Colonial Latin America

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Early-seventeenth-century view of Salvador, Bahia.

vertical mill to replace the older two-roller horizontal mill. Planters quickly adopted the new mill, for it was smaller, faster, easier, and less expensive to construct and more energy efficient than its predecessor. The new mill's advantages enabled some *lavradores* to open small mills and certainly contributed to a near doubling of mills from 192 in 1612 to about 350 in 1629.

Sugar production grew rapidly in the sixteenth century as rising prices stimulated investment. On Brazilian sugar plantations, Indian slaves continued to be the most important labor source until the end of the sixteenth century. Planters increased their importation of African slaves after 1570 and, during the remainder of the colonial period, this labor source sustained the growth of the sugar industry. Annual production increased from 6,000 metric tons in 1580 to 10,000 in 1610, and to between 15,000 and 22,000 in the 1620s.

With production remaining at 15,000 to 22,000 metric tons for over a century, the market price for sugar on the one hand and the cost of slave labor on the other largely determined the planters' profits. Sugar prices rose in the sixteenth century, declined in the 1610s, and increased again in the 1620s and early 1630s. Until mid-century, prices remained reasonably high, but general inflation reduced the planters' profit. Nonetheless, prices were strong enough for several more decades for planters to purchase slaves, whose prices had declined slightly since mid-century. A crisis for planters began in the 1680s when competition from foreign plantations in the Caribbean islands lowered sugar prices and drove up the cost of slaves. Although there were some good years subsequently, the overall position of the Brazilian planters was declining. The discovery of gold in

Minas Gerais strengthened the competition for slaves. By 1710 a planter had to sell twice as much sugar to purchase a slave than had been necessary in 1635, a condition that persisted until 1750. Sugar's vulnerability to international competition meant that over the long term, planters had little control over their economic fortunes.

Bullion and sugar were the most important exports of colonial Latin America. Revenue from taxes, governmental monopolies, and other fiscal measures associated with these products were crucial supports for the Spanish and Portuguese crowns. Consequently, colonial authorities directly encouraged and promoted mining and the sugar industry and sought to ensure the safe shipment of silver, gold, and sugar to Iberia. When necessary, these governments intervened to ensure a steady, cheap supply of labor. Thus officials in Peru maintained the *mita* for Potosí and Huancavelica. And, in the case of Brazil, Portuguese authorities promoted the African slave trade and, during the economic crisis of the seventeenth century, limited the financial liability of plantation owners. Mining and the sugar industry tended to determine the cyclical behavior of the colonial economies' market-oriented sector. That is, when profits expanded, other areas of the economies grew. When profits fell, all of the economies tended to contract, as there was also less capital for investment and consumption. It was precisely the centrality of mining and sugar in the imperial economies that separated them from other colonial exports.

Although each region of the New World tried to produce goods that would command a market outside its boundaries, no other products affected such large geographic areas or contributed so much to imperial finance as did silver and sugar. The fortunes of cacao in Venezuela, cochineal in Oaxaca, indigo in Central America, and hides in the Río de la Plata, to cite four examples, were important to local and regional economies, but their value to the Spanish Crown in terms of revenue or their impact on other areas of the colonial economies was modest in comparison with silver. Not until the eighteenth century would such regional exports emerge from the long shadow of mining and assume a significant place in the imperial economy.

INTERNATIONAL TRADE AND TAXATION

Trade and taxation transferred to Europe much of the wealth from American mines and plantations. By the end of the sixteenth century, Europe benefited from, but did not yet control, a network of exchange that included America, parts of Asia, and the African coast. High profits generated by American exports subsidized a more diversified, less valuable mix of European imports, which included wheat, rice, olive oil, cod, wine, and textiles. The wealth produced by Spanish America and Brazil promoted the growth of European industry and subsidized the consolidation of European commercial and military power in Asia and Africa.

Transatlantic trade in general operated under several constraints. Time and distance, two sides of the same coin, limited the range of tradable goods. Days at sea, not absolute mileage, determined what could be transported profitably. Peninsular merchants could send perishable goods like wheat to Brazil but not to Peru and have it arrive in salable condition. Textiles and other manufactured goods, in contrast, could be sent anywhere. The limited availability and high cost of cargo space also affected what was transported across the Atlantic. On the American side, gold and precious stones, of course, were ideal, but silver was acceptable as well. Although both Iberian nations were only secondary actors by the eighteenth century, their New World colonies continued as important participants in European commercial expansion. Increasing the size of ships expanded the range of products that could be carried, but the cost of getting goods by sea from Lima to Panama and then by mule train across the isthmus for loading for export to Spain added substantially to their cost. In contrast, coastal Brazil and the Caribbean regions enjoyed lower freight costs and shorter transportation times to European markets. Thus products of less intrinsic value than gold and silver, even animal hides, could be exported profitably.

The Spanish Trading System

Legal trade between Spain and the colonies generally rose from 1504 to 1610 and then fell until well into the eighteenth century. Expansion coincided with conquest, settlement, the development of the mining industry, and the early growth of markets for European goods that resulted from immigration and the natural increase of the white and Hispanicized nonwhite population. The decline was related to Spain's growing inability to supply colonial markets, to contraband trade, to foreign threats, and to the growing capacity of the colonies to produce many items previously imported. Falling registered silver production accelerated this downward trend for much of the seventeenth century. By the time mining production began its spectacular rise in about 1720, the trading system developed in the sixteenth century had long been in shambles.

At first transatlantic trade was only an adjunct to the transportation of men and supplies from Spain to the Indies. Settlers wanted wheat for bread, wine, olive oil, traditional sweets, horses and other livestock, weapons, and textiles but at first had little besides gold to exchange. As a result, many Spanish ships and sailors remained in the New World. Over half of the seventy-one ships arriving in 1520, for example, were purchased for use in interisland trade or voyages of exploration.

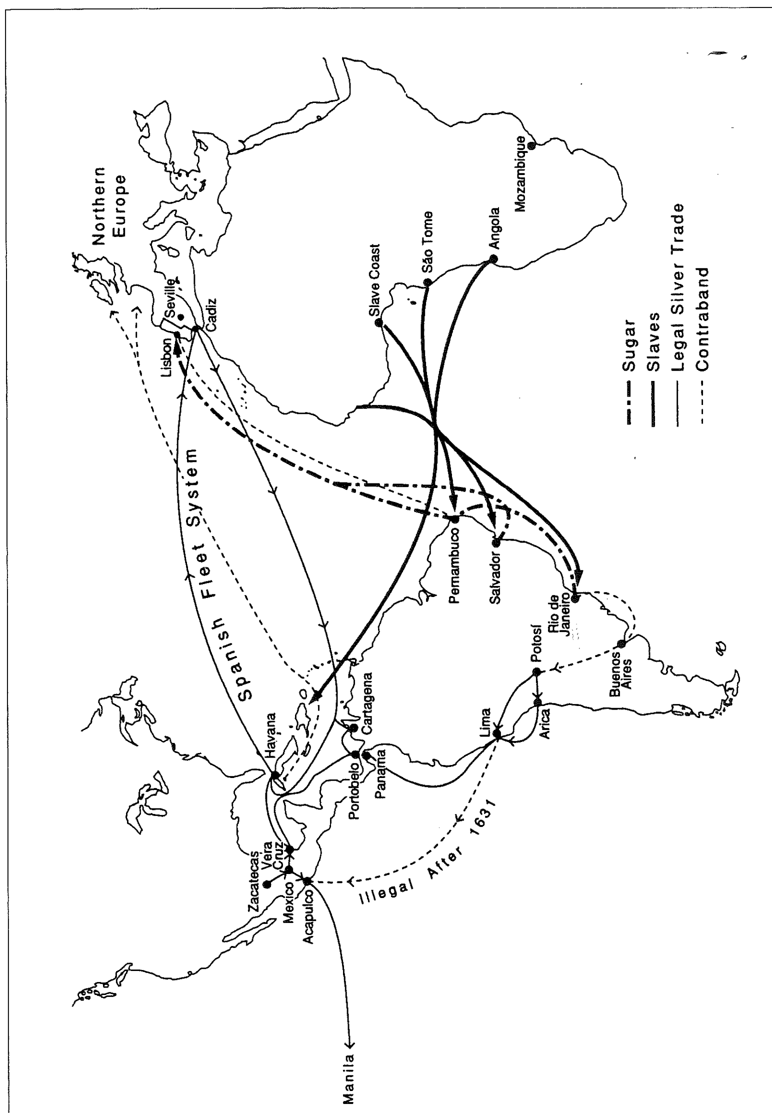
The conquest, plunder, and settlement of the mainland and subsequent development of silver mining in Mexico and Peru transformed the size and character of Atlantic trade. Thousands of Spaniards eager to duplicate the conquistadors' achievements arrived in the years after 1530. Added to a growing creole and Hispanicized *casta* population, they dramatically increased the market for European products. From 1506 to 1550, the volume of trade increased nearly tenfold. Dyes, medicinal plants, sugar, tobacco, and chocolate produced in the circum-Caribbean colonies were added to the more valuable gold and silver of Mexico, Peru, and New Granada on a lengthening list of New World exports.

A serious downturn lasted from 1550 to 1562 because the Spaniards had taken over most of the Indians' treasure, but silver production had not yet expanded sufficiently to maintain a high level of imports. With goods shipped to the Indies selling slowly and profits declining, investors and merchants withdrew from the trade. The Crown went bankrupt in 1557 and then seized private stocks of bullion in Spain. This deepened the depression as investors looked for ways to keep their money in the Indies.

The rising silver production in the 1560s, credited to the amalgamation process, brought renewed expansion in trade until 1592 when thirty years of high levels of transatlantic trade began. The initial dependence on imported agricultural products dwindled rapidly as the colonies' production of wheat, wine, and olive oil increased. Textiles and other manufactured goods replaced comestibles as favored imports. Regular trade with Manila, which began in the late 1570s, expanded so much that beginning in 1582 the Crown took steps to restrict it. Nonetheless, by the 1590s Mexican merchants were intermediaries in a dynamic trade between Peru and Asia. Chinese silks, porcelains, and lacquered wares were exchanged for silver. By the early seventeenth century the value of the Manila trade actually exceeded that of the Atlantic trade. One measure of the extent of this trade was the use of the silver peso in much of Asia. The Crown finally responded by limiting the number and size of ships sailing from Acapulco to Manila and banning all trade between New Spain and Peru in 1631, a ban that remained until the late eighteenth century. Although designed to stem the hemorrhage of silver across the Pacific, this commercial prohibition had a chilling effect on intercolonial trade in dyes, cacao, and other products as well.

After 1622 the Atlantic trade declined in both volume and value. The total shipments of goods outbound and inbound from Spain and the Indies fell 60 percent between 1606–10 and 1646–50. The several decades of decline in New Spain's silver exports after 1635 were particularly notable. After 1650 the value of goods legally exported to Spain continued to drop with New Spain's legal exports falling 75 percent from 1650 to 1699, and the value of Peru's exports plummeting even further. Contraband trade, on the other hand, flourished, and the amount of American bullion that reached Europe between 1660 and 1710 may have exceeded that for any earlier comparable period of time. The turnaround for increased legal trade with Spain awaited the 1720s.

Before the wealth of America was known, the Castilian Crown resolved to control the colonial trade for its own financial and political benefit. In 1503 it required trading ships to load and unload at the Andalusian port of Seville. Commerce with the colonies was placed under the supervision of the Casa de Contratación, or House of Trade, created in the same year. Some seventy miles up the Guadalquivir River, Seville was safe from foreign attack and was an established



Map 6 Colonial Trade.

commercial, financial, and administrative center close to the supplies of grain, wine, and olive oil sought by colonial settlers. These advantages outweighed the city's inadequate facilities for docking, shipbuilding, and repair.

The first body created specifically to handle American affairs, the Casa authorized sailings, supervised the loading and unloading of ships, licensed emigrants, collected duties, kept track of American revenues, and handled judicial cases arising from the Indies trade until its abolition in 1790. The Casa was moved to Cádiz in 1717 because neither the Guadalquivir River nor Seville could handle the immense ships of the later years. Earlier, in 1668, the Crown had authorized the loading and unloading of transatlantic vessels in Sanlúcar de Barrameda. Cádiz became the major port in the trade after 1679, nearly four decades before the Casa was transferred.

The Casa worked closely with the wholesale merchants' guild, or *consulado*, of Seville after the Crown granted it in 1543 a monopoly over the Indies trade. Through the *consulado*, the wholesale merchants initially controlled colonial commercial activities by using agents they sent to the New World. In 1592 and 1613, however, the Crown authorized *consulados* for the wholesale merchants of Mexico City and Lima. Because these merchants had a monopoly over trade in their respective viceroyalties, they were largely able to determine the exchange value of silver and other colonial products. Consequently, commerce was generally more profitable than mining, and over time, wealth in the colonies often accumulated in the hands of merchants rather than miners or other producers. This reduced investment in production and restricted the colonial economy's ability to grow.

The depredations of pirates and foreign rivals forced Spain to protect its Atlantic trade. The Crown's solution was to create a fleet system for conveying goods and to limit transatlantic commerce to three major American ports: Vera Cruz for New Spain, Cartagena for New Granada, and Nombre de Dios (later Portobelo) for Peru and the remainder of Spanish South America. By 1550 the system of regular convoys to and from the Indies was well established. In the mature system, one fleet (the *flota*) sailed in May for Vera Cruz, where its merchants traded European goods for Mexican silver and sometimes dyes, hides, and other products. A second fleet (the *galeones*) left Seville in August for Cartagena and then proceeded to the isthmus of Panama. At Nombre de Dios (or Portobelo), merchants traded goods for silver brought by sea from Lima and transported by mule train from Panama City. Once loaded with bullion and other exports of lesser value, the two fleets joined in Havana to sail in the spring for Spain.

Vera Cruz and the isthmian ports were steamy, pestilential, unhealthy sites nearly abandoned except when a fleet arrived. Word that the ships were offshore brought thousands of persons—including merchants, porters, muleteers, and prostitutes—to the ports to participate in the ensuing trade fairs. The inhospitable environment and pent-up demand promoted a feverish pace for these exchanges. *Consulado* merchants from Lima and Mexico City purchased European goods, principally textiles, in large lots and transported them to their warehouses in the capital cities. There they marketed the goods directly through their own outlets,

through retailers and petty vendors, and through *corregidores* and *alcaldes mayores* who employed the *repartimiento de bienes* to sell to Indian communities.

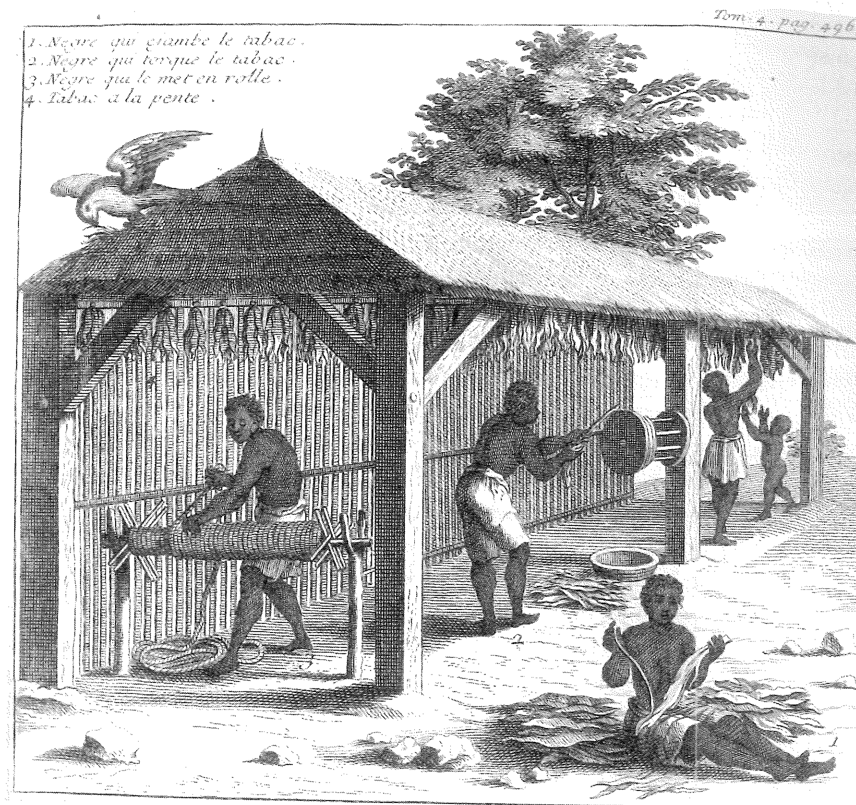
Taxes on trade paid the cost of defending the fleets. The additional profit to be made through tax evasion, however, proved irresistible to many merchants. Bribing customs officials and sailors, mislabeling the contents of crates, and shipping more goods than were declared were three ways in which merchants cheated the Crown. Tax cheating reduced revenues, but the cost of effective protection for a fleet could not sink below a minimum level. Faced with inadequate revenues, the Crown responded by increasing taxes on trade, a step that in turn made tax avoidance even more attractive. The result was a trading system laden with fraud that mocked the Crown's efforts to maintain a commercial monopoly.

The Atlantic fleet system reinforced Seville's commercial monopoly and imposed a cycle of scarcity and glut on the colonial economy. Concentrating wholesale trade at one Spanish and three American ports, it favored heavily capitalized commercial houses. They were able to buy and sell in large quantities and anxious to limit the volume of colonial imports in order to secure high prices and handsome profits.

In a free market, the arrival of the fleet would have dramatically lowered the price of European goods in the major colonial cities. The monopoly power of the *consulado* merchants, however, prevented this market adjustment and kept the price of imports artificially high. Unsatisfied colonial demand caused by the inefficient fleet system also created high prices for European goods. At the same time, limited competition among Seville's merchants and their American agents forced down the exchange value of American silver, dye stuffs, hides, pearls, and other exports.

In Castile, the Seville monopoly and the fleet system also transferred profits from producers to merchants and speculators, thus eliminating incentives to invest in new technology or to hire additional labor. Because the origin of goods shipped to the colonies hardly affected the merchants' profits, Seville's *consulado* comfortably accommodated itself to the decline of Spanish industry after the mid-sixteenth century and the substitution of foreign goods in the American trade. By the 1620s, foreign merchants used *consulado* members as front men, shipped foreign goods, and controlled most of Spain's Atlantic trade. French merchants in particular became increasingly prominent as the seventeenth century progressed. By 1700 perhaps no more than one-eighth of the goods shipped to the Indies were produced in Spain.

The fleet system gradually failed to provide predictable and regular service. The system occasionally faltered after 1580, and by the 1620s a complete breakdown was clearly under way. Sailings became less regular; interruptions of several years were common. From 1650 to 1699, twenty-five fleets sailed to New Spain but only sixteen to the isthmus of Panama. By the end of the seventeenth century, the fleet system was nearly defunct; only four fleets sailed to the isthmus from 1680 to 1699. Both the Spanish economic decline and the growth of Dutch and English naval power had undermined the system. Nonetheless, in meeting its primary responsibility—getting American bullion safely to Spain—the fleet system



Slaves producing rope tobacco, which was an important export to Africa and North America from the Spanish colonies and Brazil.

was remarkably effective. Only in 1628 and 1656 did foreign rivals capture the bullion the fleet was carrying.

Contraband trade offered attractive possibilities for extra profits to colonial producers and serious fiscal problems for Spain because the traders paid no taxes. In addition, it sometimes undercut the prices of Spanish goods when the fleets did arrive. Portuguese merchants in Brazil gained limited illegal access to the silver of Potosí through an active contraband trade with Buenos Aires and Paraguay. British and Dutch competitors of Spanish merchant monopolies used their Caribbean colonies to penetrate overpriced, inefficient Spanish markets. Yet these exchanges were too irregular and unpredictable to create significant new colonial investment in export-oriented production. Perishable agricultural products, in particular, presented special problems for contraband trade. Nevertheless, in Venezuela, coastal Central America, and Argentina, contraband grew in importance during the seventeenth century and well into the eighteenth.

As long as the crippled fleet system and Seville's commercial monopoly remained, contraband trade conducted within the fleet system and by foreigners dealing directly with colonists absorbed large quantities of American bullion. Only when a reforming Spanish government in the eighteenth century encouraged production through tax reductions and a liberalized commercial policy did legal colonial exports again thrive.

Brazil

Because Portugal focused its limited resources on developing the riches of the East Indies during the sixteenth century, it exercised little control over Brazil's early economic development. Until the mid-seventeenth century, the Portuguese Crown allowed almost unrestricted trade between metropolitan and colonial ports. In addition to Oporto and Lisbon, small ports like Caminha, Viana, and Aveiro regularly sent caravels to Brazil. Although each Brazilian captaincy had a port, the sugar ports of Recife, Salvador, and Rio de Janeiro were the most important. The ships transporting sugar were generally small, 80 to 150 tons, and lightly armed. Although convoys sailed in the 1590s in response to English privateering, their use was irregular. Portuguese participated in the trade, but English and especially Dutch shippers operating under Portuguese licenses were the most important carriers in the sixteenth and early seventeenth centuries.

Since Holland's rebellion against Philip II in 1568, Spain had sought to regain control over its former possession. As part of this broader objective, in 1605 Philip III excluded the Dutch from trading with the Portuguese world, joined to the Spanish realms since 1580. The Dutch retaliated by raiding ships carrying Brazilian sugar. During the Twelve-Years' Truce (1609–21) between the Dutch and united Spanish and Portuguese Crowns (1580–1640), Dutch commerce with Brazil boomed. Almost two-thirds of the ships in the trade were Dutch. They conveyed sugar to a number of European markets, including Amsterdam, where forty sugar refineries were operating in 1650. The end of the truce brought a renewal of hostilities and a Dutch invasion of Salvador in 1624–25 and the occupation of Pernambuco from 1630 to 1654. At last awakened to the threat posed by this unrelenting pressure, the Crown turned to protected convoys. It chartered the Brazil Company in 1649 to provide a fleet of warships to protect Atlantic routes in return for a monopoly of Brazil's most common imports—flour, olive oil, wine, and codfish—and the right to tax the colony's exports. New Christian investors resented by other important elite groups provided much of the leadership and capital. Undermined by religious bigotry and undercapitalized from the outset, the company never met its obligations, and the Crown took it over in 1664. Nonetheless, the fleet system survived this collapse and lived on for another century. Fleets of a hundred vessels were not uncommon, although one English observer remembered one early fleet as "the pitifullest vessels that ever I saw."[1]

A separate trade with Africa supplied slaves for the sugar industry. Although the Crown experimented with granting monopoly contracts like the Spanish *asientos*, the Brazilian slave trade was, in practice, hardly regulated, and merchants

resident in the colony organized and directed much of the trade with Africa. This relatively lax oversight of Brazil's trade with both Europe and Africa distinguishes the Portuguese commercial system from that of Spain and its colonies. Brazilian merchants, moreover, participated more in offshore commerce than did their Spanish counterparts.

British trade with Portugal and Brazil remained insignificant for several decades after sugar from English plantations in the Caribbean replaced Brazilian sugar in the mid-seventeenth century. Beginning in the 1690s, however, the mining boom in Brazil brought back prosperity. By failing to protect its own production of manufactured goods and by outlawing colonial production, Portugal encouraged the capture of the Brazilian market by British factories working through Portuguese commercial intermediaries. By 1750 British exports to Portugal valued at little more than 1.1 million pounds were producing a favorable balance of trade of nearly 800,000 pounds. Although some historians attribute this commercial ascendency to the Methuen Treaty of 1703 and its antecedents, shifting European political rivalries and Britain's early development of cotton textiles suitable for wear in the tropics were more important.

Taxation

The Spanish Crown taxed its American colonies enough that the empire as a whole not only paid the costs of its administration and defense but also produced a fiscal surplus for remission to the peninsula. New World revenues shipped to Spain became important about 1550 and expanded substantially during the reign of Philip II (1556–98). They totaled 20–25 percent of the Crown's revenue toward the end of Philip's rule, a substantial sum that helped finance his expensive foreign policy in Europe. Remittances generally declined in the seventeenth century, especially after 1640 for New Spain and after 1660 for Peru. In the 1590s half of the revenue collected in New Spain was spent in the Indies; this amount increased to nearly 80 percent a century later. Indeed, the amount of public revenue sent from Mexico to the Philippines in some decades of the seventeenth century was over half the amount remitted to Spain. For Peru, only 36 percent of the revenue collected in the 1590s remained there, but the amount leaped to 55 percent the following decade and to 95 percent in the 1680s, a consequence more of declining tax income than rising expenditures.

The Crown levied a variety of taxes in the New World. It raised rates and introduced new impositions when possible. The treasury in seventeenth-century Peru received income from over forty separate sources. Although the colonists paid less in taxes than did the Castilian peasantry, the colonial population bore a substantial burden relative to its resources. The importance of different taxes for royal revenue varied by district. Mining taxes and profits from the sale of mercury were paramount in the mining districts. Imposts on commercial transactions were central in the ports and administrative centers. And the importance of Indian tribute varied by region and with changes in the size of the Indian population.