

# NEITHER ABSOLUTISM NOR NEGOTIATION: SPANISH EMPIRE BUILDING AND POLITICAL ECONOMY IN THE 18<sup>TH</sup> CENTURY CARIBBEAN

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## ABSTRACT

This paper revisits the political economy during Spanish rule in America by reappraising the allegedly positive impact that intra-imperial transfers (*situados*) had on the Caribbean economy. It raises concerns concerning categories such as bargaining and absolutism and their accuracy in accounting for the nature of Spanish imperial rule. Three main findings are reported. Firstly, it seems inaccurate to hold that all remittances were injected into the economy with positive effects. Liquidity apparently provoked a real estate bubble. Secondly, the local market was not necessarily sensitive to the arrival of bullion. Finally, jurisdictional fragmentation allowed the king to issue debt in a disorderly fashion and with no constraints, and local officials and groups of interests to behave as free riders.

**Keywords:** Spanish Empire, Caribbean colonial economy, *Situados*, Debt-issuing

**JEL Codes:** N46, N43

## RESUMEN

El artículo analiza la economía política del dominio español en América reevaluando el impacto positivo de las transferencias fiscales (*situados*) remitidas al Caribe. Se cuestionan categorías como negociación y absolutismo y su capacidad para dar cuenta de la naturaleza del dominio imperial español. Se presentan tres resultados importantes. Primero, no es posible afirmar que las transferencias de metales fueron inyectadas de manera

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positiva en la economía local, ignorando sus efectos contraproducentes como la generación de burbujas especulativas. Segundo, desde una perspectiva cuantitativa, el consumo no se vio necesariamente favorecido por la llegada de metales. Finalmente, la fragmentación jurisdiccional le permitió al rey generar deuda desordenadamente y sin control, y a la vez, fomentó el oportunismo entre autoridades y grupos de interés.

**Palabras clave:** Imperio español, economía colonial del Caribe, situaciones, deuda

## 1. INTRODUCTION

In recent decades, the image of the Spanish Empire has been changed drastically. The long-lasting general conception of a backward and absolutist power has gradually been replaced by an alternative in which bargaining appears to be the main feature of imperial rule. Recent historical research has challenged assumptions widely held by economists and, in particular, assumptions held by those working within a neoinstitutional framework (North and Thomas 1973; Acemoglu et al., 2001; Sokoloff and Engerman 2002; Acemoglu and Robinson 2012). These narratives depict the Spanish Empire as a predatory state in which unchecked power was unleashed, leading to absolutism, backwardness and a common violation of property rights. In contrast to the British Empire, where power held by representative institutions prevailed (North and Weingast 1989), the Spanish constitutional structure paved the way for the strengthening of the king's capacity to interfere negatively in political decision-making, and particularly, to levy taxes with no control. The king's ability to extract wealth from the public generated negative incentives for both short- and long-term economic growth.

Drawing on a strand of legal history as well as on political economy and microeconomic approaches, historians have revisited the validity of the concept of absolute power and have posited its inaccuracy in correctly understanding the manner in which power was distributed and dispersed among the bodies and kingdoms that composed European polities (for an economic history perspective, see Rosenthal 1998; for a legal history perspective, see Hespanha 1994). Three main attributes have been put forward with regard to Spanish rule: a composite monarchy where the rule was essentially implemented through endless negotiations involving the king and his vassals (Elliott 1992; Elliot 2006; Grafe 2011); bargaining that took place in many loci of power and which allowed almost anybody to communicate directly with the king. Apparently, in spite of such an extractive institutional framework, economic growth

was possible (Coatsworth 2006; Dobado and Marrero 2011; Arroyo and Van Zanden 2016).

This paper seeks to contribute to the absolutism vs. bargaining debate and the discussion on Spanish imperial building in two ways. Firstly, it revisits the political economy of Spanish rule in America by reappraising the role that inter-imperial transfers (*situados*) had in the Caribbean colonial economy (for regional and overall studies, see Marichal and Soto Mantecón 1994; Grafe and Irigoín 2006; Serrano 2006; Marichal 2007; Irigoín and Grafe 2008; Celaya 2010; Marichal and Von Grafestein 2012; Meisel Roca 2012; Von Grafestein 2012; Wasserman 2017). It is now well known that the share of taxes remitted to Madrid was only a small proportion of the total revenues collected across the empire. On the contrary, the largest share of taxes was redistributed in the colonies through a system of intra-*caja* remittances that supposedly contributed to holding the empire together (Grafe and Irigoín 2006). A cost-efficient and self-sufficient system generated large revenues in some treasury districts whose surpluses were transferred to poorer ones (Tepaske and Klein 1982; Klein and Barbier 1998). Secondly, the paper visits the two above conceptions yet distances itself from both. As I will argue, the ‘absolutism vs. bargaining’ dichotomy fails to appraise the complexity of Spanish rule in America correctly. Therefore, one of the paper’s main endeavours is to move away from this polarisation. I attempt thus to avoid falling prey to what I label as the ‘black-legend vs. rosy-history debate,’ and therefore, to avoid a Black legend.

Currently, two main approaches prevail in the research in Spanish state and empire building. I will encompass them under two labels: the modernist and the constitutional–juridical approach. Firstly, the modernist approach on the one hand, liberal assumptions concerning balanced and checked power, and on the other hand, the fiscal-military state and exogenous causes of endogenous equilibria. According to the former perspective, the very reason why England left continental countries behind lies in its very peculiar political system. In recent decades, economists have posited institutions as the main driver of economic growth. They have resorted to history in order to test which institution was the most efficient, stating that political systems explain why some countries are rich while others are not. The very peculiarity of England lay in its checked power: a «shackled» king (Acemoglu and Robinson 2012; Acemoglu and Robinson 2019). The parliamentary form of government set the basis for a political system respectful of property rights and capable of dealing successfully with issuing debt (North and Weingast 1989). The opposite happened in southern absolutist kingdoms in which monarchs could easily behave opportunistically. Economists have advanced a model that fits flawlessly with explanations advanced by 18<sup>th</sup> century thinkers such as Montesquieu. It, however, rests largely upon a teleological idea: the lack of representative government

caused backwardness in southern Europe. It should, however, be said that empirical data seemingly support this assumption (Van Zanden *et al.*, 2012). On the other hand, the fiscal-military-state approach explains state-building processes as essentially a consequence of exogenous factors and the interplay between capital and coercion (Brewer 1980; Tilly 1990; Bonney 1995; Dincecco 2015). Wars put pressure on kings, obliging them to raise revenues and to bargain with elites in order to tax their vassals successfully. While the ruler was interested in augmenting the share of wealth extracted as tributes, the elites instead preferred to keep it at a minimum level. The king's capacity to bargain successfully meant ever-enlarging territories upon which claiming sovereignty and extracting larger shares of wealth. The «military revolution» led to intra-European competition, explaining intra-national equilibrium power and the executives' capacity to levy taxes. One of the main features of the fiscal-military state recently highlighted is its contractual capacity (Sánchez Santiró 2015; Torres Sánchez 2015). Historians used to overemphasise revenues yet a shift has recently taken place and expenditures have started to attract a great deal of attention (Pincus and Robinson 2016).

One of the main arguments recently advanced reads that the state positively stimulated the economy via military expenses. Local elites profited from this money as they acted as state contractors. The supply of both local armies and itinerant troops generated immense gains for contractors (Torres 2012; Solbes 2018). Moreover, monies spent by the crown on military wages and public works served as a lubricant for local economies. Making war was at the same time good business for local and national elites. Spain would be somehow a failed fiscal-military state (Torres 2015). It is true that over the 18<sup>th</sup> century, the crown displayed successful attempts to gradually centralise military expenditure and organise military accounting in a more rational way. Nonetheless, taxes remained at low levels while debt issuing was largely avoided.

The question arises as to whether these outcomes were due essentially to the monarchy's constitutional structure and not particularly to exogenous causes (Grafe 2011, pp. 24-25, 33). Legal and political historians have focused on precisely these features. This is the second approach, which I label as constitutional-juridical. Drawing essentially on legal history, political historians have gone so far as to deny the existence of the state itself in the early modern period (Clavero 1982; Hespanha 1994; Schaub 1995; Garriga 2004).<sup>1</sup> On the other hand, historians have asserted that

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<sup>1</sup> A branch of legal history has had a huge impact on political and conceptual historians. It has echoed the idea that contemporary concepts should prevail over modern ones and that spheres such as politics, economics and law were foreign to medieval societies. Surprisingly, a medieval mentality spread until the 18<sup>th</sup> century giving the idea of some immobilism. Besides a Catholic

jurisdictional fragmentation instead of high degrees of centralisation and absolute power could explain market economic performance and integration in early modern Spain and its empire much better, not to mention political economy (Grafe 2011). Historical territories that conserved their own customs and constitutional structures prevailed over the centuries (Elliott 1992); a political framework that obliged the king to bargain either with the historical territories or with corporations. This means, for instance, that taxes were collected in a different manner in each territory and that local elites could negotiate how much was paid, who was taxed and who was supposed to gather and manage the monies directly with the king. Local elites also had a say on how the revenues were spent. The monarchy's fiscal apparatus was thus characterised by a highly fragmented jurisdictional structure with no standard taxation (Clavero 1982). Fiscal transfers between treasuries help to explain why poorer jurisdictions could defray their administrative expenses and give political and economic cohesion to the empire.

This paper reappraises the allegedly positive impacts that transfers of *specie* from richer to poorer treasuries had. It specifically assesses whether or not royal flows actually encouraged economic growth (see for instance the comments pointed out by Summerhill 2008). It particularly focuses on the Spanish Caribbean, which, as is widely known, was the destination for the largest amount of money remitted from Mexico. Havana absorbed the largest share of these funds, reshipping significant sums across the Caribbean (Marichal and Soto Mantecón 1994). Always lacking resources to meet royal expenses and being the military target of imperial envy, officials in Havana were always short of money and needed to incur ever-larger disbursements to maintain sovereignty on the island.

Over the second half of the century, roughly 170 million *pesos* were transferred from Mexico to the Caribbean (Marichal and Soto Mantecón 1994, pp. 612-613); a huge sum by any measure. A large share of these remittances was, nonetheless, shipped in a very short time: the years of the American War of Independence (almost 30 per cent). This paper

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anthropology (Clavero, 1996), the king's capacity to concede favours (privileges) was the main instrument for him to gain preeminence among the various micro-powers (Grieco, 2009, 2014). Legal historians who invoked the argument of gifts and privileges as the forces behind social cohesion tend to neglect the transaction and opportunity costs that such a mechanism implied. There is a huge literature on privileges from an economic history perspective that should be taken into account (Root 1994; Ogilvie 2011; Horn 2015; Garnier 2016). For instance, flip-flop policies were common practice across the empire exposing groups and agents to high-transaction costs. On the other hand, one can easily agree with the anachronistic part of the argument. Upholding an accurate use of concepts, however, implied much more than simply quoting *verbatim* the vocabulary of an old age (monarchy instead of state), uncritically assuming its contemporaneous intellectual elaboration, and therefore, downplaying the various conflicts that marked preference for one concept over another (Catholic monarchy over monarchy or imperium), then and now.

thus pays special attention to this period as it could reveal overlooked impacts that remittances had in the Caribbean. Havana is a telling case that serves to unveil the actual impacts of the supposed benefits that royal investments brought for local markets. Firstly, scholars have posited that, particularly after the 1762 English invasion, a local elite emerged which had a huge bargaining power *vis-à-vis* Madrid officials.<sup>2</sup> Several mid-18<sup>th</sup> century reforms were implemented aimed at promoting the sugar economy, further enriching and empowering landowners who saw the exports of the island's main commodity skyrocket. By the same token, free trade policies connected the city to peninsular markets. Other policies, in turn, improved the supply of the slave workforce. Secondly, Havana was beyond doubt the most important Spanish Caribbean military bastion. At the heart of the Caribbean Sea and surrounded by other imperial powers, the island regained a geopolitical condition that cost the crown millions of *pesos* yearly. Havana was a net recipient district. Much of the funds that covered the port's huge military, naval and civil expenses came from Mexico (Kuethe 1986a; Serrano Álvarez 2008; Kuethe and Andrien 2014). Thirdly, being a city port makes it easier to estimate the share of the *specie* that remained on the island or that which was re-exported to Spain. Monetary deficits or surpluses are still a totally neglected phenomenon. Money certainly flowed in but some also flowed out.

The paper proceeds in four parts. The first part presents new data on the Havana Treasury for the years 1770-1780s. Data were taken from *Estados Mensuales*.<sup>3</sup> To my knowledge, this is the first time these records have been used to analyse a local treasury in colonial America. Until now, and with very few exceptions, the analysis of local imperial treasuries has been based on the data gathered several years ago by Tepaske and Klein (1982). Many issues have already been raised regarding the possibilities and shortcomings of these account ledgers (Amaral 1984; Sánchez Santiró 2013; Galarza 2019). The use of monthly data rather than annual figures for revenues, remittances and crown-issued debt will shed new light on the repercussions that intra-imperial transfers had for local markets. This will help us to avoid the shortcomings related to accounting and especially those that resulted from annual summaries, offering more detailed items regarding expenses and a detailed list of the monies received by

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<sup>2</sup> Moreno Friginals (2001); Tornero Tinajero (1996); Amores Carredano (2000); Goncalves (2008); Vázquez Cienfuegos (2008); Johnson (2001); Knight (1977); Piqueras (2008); Kuethe (1986b).

<sup>3</sup> Estado que formó como Tesorero General del Ejército y Real Hacienda de la Isla de Cuba comprensivo de las cantidades de cargo y data de las Reales Cajas correspondientes al ministerio de Tierra, Archivo General de Indias, Sevilla, Santo Domingo (hereafter cited as AGI, SD), 1833,1834,1658.

the treasury. For instance, part 1 includes previously unknown data on monthly sales taxes for both consumption and property sales.

I also unveil several inaccurate assumptions that have gained broad support recently:<sup>4</sup> (i) transport costs are totally absent from the debates, and scholars have taken for granted that the physical transfer of funds implied no expenses for either the crown or the private agents (in Spanish *situadistas*) who were in charge of transporting *specie*; (ii) imprecision regarding the way in which royal funds were transformed into private gains: contrary to what is commonly assumed, crown officials were in charge of transporting the king's monies on the Veracruz–Havana route. As huge sums flowed across the Caribbean, such evidence will oblige us to downplay the assumption according to which local and royal interests coalesced around the transport of funds; (iii) the assumption according to which monies necessarily lubricate the local economy and spur growth (Grafe and Irigoín 2006; Irigoín and Grafe 2008; Meisel Roca 2012).

I will hold that larger and larger money injections could have harmed economic growth in several ways. By provoking a real estate bubble (new evidence is presented in this regard) and by diverting capital from production and commerce to financial speculation with the king's debt. Contrary to the idea that *situados* enriched the city, I will demonstrate that the local Treasury was in default immediately after the American War of Independence. In September 1784, locally issued debt accounted for at least 5.5 million *pesos*. This phenomenon has been totally overlooked and sheds new light on the capacity of the king to behave opportunistically.

Finally, the third part will carefully examine the concept of negotiation. My goal here is to show some of the shortcomings of this widely used concept (frequently used and sometimes vaguely employed in cultural, political and economic history alike) by bringing forward two cases: Cartagena and Mexico. Both were intrinsically linked to Havana and the expenses defrayed on the island during the war. On the one hand, the king ordered that debt issued in Cartagena had to be redeemed in Cadiz, but later broke his commitments with the local mercantile group, forcing lenders to redeem their money in Havana. On the other hand, Mexican *alcabalas* were raised aimed at dispatching higher amounts of *specie* to the Caribbean. This third part introduces downplayed phenomena into the analyses which are intrinsic to social processes that have been overlooked when negotiation is overstressed and conflict neglected: cooperation, breach, forced cooperation, intra-group conflict, and the state's self-limitation. This is not merely intended to introduce conflict or to draw attention to the need to further enrich our theoretical vocabulary.

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<sup>4</sup> Marichal (2007); Marichal and Von Grafstein (2012); Marichal and Soto Mantecón (1994); Irigoín and Grafe (2008); Grafe and Irigoín (2006); Meisel Roca (2012); Wasserman (2017).



Theoretically and methodologically speaking, it is not enough to acknowledge the existence of conflict alongside bargaining. So far, historians have highlighted bargaining yet, as rational-actor models and public choice theory posit, non-cooperative games are always a choice and empirically more frequent (Cooter 1982; for a different approach see Boucoyannis, 2015). This paper focuses precisely on those games and the inefficiencies and costs they caused for society in general, regardless of the fact that they helped to keep local elites and the king together. Finally, conclusions are presented.

In this paper thus, I will revisit the very idea of «redistribution» as a political practice and show how jurisdictional fragmentation also gave the crown room to impose its will over groups of interests. More importantly, jurisdictional fragmentation allowed the crown to issue debt in a disorderly fashion and with no constraints (a phenomenon that has been totally neglected), and equally, opened up room for actors to behave opportunistically from the centre of the empire down to local levels. We should, therefore, revisit the overemphasis placed on the power of the king to violate property rights, either by confiscating or overtaxing and also pay more attention to the space institutional framework opened and offered for rent-seeking agents at all levels to behave opportunistically. This also implies not merely seeing bargaining as a political intention that held the king and the elites together, but also looking carefully at the repercussions that bargaining brought for economic growth. Opportunistic behaviour could easily take place within this highly fragmented institutional framework (on jurisdictional fragmentation and its impact on market integration see Epstein 2000; Grafe 2011). So, the question is not merely whether the king behaved opportunistically or not such as it is overemphasised by the first generation of neoinstitutional economists (to mention a case). He certainly did so in Spain and elsewhere. It is also about whether or not such practices generated incentives for subjects to behave as free riders. In other words, I change the focus from the king to the institutional framework in which cooperative and non-cooperative games took place. The debate is not merely about centralisation. It could also, in fact, focus on the extent to which this was a machine intended to produce negative incentives for free riders.

## 2. REFINING THE ASSUMPTIONS

Francisco de Arango y Parreño (a rich sugar mill farmer and member of the chamber of commerce established in 1792) has been depicted as a typical example of the powerful local elites who obtained endless privileges from Madrid (Gonçalves 2008, pp. 193-244). Francisco de Arango y Parreño stated in his frequently quoted discourse on the means to promote the economy of the island that the British invasion had spurred economic



growth by introducing a high number of enslaved humans in a very short period of time. One of the *Consejeros* of the *Consejo de Indias*, totally displeased, refuted this idea maintaining that Cubans owed their progress to the king; investment in impressive fortresses, a huge shipyard, and the many soldiers and ships deployed on the island due to the war had ultimately caused the island's enrichment (Bohorquez 2016b). This heated 18<sup>th</sup> century debate, which recalls a Keynesian approach, still persists.

Intra-imperial transfers are described in much of the current literature in almost the same fashion as the *Consejero* described them centuries ago: injections of capital invested in the local economies which promoted growth and enriched the local elites (Grafe and Irigoín 2006; Irigoín and Grafe 2008). Many arguments support this idea. Royal remittances lubricated trade and redistributed income among different regions of the empire. Essentially, funds were siphoned off to Atlantic ports such as Havana, Cartagena or Buenos Aires, increasing their liquidity and, therefore, pushing up the share of revenues gathered at local customs houses (Irigoín and Grafe 2008, pp. 195, 197; Meisel 2012, p. 201). It can be said that taxpayers in tax districts with a surplus subsidised the purchasing power of inhabitants based in tax districts with a deficit. Furthermore, royal remittances became a mechanism to transform revenues into private wealth. As the king «outsourced» the transport of funds (Saguier 1989; Celaya 2010), merchants profited from a precious opportunity to obtain gains through a variety of legal or illegal means: speculation on different coinages or investments of those monies in goods sold at the final destinations (Irigoín and Grafe 2008, p. 206). They also advanced goods to soldiers on credit terms by which means they directly received *specie* in payment (Wasserman 2017, pp. 83-84).

Linking the transport of *specie* to private interests is an idea that goes back to the 1980s. Previously held as corruption (Moutoukias 1988; Saguier 1989), the point has been refashioned into the idea of bargaining (Irigoín and Grafe 2008); it is a coalescence of interests that held together merchants, local functionaries, and the king. Historians have taken for granted that the physical transfer of funds from one district to another implied no expenses. The cases of Buenos Aires in the 18<sup>th</sup> century or Puebla in the first half of that century are often mentioned (Saguier 1989; Celaya 2010). Many regional studies also exist for Peru, Panama, Puerto Rico or Louisiana (Marichal and Von Grafstein 2012). With regard to Havana, and despite the fact that it absorbed the largest share of the remittances, little is known about who transported those funds and the costs involved for private actors and the king alike. In what follows, I revise some of the above assumptions and challenge commonly held ideas, offering a different interpretation. Instead of speaking of the economy or the local economy in broad terms, this second part seeks to track down, as far as the available quantitative data allows, the mighty impact that liquidity had on very specific markets: real estate, local consumption, and financial speculation.

## 2.1 Transporting the King's Monies

The physical transfers of funds implied costs that have been completely overlooked. Scholars have noted that the private appropriation of royal revenues explains why local elites across the empire enthusiastically agreed to the shipping of funds from districts that were net contributors to others that were net recipients. This assumption, even though it is valid for some regions at very specific times (Celaya 2010), is somehow inaccurate. Private agents seem to have been virtually absent in the transport of *situados* from Veracruz to Havana, precisely the journey which involved the largest fiscal transfers. Secondly, it is true that merchants could speculate with the king's money, yet costs and risks should clearly be introduced into the analysis; monies could be invested in goods at the departure point with the goal of selling them at the final destination. Merchants could indeed obtain a profit on such operations. Nonetheless, transporting *specie* overland and overseas implied high costs (mules, wages and so on). We still know very little about transport costs, which very likely corresponded at the very least to 1-2 per cent of any carried amount (Gelman 1987; Álvarez-Nogal 2010), being lower for gold and higher for silver as well as cheaper overseas and more expensive overland. There could well be a reason why merchants preferred to invest the *specie* in goods avoiding the risk of transporting metals overland, lowering risks and helping to defray transport costs.

The same argument also applies to the crown which could devolve upon merchants the costs of transporting the bullion. When transport costs are introduced into the narrative, another neglected phenomenon comes to light: any attempt at centralising revenues would have caused huge expenditures for the crown. Had the crown attempted to carry the monies to Madrid between 1777 and 1794 it would have meant defraying at least 4 million *pesos* in transport costs. For this and other reasons, my point is that the rationale behind the intra-*caja* movements was essentially of an accounting nature and not due to a redistributive political policy, as is the case in modern liberal states and empires (for instance Osterkamp 2016). For instance, during the American War of Independence, expenses issued in the Peninsula were paid in Havana. As we will see, such clearings reached huge sums recorded simultaneously by Cadiz and Havana treasuries.

According to royal regulations, *situados* had to be handed over to *situadistas* in *moneda doble*. Indeed, this offered the opportunity for merchants to speculate on different coinages and arbitration premiums (Irigoin and Grafe 2008, p. 193). It is worth highlighting the fact that the heavier the cargo, the higher the risks and costs involved in its transportation. This was a golden opportunity for both merchants and the crown whose money provided the king with room to act opportunistically. However,

what seemed good business for merchants could turn into a trap, as we will see in the third part.

Even though in many parts of the empire *situadistas* were in charge of transporting the *specie* to the ports (from Potosí to Buenos Aires, from Quito to Popayán and Cartagena or from Puebla to Veracruz), this was not always the case in common practice in Havana. Saguier (1989) drew attention to the fact that the *situadistas* were referred to in the records as *mestres de plata*. It was precisely these *mestres* who were responsible for transporting the *specie* from the Mexican basin to the Caribbean port. Merchants transported *situados* from Mexico to Veracruz, but from this point onward officials took over the responsibility of transporting *specie*. Mid-18<sup>th</sup> century Mexican records show how difficult it was for local functionaries in Veracruz to find agents interested in transporting the funds. Many refuse the endeavour as the 300 *pesos* fee «barely cover the incurred costs and the missing sums.» What is more, payments of 300 *pesos* were made for the transport of sums worth 500,000 *pesos* at a time when shipments corresponded to sums worth 500,000 *pesos*; however, the same fee was also paid when amounts increased to 2 million *pesos*, including different sums to be delivered to several points across the Caribbean, and therefore, increasing receipts, deliveries and missing monies.<sup>5</sup> To make matters worse, fees were generally delayed and it was not uncommon for transporters to have to advance money in order to cover costs.

Later, in the second half of the century, local officials' correspondence and *Estados mensuales* clearly demonstrate that *mestres de plata* and *contadores* were responsible for conducting the king's monies in the royal navy. There was, however, a difference between them. The former had to assume responsibility for the transport of the funds «without being paid a fee,»<sup>6</sup> while the latter should have been paid «*seis reales el millar*,» a fee equivalent to roughly 0.7 per cent of the sum transported.<sup>7</sup> Entries corresponding to paid fees are rather scarce in the *Estados mensuales*, which allows one to assume that the largest share of the *specie* was transported overseas in the royal fleet under the responsibility of *mestres de plata*.

## 2.2 Bubbles: Boom-Burst

A report written in Havana after the American War of Independence reported on the negative impacts of inflows of cash on the local economy.

<sup>5</sup> *Archivo General de la Nación*, Mexico City, Marina (hereafter cited as AGN, M) v. 57, ff. 79r.

<sup>6</sup> AGN M v. 27, ff. 380r.-381r.

<sup>7</sup> AGN M, v. 71, ff. 97r-98v; N. 952 15 January 1787, AGI, SD 1668.

In order to report the far-reaching consequences of the import of slaves by foreigners accurately, data were gathered on the performance of several economic sectors for the years 1770s-1780s.<sup>8</sup> In the first lieu, the official informed on the impacts of the royal transfers. Curiously, he estimated not only inflows, but also *specie* exports. This is in stark contrast to works on *situados*, which barely consider outflows of money and indirectly assume that Havana was the final destination of the *specie*. Three points were highlighted in the report: (i) *situados* allocated to Havana consisted of a fixed yearly sum that amounted to 1,700,000 *pesos*; (ii) the Treasury had taken responsibility for much larger amounts of money transferred from Mexico during the war (in some cases reaching 9 million *pesos*); however, the official decided that these sums should be dismissed from any account because they had been spent in the defray of freights and not necessarily in the city (we will return to this overlooked point later); (iii) a yearly average of *specie* exports (not to be confused with *situados* reshipped to other *cajas*) worth 2,024,528 *pesos* for a 6-year sample and a deficit of 324,538 *pesos* (smuggling was estimated at roughly 1.8 million *pesos*).

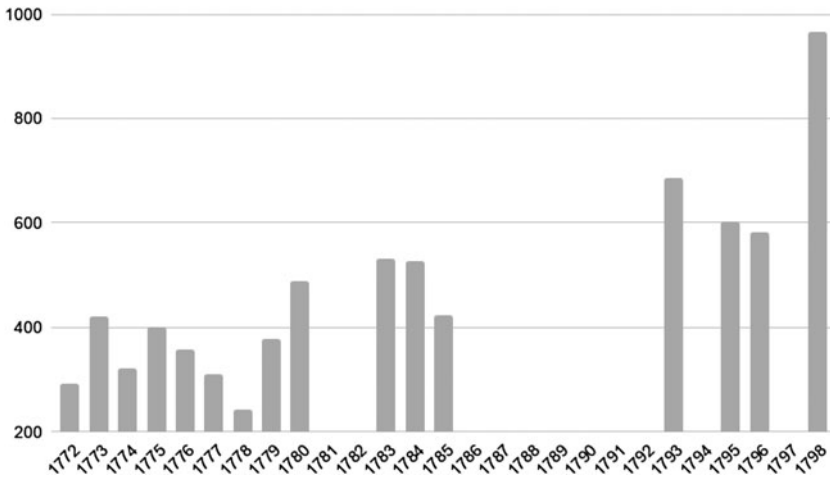
Many reasons led the official to think that the injected monies had a rather negative impact on different economic sectors. Firstly, holders of *moneda macuquina*, which had been discontinued during the war, had lost at least 50 per cent of the money's value. Inflows of cash, however, had attenuated the losses. To estimate any growth rate accurately, as the official himself pointed out, inflation must be considered. Nobody doubted that prices fluctuated during the war. However, as money circulated at the same speed as supplies that flowed into the island, average food prices apparently did not see a huge increase. The true impact was felt as a real estate bubble, a fact that has been completely unnoticed. Prices of rural estates and urban properties skyrocketed; they were estimated according to the «whim of whom estimated.» This was a time of «luxury when agriculture, trade, and the population grew.»<sup>9</sup> The bubble burst just 2 years after the war when real estate lost a quarter of its value; merchants anxiously awaited Mexican money «for creating a fund,» and land-owners again had to make contracts with a 1-year payment delay.

Quantitative data further support the existence of the real estate bubble. To estimate the bubble's reach and effects (the actual number of transactions, changes in prices, etc.), a sample of urban and rural transactions should be gathered, collected in the notary records. For now, we can rely on property sale taxes (*Impuestos Fincas*) (Figure 1) (as its name clearly

<sup>8</sup> The report is particularly interesting as no stake was directly involved: the official was neither asking for money to be shipped from Mexico nor was he giving reasons why the treasury was short of funds. Demostración y manifiesto que tienen las proposiciones hechas para la introducción de negros en la isla de Cuba, AGI Indiferente General (hereafter cited as AGI IG) 2821.

<sup>9</sup> Demostración y manifiesto AGI, IG 2821.

**FIGURE 1**  
Impuestos fincas (6 per cent) (miles de reales) 1779-98.



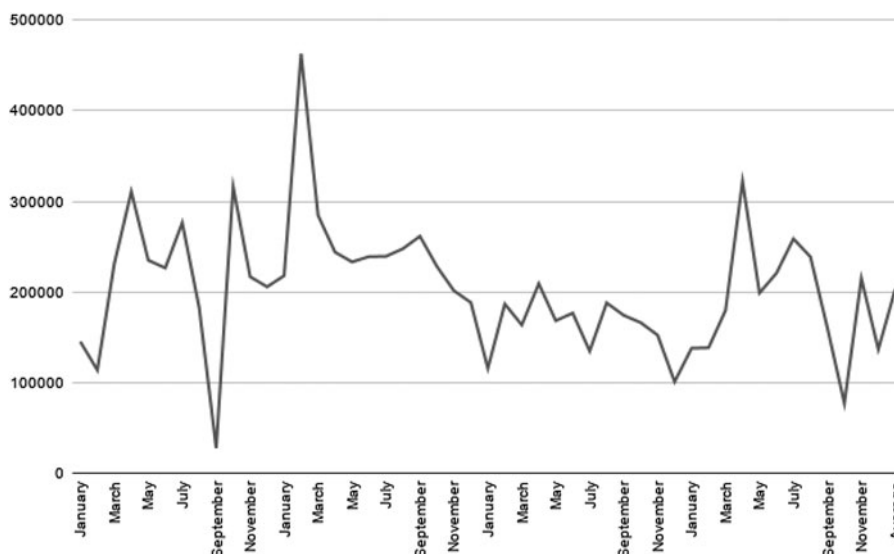
Source: AGI, SD 1658, 1672, 1674, 1676, 1677, 1833, 1834, 1845, 1846, 1847, 1848, 1849, 1850

indicates, this was a tax (6 per cent) on urban and rural property transactions that were recorded separately from other sales taxes). Taxes gathered show two different trends. There was a huge increase in the number of properties transacted in the period 1793-1798. This is evidently a natural consequence of the Haitian Revolution. On the contrary, the increase in transactions for the years 1780-1784 seems to be merely a consequence of the injection of huge sums into the island, as the official reported. Even though data are lacking, it is very likely that the market returned to the pre-war level in 1785. The question remains as to whether the rise in estate transactions could have had any impact on productivity, and therefore, on exports.

### 2.3 Liquidity and Consumption Markets

Two other ways allow us to assess the economic impact of remittances. Unfortunately, we still lack a price index for 18<sup>th</sup> century Havana (Balbín and Salvucci 1993), which makes it hard to advance any explanation on prices. Nonetheless, we can put forward some hypotheses supported by other records. If inflows of cash reverberated in local consumption, the trend should be mirrored in sales taxes. The way in which these taxes were paid and recorded makes it very difficult to draw any conclusions. Taxes were collected by local officials, so they were not auctioned. As a huge literature has already shown (Kuethe and Inglis 1985; Garavaglia

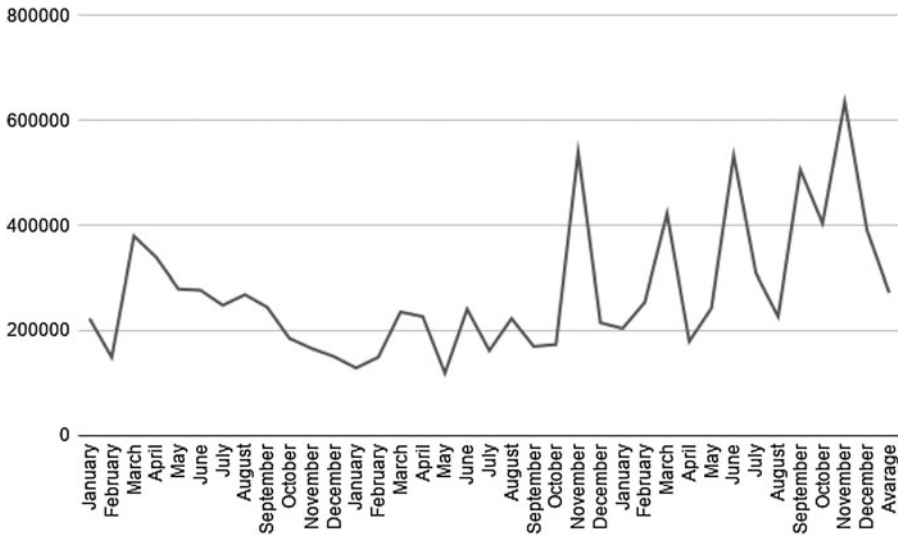
**FIGURE 2**  
Pre-war monthly sales taxes (*alcabalas* 6 per cent) (1773-76).



and Grosso 1996; Serrano 2006; Celaya 2010), tax payments could take place several days after items had been recorded. Yet, this issue does not necessarily invalidate the test. One can safely assume that taxes on consumption should be at least slightly sensitive to cash inflows. With regard to Cartagena, we know that *situados* caused local taxes but not the opposite (Meisel 2012, p. 201). In this vein, scholars have drawn attention to the fact that *situados* made larger amounts of silver available to consumers. Each free Cuban, thanks to the injections of money from Mexico, enjoyed an additional amount of 23.92 *pesos* in 1774 and 22.80 *pesos* in 1792 (Irigoin and Grafe 2008, p. 196). Figures 2 and 3 show monthly data for sales taxes. To my knowledge, this is the first time a detailed account of sales taxes has been put together. Following the advice of the above official, I have sorted data on pre-war and war times (Figure 4).

There is an increase during the American War of Independence, yet if we consider that in some cases *situados* went from 1.5 million to almost 9 million, this increase seems rather low. In pre-war times, the average for sales taxes is 25,443 *pesos*. In war times, the average is 34,048 *pesos*. Of course, this is a non-negligible sum. *Estados mensuales* allow us to make monthly estimates for an 8-year sample (after 1783, data were gathered every 2 months). Using these numbers, a correlation can be run as to whether a monthly correlation between the actual arrival of transfers and

**FIGURE 3**  
War monthly sales taxes (*alcabalas* 6 per cent) (1779-81).



Source: AGI, SD 1833, 1834, 1658.

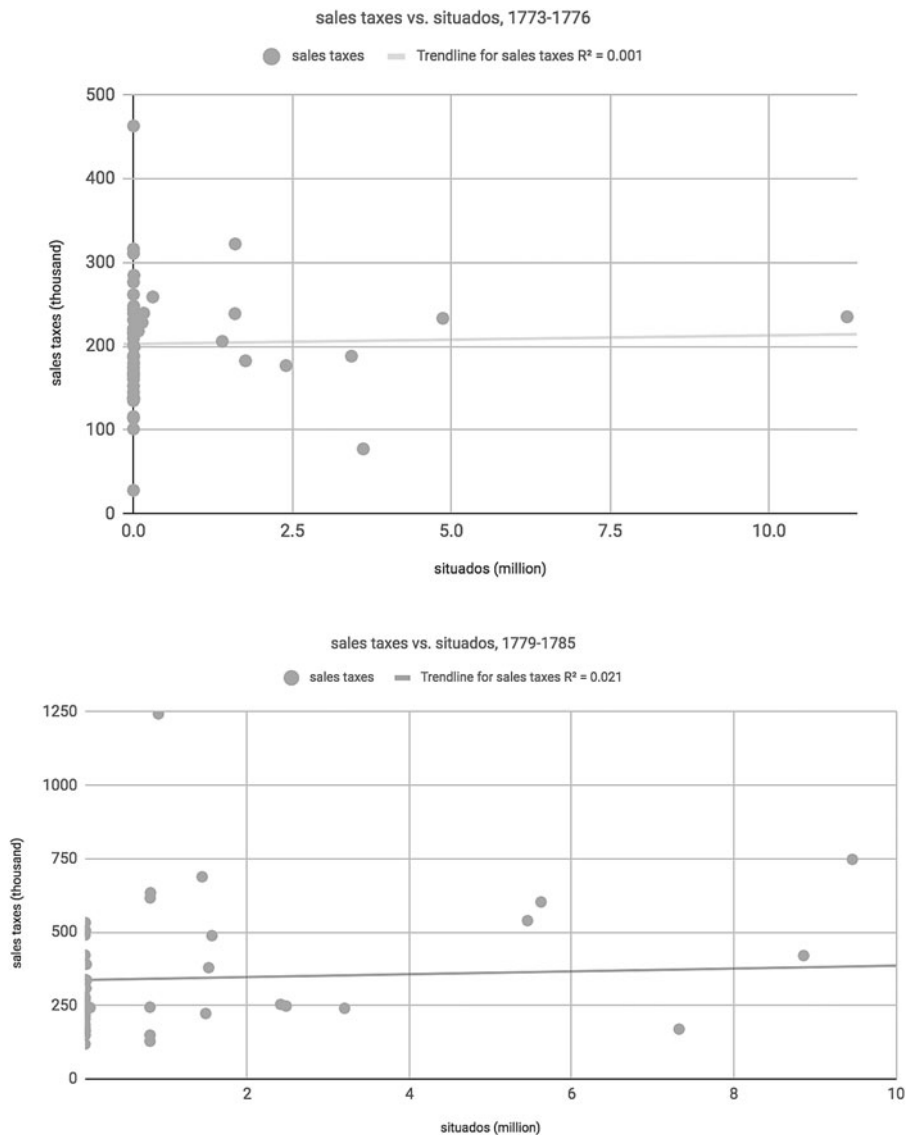
the increase in consumption exists. As Figure 6 clearly shows, there was no correlation for peace even though for war times a correlation does exist.<sup>10</sup> We can therefore assume that, at least in Havana, the local market was not necessarily sensitive to the arrival of *specie*.

Further research is needed in order to identify clearly the actual role that royal monies played in local markets. Several reasons might explain why the local market seemed to have been rather insensitive to a gradually large liquidity. For the sake of the analysis, two main arguments can be put forward. Most scholars have correctly ascertained that *moneda doble* was handed over to transporters. Nonetheless, the fact that these silver coins were mainly, even though not exclusively, destined to Atlantic

<sup>10</sup> There is an issue with the way in which data were gathered after 1783: as *Estados mensuales* were prepared every 2 months, this might have had an impact on the correlation. This in turn draws attention to the need to read, organise and quantitatively analyse the numbers in a critical way. This is the case, for instance, of Cartagena. According to a causality test, fiscal transfers caused local taxes but not the opposite. There is an issue which has nevertheless been overlooked: the test is run with a 3-year moving average. Methodologically, the choice could be inaccurate for it implies allocating liquidity to months and years in which transfers did not necessarily arrive to the city. See Meisel (2012), who holds that *situados* impacted the local market. Serrano (2006), however, using yearly taxes, shows that such an impact is hard to justify for taxes, and *situados* show the opposite trend over the second half of the century.



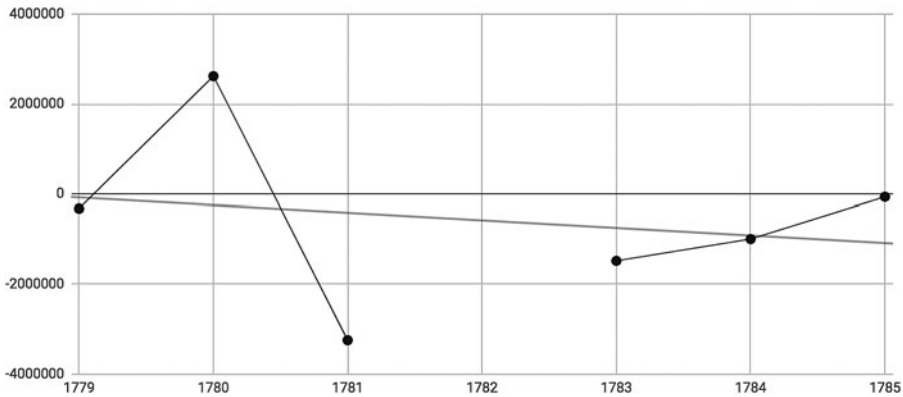
**FIGURE 4**  
Sales taxes vs. *situados* war and peace times, 1773-85.



Source: AGI, SD 1833, 1834, 1658

Source: AGI, SD 1833, 1834, 1658.

**FIGURE 5**  
Balance royal transfers minus *specie* outflows, 1779-1785.



Source: Royal transfers: AGI, SD 1833, 1834, 1658; *Specie* exports: AGI, Ultramar (hereafter AGI U), 120, AGI SD 1658, 1659, 1666.

circuits has passed largely unnoticed (for the case of Buenos Aires, see Wasserman 2018, p. 68). This was the currency that rich merchants used in order to defray imports that had previously been consigned or advanced on credit terms. Consequently, *specie* introduced into the island could not necessarily be invested in local chains of production and consumption for those monies could have been intended essentially for import payments. A correlation between imports and cash flows should be measured in order to determine which one affected the economic trend on the island.

Any analysis of fiscal transfers should also account for the *specie* outflows, as the above official rightly stated. Unfortunately, no attempt has yet been made to calculate Havana's *specie* exports (De la Sagra 1831; Amores Carredano 2000; Fernández de Pinedo Echevarría 2000; Fernández de Pinedo Echevarría 2002; Bohorquez 2016a). Some figures can, however, be tentatively and provisionally advanced (Figure 5). I have made the estimate using the *Estados mensuales* instead of the numbers offered by the Mexican treasuries in order to estimate a *specie* balance (*specie* inflows (*situados*) and *specie* exports). The largest share of currency stocks was re-exported in many of the sample years. This would indicate that the city had a currency deficit as the above official recalled. The currency was apparently stored once the war broke. These stocks reached a huge sum, more than 1.6 million *pesos*, only 1 year after the outbreak of the conflict. Unfortunately, figures for the years 1777-1778 are missing. As these were peacetime years, one can suppose that there was no transport obstruction. *Specie* started to flow out once conditions allowed. If these tendencies are accurate, we can

conclude that *specie* exports were larger than *specie* inflows (more research is needed since a couple of months are lacking for 1779 so transfers could have been larger).

The deficit should however be >3 million *pesos* as several sums have passed totally unnoticed. For the year 1782, we know that 2 million *pesos* were shipped to pay money owed to Francisco Cabarrús.<sup>11</sup> This was far from the only amount shipped following orders from Madrid. According to Havana officials, the French army had been supplied with 5 million *pesos*,<sup>12</sup> to be reimbursed in Spain. In total, 7 million *pesos* were transferred indirectly from Havana to Spain which corresponds roughly to 1 year of war transfers.<sup>13</sup> It becomes clear that transfers were not administered exclusively by local elites or officials; the crown could unilaterally decide the way in which its revenues were to be spent and recorded. Further, another phenomenon has been neglected. Havana was not only the place in which apparently huge sums were spent; it was also a jurisdiction in which a huge debt was created. After the war, the debt hangover remained.

### 3. A SPECULATIVE MARKET: A DEBT HANGOVER

The fact that fiscal transfers enriched the city is an idea echoed by *Consejeros* in Madrid. In this part, I challenge this idea and advance that one of the war's consequences was the default of the local treasury. Despite the immense quantity of funds previously remitted, an unpayable debt was generated in the 5 years the war lasted. A debt hangover had several consequences in the short and the long run for both local markets and the king's accounts. Maybe one of the most critical was the fact that Havana officials commonly requested remittances already committed for debt payment (for instance, of 3,195,638 *pesos* transferred in 1789, at least 494,030 *pesos*, almost 15 per cent, was used to defray debt).<sup>14</sup> It is very likely that increases in post-1785 amounts were destined to honour the king's obligations.<sup>15</sup> Besides, this was precisely a time when Madrid asked Mexico to increase transfers directly to the peninsula, reducing the shares shipped to the Caribbean colonies (Marichal 2007).

<sup>11</sup> N. 98 4 May 1782; N. 887 2 January 1782; N. 997 24 July 1782, AGI SD 1659.

<sup>12</sup> N. 1954, AGI, SD 1668A; Noticia de la inversión que la Intendencia General del ejército de la isla de Cuba ha dado, AGI México (hereafter AGI M) 2001; Satisfacción a las observaciones que sobre la cuenta fecha en 27 de febrero de 87 de los suplementos recíprocos de las Cortes de España y de Francia, AGI SD, 1669.

<sup>13</sup> Reservadísima y reservada particulares don Pedro Cossio, AGI, M 1511.

<sup>14</sup> N. 149 3 August 1789, AGI, SD 1669.

<sup>15</sup> Estado del caudal recibido de Nueva España para el pago de deudas contraídas por la Real Hacienda 28 Enero de 1792, AGI SD 1834.

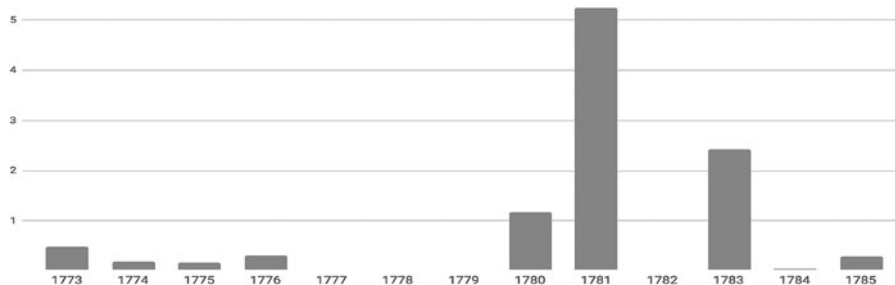
In 1784, the locally issued debt amounted to 5,602,922 *pesos* or 137 *pesos per capita* and approximately 150 per cent of the pre-war local budget.<sup>16</sup> Who lent the money is a hard question to answer. Debt issuing in the colonies is a topic that has been researched extensively for other regions of the empire (Mexico and Buenos Aires in particular), but which has not been analysed carefully for Havana (Grieco 2009, 2014; Álvarez-Nogal and Chamley 2011; Drelichman and Voth 2014; Marichal 2015; Álvarez-Nogal and Chamley 2016; Del Valle Pavón 2016; Kraselsky 2018). This part sheds light on the way in which such a speculative market (on the part of both the crown and the local actors) operated and what the consequences were. My interpretation seeks to go beyond currently prevailing approaches in which political, cultural reasons and teleological practices are overstressed (Clavero 1982, 1996; Grieco 2014). In such an approach, lending and borrowing are mostly explained as grounded in cultural practices supported by juridical concepts: love and fidelity to the king, reciprocity (gift exchanges between the king and the vassals being the main reasons behind the latter advancing money), or still more commonly, the transformation of money into symbolic capital via the granting of titles and privileges which could later produce material capital. All of this happened. Yet this analysis is different and focuses mostly on the lenders' and borrowers' calculations and their incentives (motives), as well as the possibilities and incentives the king had to behave opportunistically or not.

Mexican-based merchants and landowners advanced the largest sums during the war. They offered large loans and donations precisely at a time when the viceroyalty saw a rise in taxes intended to defray payments in Havana. During the Anglo-American war, donations reached 2,490,000 *pesos*. Moreover, different bodies and private agents lent the king 1,742,000 *pesos*, of which 4,080,000 *pesos* were owned by peninsular-based merchants whose money was stored in the city (Del Valle Pavón 2016). In Spain, sums were gathered either as loans or donations; following the outbreak of the war, the church advanced 21,991,786 *reales de vellón* (roughly 1 million *pesos*) (Torres Sánchez 2013, pp, 103-129). Inhabitants of Buenos Aires also lent money to the king and offered donations; in 1792, 78,000 *pesos* were lent at an interest rate of 6 per cent (Grieco 2009, 2014). Compared with the above figures, one can affirm that debt issued in Havana is not insignificant.

Figure 6 shows borrowed loans as recorded in the *Estados Mensuales*. In peacetimes, debt issued in Havana fluctuated between 500,000 and 200,000 *pesos* yearly. In wartime, loans rose above 1 million *pesos*.

<sup>16</sup> Estado General que forma la Contaduría principal de ejército de la Isla de Cuba de los débitos que tiene pendientes la Real Hacienda 15 de Septiembre 1784, AGI, SD 1663.

**FIGURE 6**  
Total loans issued by the Havana Treasury (million *pesos*), 1773-85.



Sources: AGI, SD 1833, 1834, 1658.

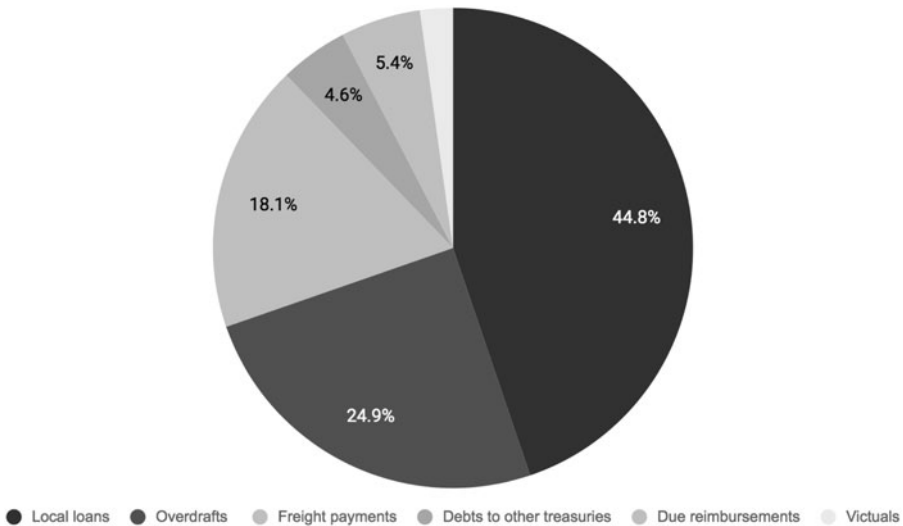
Surprisingly, in 1781 alone, more than 5 million *pesos* were accounted for as loans. Again, according to the *Estados Mensuales*, the local treasury received loans worth 8,835,924 *pesos* (I have found no records for 1782 therefore the sum should be much higher). These sums could contradict the above data, leading us to believe that the local market enjoyed a great degree of liquidity. There is, however, another explanation. A non-negligible share of the bullion lent to the crown belonged to peninsular-based merchants. The evidence supports this hypothesis and shows that, at least during the war period, the king acted opportunistically. Reports written by Governor Uriza in 1784 give an accurate idea of these numbers. In this year, he asked Mexican officials to remit 5 million *pesos* for debt repayment: 2 million *pesos* loans owed to local inhabitants and 2.5 million confiscated from the bullion stored in the city but owned by peninsular merchants. A large share of this had been sequestered from bullion carried by *mestres de plata* Pabón and Juper. Moreover, bullion carried from Cartagena and Veracruz worth 927,726 *pesos* had also been sequestered in 1781. It was not only merchants who profited from the opportunity that different coinages offered; the king and local officials also saw coinage premiums as a chance to behave opportunistically. Once ships were allowed to set sail safely and the *mestres de plata* Francisco Xavier Morquejo and Francisco Ignacio de Alzaja asked for the money back, a local board decided that the *moneda macuquina* must be melted and the silver shipped to Spain, avoiding the shipment of *pesos fuertes*.<sup>17</sup>

The size of the debt and its structure can be estimated from a 1788 report (Figure 7). In 1784, local officials had informed about loans worth 1,863,036 *pesos* (of which 692,023 *pesos* paid interest). The 1788

<sup>17</sup> N. 71 6 April 1781; N. 72 7 April 1781, AGI, SD 1658.

FIGURE 7

Remaining unpaid debt issued by the Havana Treasury during the war, 1788.



Source: AGI, SD 1663.

report provided detailed information about the remaining unpaid debts. Three items make up the largest percentage: local loans, intra-*caja* overdrafts, and unpaid freights.

Firstly, let us look at local and compulsory loans; almost half of the amount (44 per cent or 1,378,096 *pesos*) corresponded to loans owed to private lenders. This was not merely capital lent by local merchants or landowners. The sum confiscated from Pabón and Juper had yet to be paid. According to the officials, orders had been issued for it to be redeemed in Mexico. In 1788, the crown still owed 478,096 *pesos* to local merchants.

Secondly, 29 per cent of the debt corresponded to overdrafts between *ramos*; money taken from one *ramo* to fulfil the obligations of another. For instance, money taken from the salaries of peninsular regiments that had to be shipped to Spain and employed otherwise, or *situados* not remitted to Cartagena, Santa Marta and Portobelo. Reimbursements corresponded to money that merchants had advanced in different treasuries expecting to receive their capital back in Havana in good coinage but who were still awaiting payment in 1788. This was a low share, only 5 per cent, but one which demonstrates that the king could use the same strategies as merchants. Besides, it was an indirect way of issuing debt.

Four years later, in 1792, half a million *pesos* was still unpaid of the total money advanced by local merchants. Officials in Mexico remitted 625,253 *pesos* intended to defray debts, but due to haste, officials in Havana allocated part of the sum as *situados* honouring merely 349,116 *pesos*. A share of the debt was reimbursed through sums owed to the local customs house. Instead of seeing these measures as bargaining between merchants and local officials, these policies should be seen as a way for local authorities to enforce the collection of taxes; 345,391 *pesos* were redeemed this way.<sup>18</sup> The question arises as to whether or not this was actually capital that belonged to Havana-based merchants. Even though much research is needed in this regard, the little evidence available suggests that this was very unlikely. In 1784, the *Intendente* wrote a letter to Madrid stating that «merchants are asking their money back or instead the total interdiction of shipments of bullion to Spain.» Expecting remittances from Mexico transported on board the frigate *San Felipe*, and once news started to circulate in the city that only a small and committed share of money had been shipped from Veracruz, «merchants started to lobby local officials and to suit each other.» There was no other choice but to forbid any shipments of silver allowing only the export of colonial staples.<sup>19</sup> It is hard to estimate how much bullion was confiscated. Some scattered mentions suggest that at the very least 1,800,000 *pesos* in forced loans had been sequestered to peninsular-based merchants.

Thirdly, let us turn our attention to freights. This is one debt that tells a previously untold story about how remittances were managed and spent, and further, one which illustrates the crown's opportunistic behaviour. Much is known about intra-imperial transfers, but what I will call «trans-Atlantic accounting movements», such as the 7 million *pesos* mentioned above, remain a mystery. These are accounting entries registered simultaneously in two or more treasuries and the best instances of which seem to be freight payments. In 1788, a sum of 500,000 was still claimed by peninsular merchants. This was only a little fraction of the total money spent in Havana to cover transport costs. Lacking a powerful military fleet, or at least one which could face the requirements of conflict, the crown was obliged to freight ships to transport soldiers, food, weapons and anything needed for the war. So far, no attention has been paid to how contracts were drawn up and payments made. One of the war's main expenditures corresponded precisely to freights. Funds spent on defraying freights and military expeditions further support the idea that remittances could not be understood and calculated as monies injected into the local economy or administered locally.

<sup>18</sup> Estado actual, AGI, *Santo Domingo* (hereafter SD), 1834.

<sup>19</sup> N. 1356 29 May 1784, AGI, SD 1663.



*Estados Mensuales* clearly show that one of the largest expenses disbursed in Havana corresponded to freight payments. Debt reports in turn prove that, at least during the American War of Independence, local merchants did not receive the lion's share of those contracts. It is very likely that local merchants who freighted their ships remained unpaid, or at least that their debt was deferred *sine data*.<sup>20</sup> Accurate estimates of the amount of funds spent on the transport of men and cargo are hard to obtain. Officials foresaw that the navy needed roughly 130 ships (19,500 tons) for the 1782 Gálvez expedition. This means a yearly budget worth 2,457,000 *pesos*. This only takes one of the expeditions organised during the war into consideration.

Peninsular-based merchants obtained most of the contracts.<sup>21</sup> Contracts signed in Cadiz shed light on a disregarded phenomenon related to accounting. Shipowners were able to receive a share of their due in silver coins in Havana. Once the ship was back in Spain, the remaining share was made in local currencies. This, of course, as the merchants complained, worked in favour of the crown which speculated with currency exchange rates. Issues related to freights put forward two downplayed aspects: (i) accounting movements were preferred over the centralisation of money by the *Tesorería de Indias* in Cadiz. Transaction costs and exchange rates probably help explain why expenditures were made and recorded in this way; (ii) contrary to the prevalent image which supports the private appropriation of royal revenues, the narrative is much more complex as the crown speculated with coinages and premiums in the same way as merchants did. This obliges us to revise the idea according to which these practices formed part of political bargaining games.

Being the source of good coinage, the crown had many advantages when playing this game. It has been argued that merchants obtained huge gains by transporting the king's money or by advancing capital to treasuries lacking resources. One of the merchants' strategies was precisely to lend money on *moneda menuda o de papel* and to claim their due in *moneda de plata*. This meant profiting from exchange rates and assuring good coinage to defray imports. Again, merchants were not the only agents to deploy such strategies. As the crown was a sure source of good currency, merchants in need of good coinage could be prey to the crown's opportunistic behaviour; this was an easy way for the king to create compulsory loans. Further, local merchants relied on the discretionality of local officials who had an important say concerning how and when reimbursements were made.

<sup>20</sup> Préstamos, AGI, SD 1833.

<sup>21</sup> The contracts can be found in AGI *Arribadas* (hereafter cited as AGI A) 402.

Matías Giró, along with other merchants, asked the crown for their due reimbursement. They further petitioned for a 6 per cent interest rate due on deferred payment. Orders issued in Madrid recommended the *Intendente* to take care of these sums and to do «what seemed fairest.» The Havana official replied that the group of merchants should not be considered in the same regard as the lenders who had advanced their funds in silver. Instead, they should be seen as mere «currency traders.» He further explained how their speculations worked. Merchants had transferred silver coinages from Havana to other places with the goal to purchase of *monedas de cartón*. Shortly afterwards they had advanced the purchased currency to lent that purchased money to provincial treasuries with no interest rate but upon the condition that reimbursements were made in Havana in good coinage. Gains could be estimated at roughly 40-60 per cent. There was still one more way in which profits could be made by speculating with exchange rates. Once consigned or advanced goods had been sold and payments made in *moneda de cartón*, merchants gave these sums to local treasuries for reimbursement in Havana.<sup>22</sup> This shows that these were common commercial practices and not necessarily linked to political bargaining strategies. Merchants needed good coinages to defray imports and the local treasury could act as a bank of last resort. Yet, this offered the crown the opportunity to act opportunistically and meant that merchants depended on the discretionality of local officials.

#### 4. NON-COOPERATIVE GAMES: NOT ALWAYS BARGAINING

The above evidence obliges us to reflect upon both negotiation and absolutism. On the one hand, several practices associated with bargaining were rather common commercial practices and not necessarily deployed with political intents. On the other hand, the king seemed to have profited frequently from the same practices and to have behaved opportunistically during the war. Bullion shipments were confiscated, and the sums transformed into compulsory loans. The crown easily breached its commitments and left local agents with no power of manoeuver. Local officials' discretionary power could result in high-opportunity costs for local groups of interests (Kyddland and Prescott 1977).

Here lie precisely the several flaws of the idea of bargaining. Firstly, scholars assume that the king and the local elites wielded the same power, which is highly unlikely. The very idea of a local elite as an «unified entity» is quite inaccurate. With regard to the French case, for instance, Rosenthal put forward the idea that elites were quite heterogeneous and rarely unified when dealing with the crown (Rosenthal 1998, p. 89).

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<sup>22</sup> N. 138 24 July 1789, AGI, SD 1669.

Secondly, the diversity of interests along with high intra-group competition unleashed a dispersion of social capital previously concentrated in local foci of power (*Consulados* or *Cabildos*), diminishing the impact that local groups had on the highest institutions of decision-making (for instance, regarding the debate on neutral trade, see Bohorquez 2016a, pp. 260-268). Thirdly, while dispersed social capital negatively impacted the political strengths of groups of interests, on the contrary, jurisdictional fragmentation increased the strengths of the crown; «jurisdictional privileges were thus a powerful tool of political centralisation» (Epstein 2000, p. 152).

The next section tests the concept of bargaining, integrating several overlooked features into the narrative: firstly, the opportunity costs for both the crown and the agents; secondly, decision-making on the ground. My interpretation avoids a causality relation between agents' decisions and *a priori* concepts drawn from juridical contemporaneous oeuvres or any tautological or teleological explanation (agents act that way because of the granting of time-delayed favours of which they had no certainty). Instead, I carefully assess the incentives that agents had for acting the way they did, and the transaction costs and consequences their decisions had on future decisions. To this end, I will present the cases of Cartagena and Mexico. Both were intrinsically linked to Havana. Debt issued in Cartagena was supposed to be redeemed in Havana. On the other hand, Mexican *alcabalas* were raised with the intention to dispatch higher amounts of *situados* to defray royal expenditures in Havana.

## 4.1 Cartagena: Voluntary and Forced Loans

### 4.1.1 Cooperation-breaching

In September 1779, the Treasury in Santafé was in urgent need of money.<sup>23</sup> Viceroy Flores informed officials in Madrid that merchants would voluntarily lend 200,000 *pesos* on the following conditions: (i) funds were to be redeemed in Cadiz and not in Cartagena; (ii) taxes and freights must be lowered; and (iii) the crown had to assume overseas risks. In other words, merchants sought to transfer funds from Cartagena to Spain assuming the lowest risks and using the *Tesoreria de Indias* as a money transfer channel. Most of them were mere consignees, only 10 per cent of the sum belonged to Cartagena- and Santafé-based merchants. They also voluntarily offered to advance 1 million *pesos* on the same conditions. It seems that transport costs were a delicate issue for, despite the urgency of the moment, Madrid officials refrained

<sup>23</sup> What follows is based on N. 1145, N. 1162 AGI (Santafé hereafter S), 955.

Santafé officials from assuming any more commitments. Money was lent and local officials committed to deliver funds in Cadiz. Clearly, the actual motives that led merchants to cooperate with the crown were twofold: (i) the need to transfer stored bullion as soon as possible; (ii) the possibility to save money in taxes and freights. However, despite the local officials' assumed commitments, it was later decided in Madrid that lenders would be reimbursed either in Havana or Cartagena, precisely so that the crown did not have to assume transport costs. Otherwise, borrowers would have had to wait until funds started to flow normally from America to Spain. Borrowers then asked for their money back in Havana, maybe hoping that remittances would arrive there more quickly than to Cadiz. This is how the first game ended up with some costs for the players: the crown decided to break its commitments which brought a cost for the second game in which merchants would refuse to collaborate, therefore, unleashing intra-group conflict.

#### *4.1.2 Breaching, forced cooperation, intra-group conflict*

The Viceroy began the second game. This time he asked the merchants for 500,000 *pesos*, which the treasury needed to pay wages. Money was essentially needed to cover the military costs to fight riots that had broken across the viceroyalty. On this occasion, merchants appointed deputies to inform the Viceroy of their denial, representation which was denied by the Viceroy. As they refused to help the crown, the Viceroy appointed three merchants to allocate and distribute the sum. This forced cooperation unleashed an intra-group conflict. As merchants themselves had to determine the allocation of the requested sum, a conflict arose for anyone wanting to contribute a smaller share. Moreover, some demanded that the forced loan included the *specie* of peninsular-based merchants; others instead claimed that everybody should contribute, even the *specie* from peninsular merchants' wills ready to be shipped to Spain. Believing that the dispute and the arguments were only a tactic to delay the loan, the Viceroy threatened the merchants with the possibility to make public the current sums they were in the power of, (a threat to make their actual funds public), giving them only 3 days to allocate and deposit 500,000 *pesos*. What is more, no petitions would be heard.

## **4.2 Mexico and the State's Self-Limitation**

Vassals in Mexico contributed the largest share of the fiscal burden across the empire (Marichal 2007). The crown resorted to several policies to increase the share of revenues collected. During the American War of Independence, a rise in *alcabalas* was introduced. This, of course,

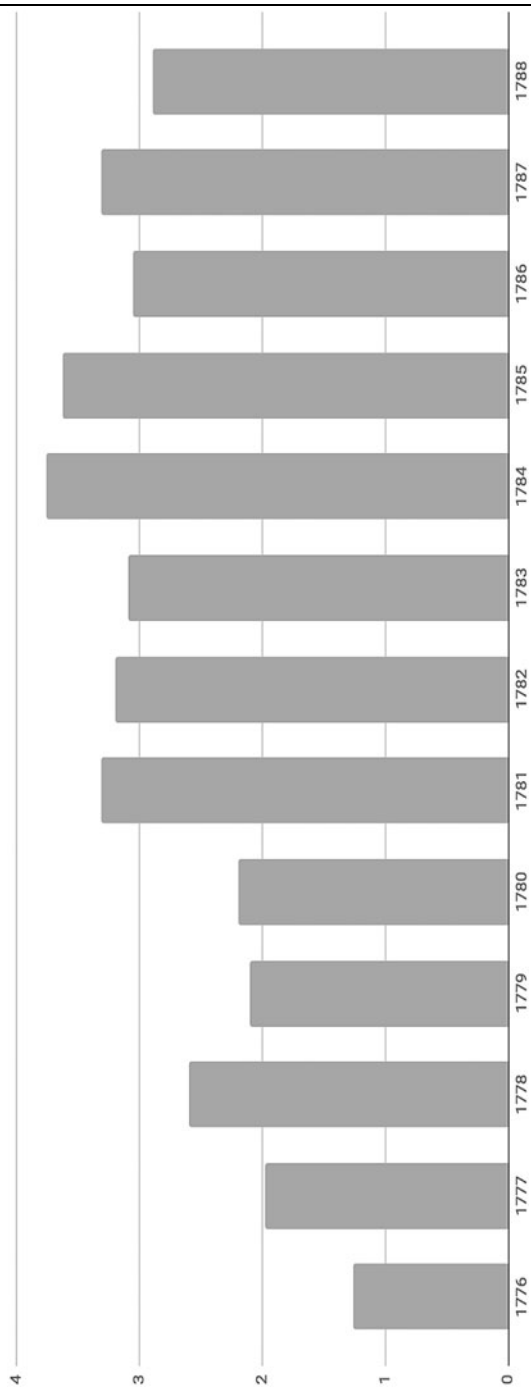
provoked discontent and conflict regarding the goods on which the new rate should be paid and the number of times it should be imposed. This involved, on the one hand, the merchant guild, and on the other hand, a group of rich landowners. The increase was to be imposed only for the duration of the war. However, it was not until 1794 (more than a decade later) that Mexicans convinced the crown to withdraw the decree. As I will show, this was due not only to the bargaining power of a local elite (one of the most powerful across the empire) but also to the state's self-limitation; an outcome of the very economic policies that the crown had enacted that unexpectedly affected its future decisions. In contrast with legal and political historians, who highlight jurisdictional structures of self-governance and power or negotiation, I instead stress how extra-political conditions impacted policies and the games themselves; or what is the same, the conditions under which any deal could take place and the opportunities each player might have.

The collection of taxes known as *alcabalas* had been outsourced over the first half of the century, but the crown had gradually taken control of them (see Sánchez Santiró 2001; Del Valle Pavón 2007; Marichal 2007; Celaya 2010 on this well-researched topic). After the outbreak of the war, a deal was struck.<sup>24</sup> To increase its revenues, the crown expected the withdrawal of a privilege that the merchant guild enjoyed: resale goods paid no taxes. Merchants then petitioned the king and requested that such a policy not be affected, proposing instead a two-point increase (therefore agreeing to 8 per cent instead of 6 per cent). The Viceroy agreed. The reasons behind this cooperation went far beyond the local elite's power of negotiation. The Viceroy later made it clear why he had preferred this increase to the withdrawal of the privilege: the new rate on sales taxes was no doubt less distasteful to consumers and was one which caused less trouble as it did not require the appointment of new officials. As the situation in New Granada and Peru had shown, it was necessary to act with caution (Figure 8).

Once the fiscal policy had been enacted, some issues remained unresolved; no one was sure whether this policy meant a transitory increase or the withdrawal of the privilege. This, of course, left room for the crown to behave opportunistically and for local officials to rule at discretion. Several conflicts arose even among the members of the *Tribunal de Cuentas*. Apparently, landowners stood against the new tax and tariff. The implementation of the tariff, which was necessary to value goods introduced to the city, was delayed and obstructed by the *administradores* who backed the landowner's interests delayed and obstructed the elaboration of the new tariff. The latter even petitioned the Viceroy for their voice to be heard but the request was refused. *Intendente* Pedro

<sup>24</sup> What follows is based upon a huge expedient AGI, M, 2097.

**FIGURE 8**  
*Alcabalas Mexico before and after the war, 1776-88.*



Sources: AGI, M, 2097.

Cossío was thus in charge of the elaboration of the forthcoming tariff. Unfortunately, because of the delay, officials were unable to put the new tax into effect. This was due not to the power of negotiation of the local elite but to the fact that revolts had broken out in Peru and New Granada and even the Archbishop intervened, stating that it was better to «loosen up as much as possible.»<sup>25</sup>

After the war, merchants started lobbying to return to the former situation. This provoked a conflict that lasted a decade. The truth is that merchants were unable to fully convince officials in Madrid of the clarity of their rights. Previously, long conversations had taken place at the local level with no solution. The main argument had nothing to do either with *ius* or the nature of the privilege itself. The main argument revolved around whether or not the increase had negatively impacted the economy leading to a lower share of taxes being collected; in other words, whether or not consumption had been affected by the two-point increase and, in consequence, whether it was better to return to a 6 per cent tax.

A debate began as no one was sure how the accounting was done, and in consequence, little was known about the effects of sales taxes. Some argued that it was better to maintain the recently introduced rate. Others, such as the Viceroy, put forward the opposite argument. After some years, his arguments were accepted by officials in Madrid. There were, essentially, two reasons in favour of the former tax. On the one hand, tendencies showed very clearly that the increase negatively impacted transactions, and therefore, in short, the revenue obtained would be the same as when a 6 per cent tax was in force. Returning to the previous system, then, would promote trade. On the other hand, a new war was likely to begin, and the merchant guild was the only powerful body the crown could resort to.

## 5. CONCLUSIONS

The way in which the royal transfers were managed and spent did not sit well with the idea according to which the crown could use fiscal resources to spur growth or merely to bargain with local elites across the empire; in other words, a fiscal redistribution with political intentions. The picture no doubt deserves further research. At least for Havana's case, it seems inaccurate to hold that all remittances were injected into the economy, or when this was the case, that the effects were necessarily positive. In Havana, liquidity provoked an estate bubble which soon burst. We have yet to learn how this impacted land prices and productivity in the long and short run, for instance. Moreover, in the city, the local

<sup>25</sup> AGI, M, 2097.



market was not *necessarily* as sensitive to the arrival of *situados* as one could expect.

In this paper, jurisdictional fragmentation has been employed not as an *a priori* universal category (as legal historians do), but as a resort employed by the power in Madrid to behave opportunistically; jurisdictional fragmentation allowed the king to issue debt in a disorderly fashion and without constraints. The king was the most interested party in conserving this structure as it was because it helped him to reinforce his power. This, in turn, opened space for local officials and groups of interests to behave as free riders; what Robinson accurately calls the «fractal nature of the core and periphery» (Robinson 2016). Economists have focused on how these institutions impacted economic growth. Historians have instead highlighted bargaining practices but have hardly studied the costs these practices brought for society. The fact that the king and the local elites reached a rent-seeking agreement does not mean that such cooperation had no economic impact. The fact that some vassals became richer thanks to the *situados* is not necessarily proof of economic growth. By the same token, no attention has been paid to the fact that non-cooperative games could unleash inefficiencies. This does not mean that bargaining did not happen. Bargaining is currently one of the most valuable concepts in the social sciences as shown by the rational actor and game theory. This is not only a matter of bargaining vs. conflict. Merely saying that conflict was present would, of course, be a much too dichotomic and simplistic approach. This is rather a matter of the costs unleashed by institutional frameworks that generated incentives for agents to behave opportunistically. Bargaining could indeed take place, but it could be cooperative or not. Institutions from the core to the periphery could therefore become rent-seeking instruments. Instead of overstressing the king's behaviour (as economists do) and its supposed capacity to hold the polity together (as cultural and political historians do), this paper has focused on the incentives agents at any layer had to behave opportunistically.

Finally, it seems that transfers paved the way for a large amount of capital to be diverted from the real economy and to be transferred to the speculative sector. In doing so, merchants fell prey to one of the king's most powerful instruments; a source of good coinage. This is a call to go beyond our understanding of jurisdictional power as an *a priori* universal category, but also one to employ the concept of bargaining and absolutism more accurately. I firmly believe that there is much to be gained by moving away from this polarisation. I have put forward concepts such as cooperation, breach, forced-cooperation, and self-limitation only as a way to illustrate how these games took place and how complex they were. In contrast with much current scholarship, I believe our task should not be confined to opposing a «rossy history» *vis-à-vis* a «black legend» but that we should

attempt to depict the way in which the Spanish rule operated and evolved over time accurately.

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