31	106	64
1789-93	138	117	117	107	112	57	138	88	153	35	51	44
1759-93	116	83	89	81	85	107	116	93	116	52	74	63

Source: Spanish figures taken from Merino (1987), AGS, DGT, Inv. 16, G.24, lg.49, and AGS, SSH, lg.293. British figures from Mitchell, 1988:578-580. The GB defence figures include Ordnance.

The Spanish state's spending on war was similar to Great Britain's but with certain idiosyncrasies. Throughout the period running from 1759 to 1793, Spanish spending on its armed forces was the highest public expenditure, accounting for about 60% of the total. With the exception of the period 1779 to 1783, the Spanish warfare percentage was always higher than the British and much more constant and regular. In Great Britain the spending trend in this period ebbed and flowed in line with the War of American Independence, while Spanish military expenditure hardly varied. In the years of highest warfare expenditure, 1779-1783,



Great Britain more than tripled its expenditure, while Spain did not even double the 1764 figure.

This apparently greater stability of Spanish military spending is a corollary of the fact that public debt paid a much smaller part in Spain's spending as a whole. Although the available debt-expenditure figures do not include all the Spanish state's debt, leaving out part of the historic debt, they do reflect the newly-created debt and Spain's did not match the levels of the English public debt. In fact one of the most particular traits of Spain's expenditure model in the second half of the eighteenth century is precisely, to our point of view, the debt restriction policy, at least up to the 1790s. This fact has been largely overlooked by Spanish historians, who have always considered Spain's participation in the War of American Independence to have triggered a steeping rise of public debt (Barbier, 1985:490). The figures of Table 1, on the contrary, show that Spanish debt dropped sharply in the years following this war and fell far behind the levels being clocked up in Great Britain, where the war-financing costs exceeded the armed forces cost.

The stability of Spanish military expenditure was also partly the effect of a peculiar structure of warfare expenditure. Spain spent more on the army than on the navy. This seems to be illogical on two counts: firstly, Spain faced no serious land threats, having forged a strong alliance with France and reached peace with Portugal in 1776; secondly, its main economic and fiscal interest was in holding onto the American markets, calling for a strong naval force. Although naval spending rose steadily from 1764 onwards, it always fell far behind the expenditure on the army, another trait that differentiates Spain from Britain. While Great Britain was steadily building up what Patrick O'Brien has called a "fiscal naval" state (2005:37), Spain preferred, against all strategic logic, to spend more on the land forces. This predominance of the spending on the Spanish army over the navy contributed towards the characteristic stability of military spending in Spain. Thus, while army expenditure never rose more than 40%, navy expenditure more than doubled. Both Spanish figures differ markedly from the sharp falls and rises of English spending on its Army and Navy. In Spain's case there is a smaller difference in expenditure between peacetime and wartime. This shows that the Spanish military structures, especially in the army, were more rigid, less flexible than the English ones, which were better able to respond to warfare fluctuations, mobilising more military resources in time of war. Rather than warfare fluctuations, Spanish military expenditure on the

army responded more to the collective desire of permanently maintaining land forces, due mainly to vested interests set up around the military function, such as privileges, social recognition or promotion (Andujar, 2004: 315-358). We can therefore say that warfare played its part in Spanish public spending as a general goal but did not bring about the convulsions in military spending that might have been expected; neither did it create the necessary debt. From the point of view of functions, the Spanish state paid top priority to warfare, but war did not have the catalysing effect it seems to have had in the English case.

A better idea can be gained of this military priority in the Spanish state's expenditure if it is compared with the English. To do so we have unified the account unit, using only pounds and introduced the population variable (Table 2). The resulting figures show that England's spending capacity was always considerably higher than Spain's, despite their similar population levels. The expenditure level of the Spanish state was on average less than 40% of the English, falling further behind all the time. Significantly, the biggest gap between the two came during the war of 1779-83, when the Spanish state's expenditure was less than 30% of Great Britain's. The differences in both countries' military expenditure were somewhat smaller, although Spain never matched the English war spending and on average recorded less than half of England's military expenditure. This comparison highlights even more clearly the aforementioned idiosyncrasies of Spain's military spending. Indeed, the biggest difference between Spain and Great Britain is in the naval spending; Spain's never reached 40% of the English and in the critical war years it was only 30%. The countries' army expenditure figures, on the contrary, were much closer, Spain spending on its land forces nearly 70% of the English expenditure. But the most significant factor here is that Spain kept up a peacetime level of army expenditure even higher than Great Britain's. The Spanish state's interest in maintaining armed forces at all times, especially the army, and its hidebound inability to increase them in wartime are, in our view, the most salient features of the Spanish state's military function.

This military priority had to be financed, and it is here where Spain differs most from England. The Spanish public deficit never reached even 8% of Great Britain's. The Spanish debt was not only smaller than the English but also developed differently. Great Britain's public debt steadily accumulated and came to make up an increasingly large share of total expenditure, whereas Spain's public deficit grew appreciably

Table 2 Comparison of Military Spending Spain's expenditure compared to Great Britain's

Exchange Rates	SPAIN										GREAT BRITAIN				
	Spanish Net Public Expenditure (pounds)	Budget as % of UK	Civil	Army	Navy	Defence	Debt	Spain's Population (000)	Total Spending per capita (pounds)	Military Spending per capita (pounds)	Spanish Debt per capita (pounds)	Great Britain's Population (000)	Total Spending per capita (pounds)	Military Spending per capita (pounds)	British Debt per capita (pounds)
1759-63	39.44	28.3	183.9	23.3	19.4	20.5	8.7	9,168	0.57	0.30	0.04	7,394	2.50	1.82	0.52
1764-68	39.31	51.8	232.0	90.4	39.4	59.8	4.0	9,399	0.57	0.28	0.02	7,542	1.37	0.59	0.65
1769-73	39.22	47.0	123.7	134.4	48.3	78.1	5.7	9,623	0.50	0.31	0.03	7,713	1.32	0.50	0.61
1774-78	38.23	38.6	111.2	59.1	45.9	49.0	4.3	9,848	0.53	0.35	0.02	8,005	1.68	0.88	0.59
1779-83	36.47	28.8	134.2	31.2	28.7	27.3	15.2	10,057	0.69	0.43	0.10	8,334	2.90	1.88	0.81
1784-88	35.29	30.7	123.5	80.6	27.0	39.6	8.4	10,267	0.59	0.33	0.08	8,636	2.29	1.00	1.07
1789-93	35.31	36.9	122.0	85.5	60.1	64.9	4.7	10,752	0.60	0.36	0.04	9,107	1.92	0.65	1.03
1759-93	37.29	35.1	140.5	54.0	35.3	41.1	8.0	10,066	0.57	0.34	0.05	8,223	1.98	1.02	0.76

Sources: See Table 1. The exchange rates are given in pennies by exchange weight (15 rs. v. and 2 mrs). The average value of each five year period has been used, taken on the last day of each month. All the other figures are in pounds sterling. The pound was worth about 95 reales de vellón in this period. Torres (2005). Figures of the Spanish population taken from Moreno (2004), figures of the Great Britain population taken from Mitchell. (1988)

only in the years 1779-83, and even then it never built up to 17% of Great Britain's effort. After these years Spain's public debt shrunk further in comparison to the soaring English debt, dropping to only 5% of the English debt on the eve of the French wars. The Spanish state thus accepted the obligation of keeping up its military resources, albeit far below Great Britain's levels, but did not make a similar effort in the financing thereof.

The per capita cost of the military function in Spain was therefore also much lower than England's. The Spanish population's contribution to public expenditure was only 30% of the English population's. And the average military expenditure of the Spanish, in terms of military and financial resources, was an even lower proportion of the English effort, only 22.6%. The differences in the military efforts of both countries peaked in the most critical years, precisely when most needed. The average Spanish contribution to the war effort in the years 1779-83 was only 11% of the English. The huge gaps between both belligerent countries in terms of mobilising military and financial resources is one of the most significant features of the Spanish fiscal military state. Just like Great Britain, the Spanish state had a marked military function but did not react to the war factor with anything like the same flexibility. Spain kept up a high military expenditure constantly and in the least strategic sector, while restricting the development of a public debt market. Great Britain, on the contrary, trimmed its mobilisation of military resources to the winds of war and set up a permanent debt market.

## **2. Centralisation, Information and Fiscal Extraction**

Another of the reasons often mooted by historians for the development and success of the English fiscal military state was its capacity of raising fiscal resources for funding military activities. Taxation studies tend to stress the enormous variety of the factors impinging on any country's level of taxation: its economic development, the institutions, the incidence of the market, the type of society and many others (Bonney, 1996). Patrick O'Brien showed for the English case that "economic growth was not the major factor behind the marked rise in tax revenue from 1660 to 1815" (1988:6). The taxes collected by the English state grew at a faster rate than its economy, stressing the importance of the changes made in its administration and fiscal policy (Beckett, 1990).

One idea stands out in this set of changes: Great Britain was able to increase its tax-raising capacity because of its control over the tax-imposition and -collection processes. The English state managed to introduce a high degree of centralisation into its tax collection system, cutting out the middle men, eliminating negotiations with regional institutions and securing the backing of the economic elites. These changes gave Great Britain a centralised, well-informed collection mechanism facing less resistance. Peter Earle commenting on John Brewer's theory of the English fiscal military state, points out that Brewer is in fact explaining to us "an information revolution engendered by the government's growing desire for knowledge about the economy" (1990:142).

The Spanish state shared these features in the eighteenth century and even outstripped England in some aspects. In the first half of the eighteenth century the Spanish state made a series of reforms in its fiscal and financial system, substantially modifying the system inherited from the seventeenth century (González Enciso, 2003<sup>a</sup>, Tedde, 1989, 1998). The main goal of this reform process was to give the *Real Hacienda* (Royal Treasury) greater control over the nation's available stock of funds, thus putting an end to the dispersion of these funds, the plethora of middlemen and accounting inaccuracy. The *Real Hacienda* thereby managed to rein in the regional haciendas, mainly in the Crown of Aragón, and extend to their territories the state monopolies on consumer products (tobacco, salt, wool, paper, cards ...). It also set up a system of direct control over the municipal treasuries, giving it more information to work from in terms of intervening in the taxes and resources of local treasuries (García, 1996). In the same endeavour of centralisation and control, the Spanish state undertook, from the 1740s onwards, a thoroughgoing transformation of the revenue-collection administrative structure to wipe out the intermediary agents and set up direct state administration. By the early 1770s, 89.6% of all the *Real Hacienda*'s revenue was collected directly by state officials<sup>1</sup>. In short, the Spanish state had managed to set up a specific administrative structure for revenue collection, and its fiscal policy was no loner hemmed in by other institutional powers. In our view it would be reasonable to cease regarding the Spanish model as

<sup>1</sup> The remaining 10.4% belonged to leased revenue, such as the Revenue of Madrid, Excusado (tithes), Bula and Cruzada (indulgences). AGS, DGT, Inv. 16, G.24, lg.49, and AGS, SSH, lg.293.

a mere adjunct of the French model (Kiser, 2001). In fact it might actually bear a much closer relationship to the English model.

But the Spanish state went even further in its desire to increase its control over the mobilisation of fiscal resources. Throughout the eighteenth century, picking up pace from half way through, it improved the level of information and accounting control over fiscal resources and also managed to knit the fiscal administration and the military administration tightly together, a process we could quite safely dub the “militarisation” of the taxation system. The biggest problem of Spain’s treasury over the years had been the dearth of any precise information on available resources and the expenditure trend. A host of authorities and officials bungled up the works, making it impossible to gain a clear idea of anything. There was a need to set up a pyramidal administrative structure with a *Secretario de Hacienda* (Treasury Secretary) at the top and all accounting information flowing down through the stratum immediately below, the *Tesorería General* (Treasury General). From 1726 onwards the Treasurer General was the best informed official about the nation’s available resources, the only official to whom all the other agents of the Real Hacienda were bound to hand over the revenue received, actually paying over the cash or making said revenue available to him. It was also the only institution authorised to issue the payments decided on by the *Secretaría de Hacienda* (Treasury Secretariat) (Dedieu, 1994).

This intense concentration of power and information was progressively phased into the *Tesoreros del Ejército* (Army Treasurers). A fiscal administration management model was brought in from 1743 onwards, whereby fiscal resources were not sent directly to the *Tesorero General* (Treasurer General) but were rather sent by the *Directores de Rentas* (Revenue Managers), or any other collection official, directly to the *Tesoreros del Ejército*, where they were then made available to the *Tesorero General*, who authorised in the last instance the necessary payments (AGS, SSH, lg.267). To expedite the transfer of funds and ensure that accountancy procedures were kept up to date, it was established in 1753 that the *Tesoreros del Ejército* should from now on present their accounts in the same form as the *Tesoreros Generales*<sup>2</sup>. This enabled a standardised fiscal resources control system to be swiftly set up and easily used. This

<sup>2</sup> “Instrucción para los tesoreros de exercito y provincia, depositarios y pagadores, cuyas quantas estan mandadas comprehender en la del Thesorero General, sobre la forma y modo en que deben presentarlas, Madrid. 1753”. AGI, Arribadas, lg. 524.

process was completed in 1749 with the definitive setting up of the Intendants system; these officials would now be responsible for revenue as a whole, giving them the necessary authority for fulfilling their final duties before the *Tesorereros del Ejército*. The possibility of any squabbling between *Tesorereros Generales* and Intendants over resources and the use thereof was headed off in 1760 in favour of the supreme authority of the *Tesorereros Generales*<sup>3</sup>. Most of the revenue of a region would therefore be received and administered by the respective *Tesorereros del Ejército*, under the eye of the Intendants and the overall control of the *Tesorereros Generales*. The result of this process is that, up to 1759, the army treasurers administered one third of revenue; in the 1760s they were managing over 50% (Piepper, 1992:92) and by the start of the 1770s they had managed to pool 62.4% of fiscal resources, peaking in 1774 at 74.4% of all revenue<sup>4</sup>.

On the eve of the War of American Independence, therefore, the Spanish state had managed to set up an administrative structure that enabled it to collect directly almost all taxes. The smooth operation of this system was favoured by the growing tendency towards the centralisation of authority, information and the accountancy management of revenue and expenditure, and by the strong bond between the civil and military treasuries. In Spain the taxes flowed in orderly fashion towards the military treasuries in peacetime and in wartime, without even the need for any institution's consent.

### 3. The Structural Deficit and Colonial Trade

All the above shows that Spain was eligible on some counts for being considered a fiscal-military state: military function and centralisation and control of its fiscal resources. It is now a question of finding out

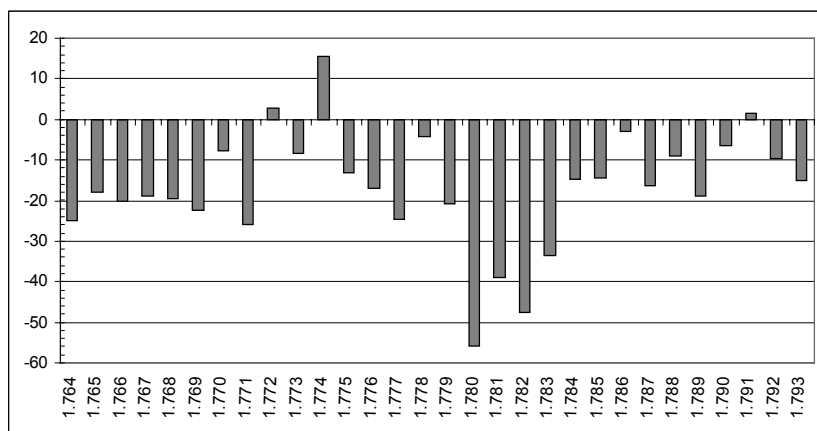
<sup>3</sup> Witness the reply given by the Tesorero General Francisco Montes to the Secretario de Hacienda Miguel Muzquiz in view of the attempts by the Intendant of Valencia to use part of the revenue "I can find no orders, regulations or Instructions that might limit the Treasurer General's powers in shuffling the Funds from one purpose to another to meet the respective needs and urgencies of each treasury" (yo no encuentro ordenes, reglamento ni Ynstrucciones que limiten al Thesorero General las facultades en el manejo de Caudales de un destino a otro según los fondos de las respectivas tesorerías y sus urgencias). Madrid, 8-2-1776, AGS, SSH, lg.269.

<sup>4</sup> Figures taken from AGS, DGT, Inv. 16, Guión 3, legajos 5 and 6.

how the Spanish state really acted in a specific war, the acid test of how this all panned out in practice.

To understand better the possibilities and limits of the Spanish fiscal-military state, the first thing we need to find out is the Spanish state's reaction capacity to war-imposed financial emergencies. The Spanish fiscal structure had a series of idiosyncrasies that might impinge on its reaction capacity. The most important was the fact that its ordinary revenue was not enough to cover annual public spending (See Graph 1)

Graph 1 *Ordinary Revenue with respect to the Total Annual Expenditure of the Spanish State*



We consider ordinary revenue to be all income received by the Spanish state in a regular and periodic form through established collection channels. We exclude from this category the extraordinary revenue received sporadically, such as the sale of assets, or received as loans, donations or public debt. According to this classification the Spanish state could not meet its habitual public spending needs with its ordinary revenue. The officials in charge of running Spanish finances were perfectly aware of this. The annual “*rentas del Rey*” (King’s Revenue) was not enough to cover ordinary costs and needed the input of extraordinary income to bridge the gap. Francisco Cabarrus, using the figures furnished by the *Tesorería General* for the 1770s, came to the same conclusion: the habitual situation of Spanish finances was one of “ordinary deficit”, estimated



“from one year to another” as about 35 million (5.2 million pounds) (revenue of 416 to 420 million and expenditure of 455 million) (AHN, Diversos, lg. 31). Our expenditure breakdown here bears out the existence of this ordinary deficit at the level established by Cabarrus. From 1764 to 1793 ordinary revenue showed an overall 17.8% deficit on the public spending of the same period; only in three of those years was revenue sufficient to cover public spending. Nonetheless, the gap was closing; the structural deficit of nearly 20% in the 1760s fell by nearly half in the following decade. It then soared again during the war but the subsequent peace enabled the deficit to be clawed down to 9.5% by the first years of the 1790s.

This structural deficit is an important factor in terms of understanding the reaction capacity of Spanish finances. Firstly, the deficit remained structural because the officials in charge of running Spanish finances were fully confident of being able to bridge the gap with extraordinary income, mainly from American trade. The *Secretaría de Hacienda* and the *Tesorería General* worked from the conviction that Spanish finances were subject to a cycle marked by the arrival of the colonial fleets. In each cycle the coffers would be run down, creating a more or less alarming deficit, until the colonial input would finally replenish them again, whereupon the whole cycle would start anew. Meanwhile the public finance officials were confident of being able to keep things tight and avoid any extravagance in habitual expenditure. And if the outlay was urgent and essential, the only option was to try to put it off until the fleet came in and brought with it the end of the cycle. Time and time again the docking of the American fleet in Cadiz baled out the economy, convincing the finance officials that the system worked. The graph below shows that the years when the deficit was reduced or even converted into a surplus were those in which the American fleet arrived (Bernal, 1992). Spanish public finances therefore had practically no saving capacity and no sort of “financial cushion” whatsoever”.

The colonial inputs not only marked the cycle of Spanish public finances but also determined its reaction capacity, and to a much greater extent than in the English case. Table 3 pools the fiscal resources of both countries in a comparable way. These figures show that while Great Britain relied more and more on consumer taxes for its revenue, Spain's mainstay was trade. Neither country managed to lay down a solid fiscal base bearing a more or less direct and proportional relationship to individual income. In the English case this failure has been interpreted

Table 3  
Fiscal Resources in Spain and Great Britain

	INCOME SPAIN					GREAT BRITAIN				
	Total Net Income	Custom	Direct	Excise	Extraordinary	Total net Income	Custom	Land Taxes	Excise	
1764-68	478,547	27.6	29.7	22.7	17.9	10,285	23.4	21.1	46.9	
1769-73	459,604	25.3	30.5	26.0	16.3	11,002	24.4	17.0	45.6	
1774-78	482,551	31.6	30.1	27.5	7.8	10,968	23.2	18.7	52.9	
1779-83	690,899	11.6	26.2	19.5	41.2	12,820	22.1	20.2	46.4	
1784-88	596,109	40.4	26.9	22.5	8.4	15,444	25.2	17.9	42.7	
1789-93	679,179	41.2	26.9	18.0	12.3	17,785	21.1	16.7	45.8	
1764-93	667,636	25.0	23.8	18.8	30.6	13,051	23.1	18.4	46.4	
1764-68	100	100	100	100	100	100	100	100	100	
1769-73	96	88	99	110	87	107	111	86	104	
1774-78	101	115	102	122	44	107	106	94	120	
1779-83	144	61	127	124	332	125	118	119	123	
1784-88	125	182	113	124	58	150	162	127	137	
1789-93	142	212	129	112	98	173	156	137	169	
1764-93	140	126	112	116	238	127	125	111	126	

Source: See Table 1. The heading of "Direct" in Spain includes "Provincial Revenue" and revenue from the church, town councils, the Crown of Aragon and an army-funding tax called "Paja y Utensilios".

as the state bowing to the pressure of the farming elite and their refusal to continue to support the creation of a public debt system (O'Brien, 1993). In the Spanish case the failure of the "*Unica Contribución*" (a tax proportional to income) has been interpreted by some historians as evidence of the Spanish state's inability to modernise its fiscal structures (Fontana, 1987), but it has also been criticised as essentially utopian, due to the technical impossibility of replacing eliminated revenue in the short term and the untimeliness of trying to introduce such a revolutionary concept of a fiscal system long before it would be set up in the rest of Europe, including Great Britain (Lluch, 1990).

In both countries, therefore, the fiscal resources were limited to indirect taxes. The essential difference between the two, however is that Great Britain was able to increase its taxes on trade and, above all, on consumption, whereas in Spain trade soon became the only real fiscal resource. Although we cannot go into it here, it is worth at least pointing out that Spain's inability to follow the English model of consumer taxes was bound up with a dwindling of the Spanish consumer's purchasing power, as a result of the different inflation rates and a supposed divergence in the productivity of both countries (Torres, 2005). The comparative feebleness of consumption in Spain only served to confirm the conviction that colonial trade should be milked to the full. European trade took a back seat, limited in essence to the exporting of wool and salt, and its main driving force was the imports to fuel colonial trade (Prados, 1993). This strategic character of colonial trade meant that Spain's economic policy of this period was dominated by repeated attempts to overcome the opposition and vested interests created by the American trade monopoly system. Opening up colonial trade to the whole Spanish economy and all regions seemed the best way of securing a wide-ranging fiscal base and thereby solving the structural deficit of Spain's finances. All the more surprising, therefore, that the navy should not be given top priority on the expenditure side. From the point of view of its fiscal structure, Spain had more reasons than Great Britain for setting up a true fiscal naval state.

#### 4. "Spain is different"

When Spain joined in the War of American Independence it was not only a matter of opportunity and revenge. Also at stake was the very essence of its fiscal model. Shoring up Spain's colonial trade would also

guarantee the viability of its fiscal system. Spain was indeed a fiscal military state but, just like Great Britain itself in other wars, it is more than likely that it joined in the war not because war was its function but rather because, at this juncture, it was an essential move to guarantee the ongoing expansion of its economy and fiscal base.

Whatever the ultimate reason for joining in the war, the cost was certain to be high. Waging war with Great Britain meant shutting down its Atlantic trade and temporarily forfeiting this strategic revenue. What were Spain's chances of replacing this revenue? The structural-deficit cycles of Spain's public finances had also taught its financial authorities to develop "survival" strategies, i.e., resources and instruments to tide them over until the boat came in. It is here where Spain really does begin to differ from the English case, where "Spain is different".

Spain's financial structure, and the high degree of centralisation and control achieved, gave its financial authorities a certain leeway in handling the funds, enabling them to mobilise or freeze them to suit the particular circumstances. This does not mean these funds could be used whimsically or arbitrarily, since all its actions and accounts would be carefully vetted and approved or rejected by a higher auditing body called the "*Tribunal Mayor de Cuentas*". This framework of possibilities (room for manoeuvre within a regulated and public system) allowed the Spanish authorities to cut down the ordinary deficits. One of the preferred methods was to create physical money deposits to be used in times of "emergencies". This money almost always came from the American fleets or the "*Real Giro*" (the institution set up for making silver payments outside Spain and which produced a sizeable yield for the Real Hacienda). The money was stashed in strategic expenditure sites such as Cádiz, Madrid or Barcelona, until the time came to use it.

According to Barbier, Charles III used 270 million from these deposits between 1765 and 1769 (Barbier, 1985:478); in fact, according to the figures of the *Tesorería General*, the figure was 416.8 million between 1763 and 1769 (AGS, DGT, Inv. 16, Guión 24, lg.49). This practice continued in the following years. In June 1774 the *Secretario de Hacienda* ordered 60 million reales in silver to be sent to Madrid (tantamount to the ordinary deficit of two years) (AGS, SSH, lg. 267). The origin of this money seems to be bound up with the sale of tobacco in Mexico, the fruits of which were sent to the *Tesorería General*. It was not counted as Indies revenue although in the three year period running from 1774 to 1776 it added up to the tidy sum of 100.4 million reales (Torres, 2006a). We suspect that

this strategy of putting aside money from the Americas was also a way of slipping the leashes of the *Consulado de Cádiz* (merchant's guild with exclusive rights to trade with the New World). The traditional practice hitherto to tide over the government in cases of emergency had been to ask the *Consulado* for advance payments or donations against future fleets. This practice had enabled this institution to build up an unwelcome clout and pressure-exerting capacity. (Kuethe, 1999). In fact the last donation application was made in 1769 (Bernal, 1992:309).

The outbreak of the War of Africa in December of this same year and the subsequent colonial war against Portugal limited the creation of new deposits, largely because nearly everything received on the new fleets was already spoken for, as occurred in 1776 and 1778. Nonetheless this practice was not completely renounced, though recourse was made to mainland revenue. An order was given to the *Directores de Rentas* that part "of the product thereof" should be set aside until building up to a million reales. In 1781, the *Tesorero General* gave an order to the *Directores Generales de Rentas*, that "the urgencies of the Crown now being such that it can no longer do without the reserved provision of one million pesos fuertes to meet any untoward case of the Royal Service, the *Directores* are hereby charged to furnish same with notice of the King"<sup>5</sup>.

The use to which this deposit and the former ones were put leaves no doubt about their strategic purpose, which was not so much to overcome the structural deficit but rather to endow the royal treasuries with immediate liquidity, especially the *Tesorería General*, thereby bolstering public credit. In the period running from late 1774 to late 1779 they were tapped into repeatedly for such liquidity purposes to meet the exigencies of the wars in Africa and Portugal. Witness the order given in February 1777 to send 8 million to the *Tesorería General* from the Deposit of Madrid, because what remained in the treasury at that moment "this wherewithal does not suffice to meet the rest of the expenditure needs of the royal houses of troop and ministry"<sup>6</sup>. In July of the same

<sup>5</sup> "estrechando las urgencias de la Corona tanto que ya no es posible tener más tiempo sin uso el repuesto reservado de un millón de pesos fuertes que para atender a cualquiera caso inopinado del Real Servicio, se encargo a los *Directores* tuviesen a mi disposición con noticia del Rey". Marqués de Zambrano to *Directores de Rentas*, Madrid, 29-10-1781AGS, SSH, lg.997.

<sup>6</sup> "no es suficiente esta existencia para atender al despacho del resto del haber de Casas Reales de Tropa y Ministerio"

year another order was given that from the “funds set aside in the deposit room of the *Tesorería Mayor* that the *Caja* of the same *Tesorería* be endowed with” another sum of seven million<sup>7</sup>. The biggest problem for the Spanish royal coffers is that this seam was completely worked out in the years 1775 to 1778 and Spain was now about to wage war on Great Britain without being able to fall back on this traditional resource of makeshift liquidity for public finances.

The other resource traditionally used by the Spanish authorities for overcoming urgencies also stemmed from the treasury officials’ resource-allocation capacity. The Spanish treasury contained a large number of “*cajas*” or cash treasuries in which money was deposited for very varied purposes. At first their operation bore no direct relation to the “*Real hacienda*” since they served only for the ad hoc purposes. The list of the “*cajas*” was a very long one, ranging from treasuries with huge resources such as the “*Real Giro*”, the “*Depositaria de Temporalidades*”, which managed the property and revenue of expelled Jesuits and the “*Fondo Vitalicio*”, which pooled the deposits of the *Renta Vitalicia* (Life Annuity), down to much smaller “*cajas*” such as the money-coining “*Casas de Monedas*”, the treasuries of the “*Ordenes Militares*” (Military Orders), “*Fondo de Caminos*” or the “*Caja de Bienes de Difuntos*”, which served as a deposit for sending back to Spain the funds of those who died in the Americas. The use by the *Tesorero General* of one or other of the list of mobilised “*cajas*” rose and fell according to the degree of urgency of the “*Real Hacienda*”.

The *Tesorero General* drew on these “*cajas*” on many occasions between 1775 and 1784. It is worthy of particular note, however, that this was never regarded as an expropriation. The overriding idea was that they were always to be used on a “repayment basis”. This principle was adhered to even in the case of small *cajas*, such as the “*Caja de Bienes de Difuntos*”, run by the “*Casa de Contratación*” (House of Trade), from which sums of up to 2 million reales were withdrawn “on the basis of short-term repayment” from 1775 onwards to meet various urgencies in Cádiz. In March 1783 the order was given for the repayment to be made “against the yield of the duties of the latest fleet”<sup>8</sup>. The limit was often

<sup>7</sup> “caudal que con separación existe en la Pieza de Deposito de la *Tesorería Mayor* se saquen y pongan en la *Caja* de la misma *Tesorería*” Reales Ordenes (Royal Orders) of 27-2-1777 and 11-7-1777, AGS, SSH, 270.

<sup>8</sup> “a cargo del producto de los derechos de la última flota” AGS, SSH, lg. 63.

set by the *Tesorero General* himself, who did not hesitate to draw on any caja, but was always deeply concerned about the effects of these fund transfers on public opinion. In October 1776, for example, at a time of soaring expenditure, the *Tesorero General*, Francisco Montes, informed the *Secretario de Hacienda*, Miguel Múzquiz, that what most concerned him about the debts being run up was that more than 17 million reales taken that year from the “*Temporalidades*” caja “on the basis of short-term repayment”<sup>9</sup> could not in fact be repaid in the short term and that this might sow doubts and suspicions in the minds of the public: “and above all undermine the public’s faith in the credit of the treasury and bring it into general disrepute”<sup>10</sup>.

This recourse had the virtue of funding the state with interest-free money. The problem was that it had been overmilked in the years running from 1775 to 1778, and had been run dry by the start of the war in 1779, by which time there was even an outstanding debt. Spanish diplomacy did all it could to put off Spain’s entrance in the War of American Independence, precisely to give the fleet of 1778 time to arrive. But the yield of this fleet served only to cover part of the money taken from many cajas and pay back part of the outstanding debt. At the end of 1778, despite the huge amount of money flooding in from the Americas, 164 million, the *Tesorero General* explained that he had no option but to tell the *Secretario de Hacienda* that everything had been quickly eaten up. In mid January he wrote that only 2.8 million remained in the caja of the *Tesorería General* and only 15.1 million in all the Army Treasuries together. The “*Real hacienda*”, he concluded, was on the verge of ruin and he bluntly stated that he had no idea how to face the new year: “it is impossible to cover current expenditure with the ordinary products of the realm ... there are no (more) fleets in the offing such as might provide the funds to meet this expenditure”<sup>11, 12</sup>. The cycle of the

<sup>9</sup> “calidad de su pronto reintegro”

<sup>10</sup> “y sobre todo que diese ocasión al Público para una desconfianza nada favorable y comprometiese el Crédito del Erario y la estimación de todos” AGS, SSH, lg. 485, Francisco Montes to Muzquiz, Madrid, 14-10-1776. AGS, SSH, lg.485

<sup>11</sup> “es imposible ocurrir a los gastos actuales con los productos ordinarios del Reino... no hay (más) despacho de Flota de que pueda esperarse aquel ingreso de ingreso de caudales que tanto contribuyen a sostener los gastos” Zambrano a Muzquiz, 13-1-1779, AGS, SSH, lg.272.

<sup>12</sup> In late December 1777 the warship San Julian put into Cadiz from Veracruz. In June the last fleet entered and in August and September the ships San Jose and Serio en-

Spanish financial structure had worked just as the Spanish authorities had expected: the colonial input had once more arrived in the nick of time to provide an injection of liquidity and wipe out debts that the state had been running up by drawing on the funds of “*depósitos*” and “*cajas*”, doing so on the strength of its centralisation and control of financial administration. The problem now was that, in the new cycle just starting, the country was going to wage war on Great Britain, with traditional resources run down to a minimum and colonial trade certain to be cut off.

The Spanish system of financing ordinary debt by drawing on savings or “*cajas*” until this could be repaid from colonial resources had the other grave drawback of discouraging any more thoroughgoing changes in the financial system, mainly by means of public debt. From our point of view the reign of Charles III does not seem to tally with the idea of an absolutist monarch with no type of institutional counterweight who felt free to carry out an arbitrary debt-creation policy with no fiscal backup, such as the French monarchy has been accused of. Pending more research on the subject, the real picture would seem to be quite the opposite. Throughout his reign he pursued what could be dubbed a “deficit-chary” policy. First of all, the Spanish crown and its ministers tried to pay off the debt inherited from their forbears. It is debatable how much was actually put towards this debt redemption but the very will to do it and allocate money to that end indicates a certain stance towards public debt. Secondly, when it was decided to set up something akin to a public debt, the *Fondo Vitalicio*, he kept a tight rein on it at all times, despite its warm welcome from investors. The scant development of this type of debt was not due to a lack of capital to invest or investors, for their number was actually on the increase and with smaller investment sums; rather was it because the state expressly declined to develop this public debt market (Torres, 2006c).

If the Spanish state did therefore finally decide to create public debt during the War of American Independence this was not because it was the natural corollary of being a fiscal military state but rather because the actual circumstances of this war ruled out the traditional fund-rai-

tered the port, bringing 20 million reales from Buenos Aires. In this same year 1778 a total of 93 vessels from the Americas entered the port of Cadiz, paying duties of 64,438,003. This item together with the sum brought in by the aforementioned ships added up to 156,092,898 reales (the summary cites 164,309,780) AGS, SSH, lg.272.



ing systems. Even then it took a few months, even a year, for the public-debt option to be taken up, during which time all sorts of other traditional fund-raising options were looked into and tried out.

Table 4 *War Funding Sources in Spain*

<i>Tesoreria General</i>	<i>Total Revenue</i>	<i>Ordinary taxes</i>	<i>New taxes</i>	<i>Total Funding</i>	<i>Donations</i>	<i>Interest-free loans.</i>	<i>Interest-bearing loans.</i>
1775	448,932	90.7		4.0		4.0	
1776	479,022	89.2		2.9		2.9	
1777	419,923	90.3	0.5	5.6		5.6	
1778	554,909	92.9	0.3	0.2		0.2	
1779	476,101	86.0	5.5	9.7		7.6	2.1
1780	749,559	47.1	5.8	50.3	0.8	3.1	46.4
1781	662,951	64.1	7.0	31.9	0.7	2.1	29.1
1782	741,304	53.5	5.8	45.0		2.0	43.0
1783	609,006	72.7	6.0	20.7		1.7	18.9
1784	575,846	90.2	3.4	5.2		0.2	5.0
1785	589,476	92.3	1.8	1.1		0.5	0.5
1786	569,241	95.0	1.4	0.2		0.0	0.2
	446,629	77.9	3.5	17.3	0.2	2.3	22.2

Source: See Table 1

New taxes were set up from 1777 onwards. Unlike in Great Britain, however, where new tax options were explored, Spain preferred to increase the burden of existing taxes: “*Rentas Provinciales*” (provincial revenue), tobacco, spirits, wine or salt. But the most important factor is that the state viewed these increases as an exceptional measure, to tide them over until “the Indies revenue should return ... until an occasion be found to bring it home safely”<sup>13</sup>. These tax increases were seen at all times as stopgaps; the crown even adopted an almost apologetic attitude towards them, especially when it had to renew them a year later because the war raged on. The same apologetic lenience was shown in collecting the taxes. The tax with the biggest increase was

<sup>13</sup> “retornasen las rentas de Indias... hasta encontrar ocasión de traerlos con seguridad” AGS, SSH, 1739. Madrid, 17-11-1779.

the “*Rentas Provinciales*”, and the towns and villages were allowed to pay it from council funds; some were even allowed to plough up new land (AGS, SSH, 1740). It is true, therefore, that the Spanish state needed to agree this tax increase with no institution but it cannot really be said to have shown any arbitrariness in its dealings. Quite on the contrary. Everything seems to show that these tax increases were seen to be a stopgap measure to get by until the Spanish financial cycle returned to “normality”.

The fruit of these tax increases filtered in slowly to the royal coffers; the total input of the new taxes as a whole added up to 235.9 million (2.4 million pounds). This input clearly fell short of war needs; in fact these taxes accounted for only 3.5% of the revenue in the period 1775 to 1786. Likewise, donations from private individuals or institutions and reimbursable interest-free loans had a limited effect, accounting for less than 3%. The start of a war was traditionally a time for showing loyalty to the crown and what better way than making a contribution? Practically all the major institutions made some sort of money contribution (Señorío ((seigneurie)) de Vizcaya, Alava, Guipúzcoa, Navarra, Asturias, Consulado de Cádiz...) but the biggest contribution of all was made by the Church. The church cabildos (chapters) donated over 4 million, a further 20 million on a refundable basis and another 13 million in advances on future revenue; the mighty *Tesorería de Temporalidades* was also used as a veritable “war bank” to endow the *Tesorería General* with liquidity<sup>14</sup>. The Church in fact became a major contributor, albeit with limits. As the *Secretario de Estado* (Secretary of State), Conde de Floridablanca, said to the *Secretario de Hacienda* “the clergy has helped us a lot and will help us more if we know how to handle them. If we push them too far we risk forfeiting all”<sup>15</sup>.

The main difference between Spain and Great Britain is that Spain saw public debt as a last ditch resort, but it turned out to be the option that made the biggest war contribution, 22.2% of the total input, sometimes up to nearly half. The creation of public debt in Spain focused on the mobilisation of public funds and deposits (Torres, 2006c), the crea-

<sup>14</sup> List of Church donations in AGS, SSH, lg.364. For more information on the use of the “*Depositaria de Temporalidades*” see AHN, Hacienda, 1422.

<sup>15</sup> “el clero nos ha ayudado algo y nos ayudará si le sabemos manejar. Si le queremos forzar nos lo puede indisponer todo” Floridablanca to Muzquiz 8-8-1781, AHN, Estado, lg.4211.

tion of “*Vales Reales*” (crown-issued redeemable bonds) and loans taken up in Holland. The salient factor of this public debt creation in terms of assessing the characteristics of the Spanish state as a fiscal military unit is that it did not serve for setting a formal public debt market. The public security market was in fact set up by a proverbial maverick, Francisco Cabarrus, while the French merchants were ultimately interested in muscling in on the Spanish silver trade (Torres, 2006b); moreover the state actively tried to rein in public debt. All these were factors that aroused more chariness than enthusiasm. In fact the state policy was to limit and pay back the debt, turning down the chance of issuing more “*Vales Reales*” after the end of the war even though their market value was now above their face value. It also tried to pay back the loan taken up in Holland only three years into its term but failed to do so due to the forthright opposition of the Dutch lenders, who considered precisely Spain’s interest in paying back the loan to be its best security<sup>16</sup>.

## Conclusion

Spain was a fiscal military state like Great Britain. The main function of the Spanish state was the military function and this absorbed the lion’s share of its revenue. At the same time Spain had managed to introduce administrative changes similar to those carried out in Great Britain, to enable it to wield more control over revenue collection and expenditure management and increase its independence in doing so. If we take into account only these factors we could even claim that Spain was a more developed fiscal military state than Great Britain. But its structure turned out to be much less efficient than the English in rising to the real challenge: waging war. Spain relied on a fiscal system clearly geared towards colonial trade as the means to offset a structural deficit in its ordinary

<sup>16</sup> Cabarrus wrote on 18-10-1785 to the Secretario de Hacienda about the arrangements he had made in Amsterdam with the lenders and concluded “those lenders, seeing no other fruit in the Capitalist’s endeavours to pay back the loan than to deepen their faith therein, saw fit to propose derogation of the terms laid down in RC 10-10-1782” (“aquellas Casas no prometiéndose otro fruto de los esfuerzos que pudiesen hacer para persuadir a los Capitalistas a que admitiesen el reembolso que el arraigar más la confianza con que hicieron el préstamo, no tuvieron por conveniente proponerles de derogar a las condiciones estipuladas en la RC 10-10-1782”), AGS, SSH, lg.997.

taxation and either would not or could not increase consumer taxes. Given this situation, it needed only to bide its time until the increasing yield of colonial trade had the knock-on effect of raising grassroots purchasing power and the taxability of consumer goods. Meanwhile the best idea was to keep expenditure down to a minimum. This restrictionist policy had two undesirable consequences: firstly it pre-empted modification of the inherited expenditure structure and secondly it also hindered the vital task of confronting the vested interests that created a public expenditure bias towards the army, when it seemed more crucial in the circumstances to increase naval expenditure. The weaknesses of the Spanish system were brought out starkly by the American War of Independence. The high degree of control over Spanish finances served only to encourage the traditional tactics of shuffling funds about or taking up interest-free loans. Only when this proved insufficient was the strategy of tax increases and public debt creation turned to, and even then only in a restrictive form. As a Galician official concluded in 1783, Spain's only "solution" was to change its fiscal structure, specifically by shifting taxes onto consumption since this would help to bond the country together in the war effort, as had been shown, in his view, by the English: "the English suffer taxes even on daylight and lapdogs and, if it comes down to it, the very breath they breathe, and nobody quibbles because they are imbued by a spirit of patriotism that holds them all in thrall"<sup>17</sup>

<sup>17</sup> "los ingleses sufren las contribuciones hasta en la luz natural y en los perritos falderos, y llegar el caso de que se comprendan sus alientos, y nadie se queja, por el espíritu de Patriotismo que los domina y los constituye temerarios". Miguel Bañuelos to Miguel Múzquiz, Coruña, 22-1-1783. AGS, SSH, lg.488.

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