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**“Spanish America Colonial Patterns:
The Rio de la Plata”**

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Spanish American colonial patterns: The Rio de la Plata

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1. The contemporary debate

1.1 The institutionalist thesis

The debate on the causes of the unlike evolution of per capita income levels in the USA and Latin America during the nineteenth century was enriched by the contribution of the North thesis (1973, 1981, 1990) on the importance of institutions on economic growth.

According to North, wherever institutions enforced property rights, trade increased, markets developed, investment rose, and economic growth took place. In a subsequent article on the analysis of the reasons why Latin America lagged behind the United States, North and Weingast pointed out that those regions where property rights were enforced (as it happened in the English American colonies) experienced economic growth, while wherever patrimonialist and absolutist traditions prevailed and property rights were not enforced (as in the former Spanish American colonies) growth was slow or inexistent.

(...) fundamental institutions of representative government – an explicit set of multiple veto points along with the primacy of the common law courts over economics affairs – are intimately related to the struggle for control over governmental power. The success of the propertied and commercially minded interests led to institutions that simultaneously mitigated the motive underlying the Crown's drive to find new sources of revenue and also greatly constrained the behavior of the government (...) In comparison with the previous century or with the absolutist governments of the continent, England's institutional commitment to secure rights was far stronger. Evidence from capital markets provides a striking indication of this. (NORTH & WEINGAST, 1989, 829)

1.2 The initial resource endowments

Engerman and Sokoloff (1997, 2003) introduced a different approach to the question. According to them, the trends of the literature on convergence have overestimated the importance of institutions while they underestimated the influence that each region's initial resource endowment had on income distributions, institutions and economic growth.

(...) the factor endowment and attitudes toward it reflected in policy had profound and enduring impacts on the structure of respective colonial economies and ultimately on their long term paths of institutional and economic development. (ENGERMAN & SOKOLOFF 1997, 262)

The geographies and resource endowments which Europeans found in the countries of the American hemisphere they colonized were not alike. These differences

had several consequences on the distribution of income, on institutions and, finally, on economic growth. When the Spanish arrived to the Caribbean, they found lands specially endowed for tropical agriculture (sugar, cotton, tobacco, coffee), which they exploited as large plantations, and where they employed large amounts of forced native labor or imported slave manpower.

The climate and working conditions in tropical areas were unsuitable for the settlement of European population. In the Andean mining areas of Mexico (New Spain) and Peru (Upper Peru), they also resorted to large amounts of forced native labor. Inputs of manpower in mining sites and large estates devoted to tropical agriculture (plantations) determined an unequal distribution of income, as most labor did not collect monetary wages. This constrained the formation of domestic markets, and resulted in a basically extractive economy, primarily aimed at sending profits to the metropolis, while few benefits remained for the local people.

While all colonies began with an abundance of land and other resources relative to labor, at least after the initial depopulation, other aspects of their factor endowments varied, which contributed to substantial differences among them in the distribution of landholdings, wealth, and political power (...) The substantial shares of population composed of slaves and the scale economies (in Spanish colonies) both served to generate a vastly unequal distribution of wealth and political power (...) In these cases, the extensive existing populations of indigenous peoples and the Spanish practices of awarding claims on land, native labor and rich mineral resources to members of the elite encouraged the formation of highly concentrated landholdings, and extreme inequality. (ENGERMAN & SOKOLOFF 1997, 262)

On their part, the English found other conditions in the North East of the Northern hemisphere. That region was more apt for farming agriculture exploitations. The English settled there and worked as farmers, this resulting in a more equal distribution of income, which in turn derived in the creation of institutions that enforced property rights. However, in the South of North America, where the lands found by the English were somehow similar to those of the Spanish Caribbean, that is to say, suitable for plantations, the institutions they generated there were less favorable to growth.

In contrast, small family farms were the rule in the northern colonies of the North America mainland, where climatic conditions favored a regime of mixed farming centered on grains and livestock, which exhibited no economies of scale in production. The circumstances in these latter regions encouraged the evolution of more equal distributions of wealth, more democratic political institutions, more extensive domestic markets. (ENGERMAN & SOKOLOFF 1997, 262)

In addition, European settlers were interested in receiving education and participating in politics. The spread of education together with the experience of self-government tended to give birth to institutions that contributed to economic growth.

The Engerman & Sokoloff analysis has the merit of underlining the influence that geography and availability of resources had on the process of economic growth, and the way they affected institution building; yet, it tends to generalization, and in some cases – Argentina, for example – explanations are not fully satisfactory¹.

¹ In my working paper “Por qué América Latina se retrasó. El caso de Argentina” I stated that “Su análisis (the one of Engerman & Sokoloff) de la Argentina es, sin embargo, incompleto, pues omite características relevantes de la evolución agraria del siglo XIX y XX. Entre ellas se puede anotar: 1. En la ganadería del cuero de la primera mitad del siglo XIX el recurso intensivo fue la tierra y por ello es cierto que dio un patrón de distribución donde los propietarios recibieron la mayor parte del ingreso de la actividad y existieron pocos eslabonamientos anteriores o posteriores y un lento o casi ningún crecimiento en la primera mitad del siglo XIX. 2. En cambio fue distinto el caso de la ganadería de la carne y la agricultura de los cereales cuya actividad se expandió entre fines del siglo XIX y las primeras décadas del XX, donde el factor intensivo fue el trabajo. Este hecho hizo que, independientemente del régimen de propiedad de la tierra se dieron efectos favorables en la distribución del ingreso y la generación de eslabonamientos que se difundieron al conjunto de la economía. En esa época éste fue el caso más parecido a Canadá y los Estados Unidos.” (CORTÉS CONDE 2006).

In line with Egerman and Sokoloff, Aceglomou *et al.* (2001) underscored the influence of geography and natural conditions in the European settlements. In tropical climates, health conditions were poor, and plagues widespread. Therefore, Europeans were willing to settle in temperate zones, with better living conditions. In these regions, they replicated economic and political European institutions, while in regions where the native population was forced to work in the mines or the land, collecting little or none monetary wages, the institutional frameworks were coincident with the exploitation of labor and natural resources. Wherever they resorted to draft labor (*encomienda*, *repartimento*), Europeans extracted wealth from the colonies and conveyed it to the metropolis. In this regard, Aceglomou *et al.* establish a difference between settlement conditions favorable to growth, like New England's Anglo American ones, and extractive colonies such as the Belgian Congo.

Colonies where Europeans faced higher mortality rates are today substantially poorer than colonies that were healthy for Europeans. Our theory is that this relationship reflects the effect of settler mortality working through the institutions brought by Europeans. (...) it is not the identity of the colonizer or legal origin that matters, but whether European colonialist could safely settle in a particular location: where they could not settle, they created worse institutions. (ACEMOGLU *et al.* 2001, 2 & 5)

More recently, Irigoin (2003) added another interpretation to the debate. She sustained that the cause of Latin American countries' relative backwardness is not to be found in their institutional colonial heritage but in the breakthrough resulting from Napoleon's invasion to Spain and the subsequent crisis in the colonial empire, which destroyed the integrate fiscal system that had kept colonies unified through transferences (*situados*). The lack of subsidies from abroad generated a dispute over alternative revenues which led to repeated civil wars – the cause of Latin America's backwardness in the XIX century.

The fiscal and monetary fragmentation of the former colonies led to strife over fiscal resources. Deficits recurred, and given the impossibility of tax smoothing policy, deficit financing by inflationary means further aggravated the fiscal position of the competing states. Significant consequences for the economy's performance resulted from complete and repeated fiscal inefficiency, an insufficient fiscal base, and the overwhelming allocation of the tax burden on consumers. The results were huge market disintegration, higher and massive transaction costs, crowding out, and ultimately more inflation and severe distortion in prices and exchange rates. (IRIGOIN 2003, w/no.)

To some extent, Irigoin agrees with the arguments developed in my previous works (1986, 1988, 1998, 1998b, 2001). More precisely, in my 1998 paper, I claimed that “*the cause for this failure (to reach a stable government to follow the path of the US) was the inability of the new states to find regular sources of revenues.*” (CORTÉS CONDE 1998, 2)

My argument was the following:

After independence, the northern territories of the Upper Peru with the rich mines of Potosi were lost. This was the main source of fiscal revenue in colonial times (Klein, 1973; Halperin, 1982; and Amaral, 1988). From a regime based on the collection of dominial revenues (royalties on mine production, the fifth and the tenth) Argentina turned to a new one based on the collection of taxes (tax state) during the period of independence. Although the new government opened the country to international trade, due to poverty of resources and limited international trade, taxes on trade were not enough to compensate for the losses of Potosi. (...) some of the institutions inherited from Spain – enormous bureaucracies, Viceroyalties, audiencias, etc. – had negative consequences when lacking mineral resources and the new countries turned to new sources of revenue. (CORTÉS CONDE 1998, 2)

(...) the failure to consolidate a new state within the boundaries of the former colonial administration, as provider of public goods, was a result of the inability to secure revenues to pay ordinary and extraordinary expenditures (war). (CORTÉS CONDE 1998,3)

However, it differs in some other important points (a fiscal regime based on consensus and negotiations sustained in Irigoin (2003)).

2. The author's points

2.1 The optimum size of the State. Resources. Silver mining. Colonial regimes and the size of political administrative units (viceroyalties).

Developed along the years (CORTÉS CONDE 1974, 1998, 2001), my hypothesis is based on the effects that the discovery and exploitation of silver mining had on Spanish America's colonization patterns.

These arguments are not limited to the effects that each region's initial resource endowment had on the subsequent development of the economy, which is the usual explanation of the staple theory (on the intensity of factor production utilization and its consequences on income distribution and its effects on the economy). Although, to some extent, I resorted to this theory in previous works in order to explain the Argentine case², in my following works, I included other explanations of what I consider relevant influences on the process of growth.

Location and patterns of settlement.

In mining, the location of economic activity is determined by the site of the mineral deposits. When resources are rich enough, the location is indifferent to distance to the markets as well as to availability of capital and labor in the surroundings.

Usually, mining sites are located in remote areas lacking the necessary inputs (labor and food) to exploit them. Thus, it is necessary to import these inputs from outside the region. The discovery of the world's richest silver mines in places so distant as Mexico (New Spain) and Bolivia (Upper Peru) determined the pattern of colonization in the Spanish Empire. This pattern was characterized by a deep and extended entrance and occupation in remote territories having the most diverse geographies, climates, geological features and population (from California and Florida, Central America, the Caribbean, the countries of the Pacific Andes, down to Chile and Río de la Plata). The transportation of silver from the mining deposits to the ports, from where it was shipped to Spain, also required the establishment of a network of cities along the routes in order to protect the valuable mineral. Numerous cities were founded along the routes to supply the caravans that carried merchandises and mules to the North and silver to the South. This is how the oldest cities in Argentina flourished along the way that linked Potosí – in the Upper Peru – to Buenos Aires, through La Carrera del Alto Peru, Salta, Jujuy, Tucumán and Córdoba, and the reason why they had an active trade during the colonial period. Córdoba itself had the first University in the present territory of Argentina (CORTÉS CONDE, 2007). Finally, the whole system demanded the creation

² Extensive cattle raising was the appropriate response to the relative supply of factors which existed until almost the end of the nineteenth century. Its exploitation did not require (nor could it obtain) the incorporation of factors then scarce in the Río de la Plata – labor and capital. The development of this export industry did not demand foreign factors. But this production pattern, a result of the relative supply of factors, contributed to maintaining unchanged the structure to which it responded. Since the production of cowhides required very little labor, some of it seasonal, the Pampas area persisted in a chronic demographic poverty, with few urban settlements aside from the ports. For the same reason, distribution of income was extremely unequal, not because the rural peons received low salaries (they were, as it is known, relatively high in relation to those paid in other parts of the world) but because income distribution corresponded to the production function in cattle raising for hides: it required little labor and was highly land-intensive. Cortés Conde (1974, pp. 123 – 4)

of large administrative units (viceroalties) which, together with governmental and defense functions, had powers to collect royalties and taxes, securing the perception of rents for the Crown.

In this argument, the relevant issue is the influence that resource endowment (mining) had on the establishment of political-administrative units covering wide and heterogeneous regions and having very different interests.

Such was the scale required to unify the colonies under the King's authority, a scale that implied a high administrative and defense cost.

The question of the efficient scale of the State is well explained by Alesina and Spolaore (2003) and by Bolton & Roland (1997).

Alesina & Spolaore (2003) sustained that

the size of the national states (or countries) are due to trade-offs between the benefits of size and the cost of heterogeneity of preferences over public goods and public policies provides?? by government. (ALESINA & SPOLAORE 2003, 3)

But

If there were only benefits from size, then the tendency should be for the entire world to be organized in a single country. In principle, as countries become larger, administrative and congestion cost may defeat the benefits of size (...) in larger countries there are more diverse preferences, cultures and languages within the population. A country's heterogeneity of preferences increases as it becomes larger. (ALESINA & SPOLAORE 2003, 4)

With increased heterogeneity, there are more individuals and regions less satisfied by central government policies. Indeed, many violent conflicts around the world associated with racial, religious and linguistic heterogeneity have threatened the stability of national governments. In synthesis, they said that *"Our hypothesis (...) is that, on balance, heterogeneity of preferences tends to bring about political and economic costs that are traded off against the benefits of size."* (ALESINA & SPOLAORE 2003, 6)

In my article in Bordo and Cortés Conde (ed) (2001), it is sustained that

The Spanish colonization of America had traits distinct from that of the other European powers. While the political, religious, and cultural traditions of Spain undoubtedly left their stamp on the institutional structure of the colonies, possibly more important was the peculiar geographical characteristics of the natural resources of the region. The population settlements, the location of economic activity and of urban centers, and the administrative and fiscal policies were all conditioned on the exploitation of the silver deposits of Nueva España (Mexico) and Alto Peru (Bolivia). The discovery of the world's richest silver deposits (in an epoch where silver served as specie) determined that economic activity would center on the locations where these deposits were found, almost independently of the inconveniences that these locations presented. Since the deposits were found in locations far from coast and ports – in the Mexican central mesas and the Bolivian altiplano – the Spanish were forced to construct an extended transport network and, along with it, a system of cities to serve both as waypoints on the long journeys and as production centers to provision the mining areas and to supply transport and commerce. (CORTÉS CONDE et al. 2001, 378 - 9)

It is my point that the size of the state is not only determined by the trade off between economies of scale and congestion cost, as Alesina and Spolaore sustain, but also by the conditions (geography, resources and technology) existing at the time of settlement by a colonial power.

The Spanish American colonial patterns were determined by the discovery of silver mines. The mining wealth allowed the formation of large administrative units over wide and heterogeneous regions. The colonies remained unified as long as the resources and the transference system existed.

In his excellent study on the finances of the Rio de la Plata, Klein (1973) concludes that at the end of the eighteenth century the viceroyalty did not present itself as a unified country. When such a high proportion of its income was assigned to pay for the coastal defenses and fortifications against the Indians, one can conclude that the Upper Peru was taxed beyond reasons, for the lower regions. Upper Peru needed neither the coastal installation nor the port, could trade through Lima and had its own Audiencia and Casa de Moneda (KLEIN 457, 1973). In this case Klein concluded that “*One can argue that the cost of being part of the viceroyalty was excessive for Upper Peru given the minimum defense it received.*” (KLEIN 457, 1973)

They went into crisis when, later on, silver production declined and Independence processes broke up the Empire, causing the end of the transferences system of subsidies among the colonies (*situados*).

In one of my former papers I stated that

(...) the decision to establish a national government was, to a large extent, a decision on who would pay for it. During the colonial period, patrimonial revenues coming from Potosi paid for the burden of the administration. After Independence, the source of income was no longer available. Given that the need for resources affected different groups in different ways, solving this problem was not easy. A new agreement implied eventual gains and losses not anticipated in the older scheme. The transition from a patrimonial State to a tax State required an agreement on property rights which was difficult to reach under those circumstances (there was not such problem in the North American colonies). (CORTÉS CONDE 1998, 20)

This was a unique case in the European powers’ colonial experience in the American hemisphere. The Anglo American colonization lacked the resources derived from mining, and the King was not interested in maintaining a centralized unified regime which would imply a high cost for the Crown. The British settled in America near the coast, where they devoted to agriculture in more homogeneous regions, with a lower administration cost. The Crown ruled that colonials should afford their local cost, and this is the reason why they had to grant to the English settlers (*colonists*), by means of charters, the right to decide on local taxes. Besides, by granting such rights, the Crown avoided affording the local cost of defense and administration, which -in Spanish colonies- was paid by revenues coming from the silver mines.

Under the absolutist regime, the rights of Spaniards in America were not different from the ones enjoyed by Spaniards in the Iberian Peninsula. The decision on taxes was made by functionaries appointed in Spain. No charters were granted by the King to establish the colonists’ rights and obligations (except, probably, in the early *adelantados*). Indeed, there was no experience in self-government.

All the administration in America depended on the King and his councils (*Consejo de Castilla* and *Consejo de Indias*), the Viceroy was the King’s personal representative, and he did not share his power with local assemblies, as it happened in the British colonies. This system (initiated by Aragon in the Mediterranean) was the same Spaniards had applied in the organization of the regional administration of their peripheral territories in Europe. (HARING 1963, JOHNSON (ed) 1970)

A patrimonial fiscal regime, royalties and taxes

The mines as well as the lands obtained by conquest were the property of the King of Castile, as it was customary since the times of the *Reconquista* (*tierra realengas*). Ownership over the land could be conveyed to colonists through grants (*mercedes*), but ownership over the subsoil remained with the Sovereign (as it is still the case in Argentina). The Sovereign would grant rights of exploitation over the subsoil in consideration for royalties (not taxes).

Although silver production varied along the centuries -it increased in the sixteenth century, declined in the seventeenth century and had an important recovery especially in Mexico in the eighteenth century-, American remittances were not only an important share in the King's revenues but also played a strategic role (LYNCH, 1981). These remittances were not already committed, as other taxes collected in advance, and made up the main collateral for loans granted to the King by bankers (who collected them at the port of Seville). It is true that the portion sent to Spain tended to diminish because of the increase in local expenses/expenditure, which included the huge cost of defense.

American remittances became a substantial fraction of total revenues after the mid – sixteenth century. On average, about one third of precious metal arrivals from America belonged to the Spanish treasury. A large part of this was the quinto, the fifth of all mining production that belonged to the Crown by rights. Another part originated in royal mines whose entire output belonged to the Crown. The bulk of the remainder originated in the payment of taxes and was the surplus of the imperial treasury after local expenditures were paid. To this must be added the occasional confiscation of private remittances, as was done in times of fiscal penury. (TORTELLA & COMIN 2001, 144)

But the increase in the portion of revenues spent within the colonies does not mean that they were growing in autonomy; it was just the cost of fulfilling the same old purpose: to preserve the integrity of the Empire, for which bureaucratic, defense and transferences expenditures were necessary.

Marichal and Carmagnani (2001) described the New Spain case:

the viceroyalty of New Spain was a key part of a well – integrated transatlantic fiscal machine. Each part of the tax administration of the Spanish Empire was connected to the other parts to a greater or lesser degree.

The dynamics of this system can be explained by the operation of basic principles that determined the disbursement of state monies in accord with the expenditure requirements of the multiple treasuries and administrative units of the empire and the viceroyalty.

(...) we can observe a first level (...) in the transferences realized among the 24 different regional treasury offices of the viceroyalty (of New Spain), in most cases to cover military expenditures.

A second level of expenditures was the transfer of surplus from one colony to another (...) those from New Spain being directed principally to the Greater Caribbean (...) New Spain also provided regular fiscal subsidies for the Philippines and more occasional sums for Guatemala and Central America.

(...) on the third level, Bourbon Mexico also proved to be a source of revenues for the metropolitan treasury. During the greater part of the eighteenth century, the fiscal funds transferred from Mexico to Spain were on a lesser scale than those sent to other Spanish colonies in the Caribbean, but in the 1790s the monies sent to home country reached the huge sum of almost 50 million pesos, for an annual average sum of almost 5 million pesos. (MARICHAL & CARMAGNANI 2001, 291 - 2)

One distinctive feature of patrimonial revenues is that –unlike other revenues (*ayudas, millones*) – it was not necessary to negotiate them with the Cortes.

Apart from the royalties derived from grants on silver exploitation, the Crown tried to maximize the revenues coming from the colonies, and collected a variety of taxes, *alcabalas*, and seigniorage rights for the coinage of silver in the mints (*cecas*). The Crown profited not only from seigniorage, but from buying silver at the mints for a price lower than the market one. For this reason, the colonists tried to sell silver as bullion by smuggling it, which resulted in the famous shortage of money in the Rio de la Plata, and its replacement by money of the land (*moneda de la tierra*: goods locally produced) (GARZÓN MACEDA, 1968). Besides, apart from the silver collected as royalties, when fiscal urgencies arose, the Crown confiscated the silver arriving to Seville, and paid for it with devalued bonds of the public debt (*juros*). The Crown used silver coins or bullion to pay for the debts it had with bankers, who in turn would

transfer letters of exchange to the armies fighting in the Lower Countries. (Conklin 1998)

The whole tax system was quite complex, and many works³ have dealt with it. In my article, I made a brief reference to the fiscal regime (CORTÉS CONDE et al. 2001). The most important elements were taxes on foreign trade (*almojarifazgos*) and, locally, *alcabalas* and tributes (poll tax paid by the Indians). In fact, *alcabalas* were the most relevant ones (a tax on transactions which turned into a tax on the introduction of goods into each town having a treasury (*cajas principales o secundarias*: main or secondary treasuries). Before sending the amounts collected through *alcabalas* to the metropolis, the local *cajas* paid for the local civil and military functionaries. As I stated in my work (CORTÉS CONDE 1999, CORTÉS CONDE et al. 2001), a large proportion of the *alcabalas* collected was used to pay for local expenditures. This actually supported some local autonomy, which – as I also mentioned in the above articles – was the basis of the Argentine federalism in the independent period.

When the Empire collapsed, each city having a treasury (*caja*) claimed for its autonomy, and for the right to control and collect *alcabalas*, now known as export and import taxes. Basically, *alcabalas* were a tax on internal trade collected by internal customs. The existence of such tax and the high cost of inland transportation, contributed to the segmentation of markets.

Although, as I have pointed out, some form of autonomy resulted from these circumstances, the ones entitled to decide on tax appropriation were not the colonists through their representative bodies, but the functionaries appointed by Spain.

It is true, however, that colonists became increasingly successful in evading taxes, smuggling silver, and cheating in many other ways to avoid such burden.

Still, it is necessary not to confound the vested interests of the bureaucracy and of the merchants in Spanish America who succeeded in receiving part of the King's economic rent, and a fiscal system where colonists were represented in assemblies empowered to decide on taxes.

Extractive colonies? Trade and regionalization

We pointed out that mining sites were usually located in remote areas and needed to be supplied with labor, food, means of transportation and a variety of merchandises from abroad. One of their peculiarities was that they conditioned the existence of markets not in surrounding areas, as it happened in the medieval villas, but at a long distance. This demanded the construction of routes for the charts carrying silver and merchandise to travel their long way to the ports. Those caravans made their stops where they could find water and pastures, so in the Rio de la Plata, and in Potosi in the Upper Peru, during the colonial era, this designed a route from the silver mines in Potosi to the port of Buenos Aires (when prohibitions were lifted). Besides, Potosi received supplies from other areas: Chile provided wheat, the Argentine littoral, mules (HALPERÍN DONGUI 1961) and the North of Argentina cloths (*ponchos*), spirits (*aguardiente*), and sugar, among other products, which developed an important trade. A large number of merchants, artisans, and people working in various activities related to transportation began to form a widening local market along the extended routes, which concentrated in the cities established on the way.

³ Haring, Clarence., "The Spanish Empire in America", New York, Oxford University Press, 1947; Gibson, Charles, "Spain in America"; New York, Harper & Row, 1966; Lynch, John, "Spanish colonial administration, 1782 – 1810. The intendant system in the Viceroyalty of the Rio de la Plata", London: Athlone Press, 1958; Levene, Ricardo, "Riqueza, industria y comercio durante el virreynato" in Historia de la Nación Argentina, vol. IV. Buenos Aires: Academia Nacional de la Historia, Ed. El Ateneo, 1940.

Mining exploitations were the source of the formation of local and interregional markets with a strong trade not only with Spain but among themselves, as well as with the Anglo American colonies and even with Asia (el galleon de la Philippines). Except in some areas, society was also more complex. It was not just a dual one, with a small European elite coming from the metropolis and a mass of native population working in the land or the mines, but a more complex structure, with local functionaries, military, merchants, lawyers, artisans, rich and less rich people, *españoles europeos* and *españoles americanos*, and among the *americanos*, the future creole leaders of the revolutionary movements. Thus, it is not accurate to say that those were extractive colonies: they were a complex type of economy and society.

But it is also inaccurate to sustain that the colonies had a high degree of autonomy of self-government. The fact that an increasing amount of revenues was spent locally only indicates a rise in the cost of keeping the Empire unified, and in a lesser extent, the ability of the bureaucracy to share in the perception of economic rents.

To conclude, in comparing the Anglo American case with the Spanish American one, it is necessary to consider not only the different paths of colonization, which determined different patterns of economic exploitation and urbanization, but also the different political and fiscal regimes: small scale homogeneous colonies located near the Atlantic coast, each one directly linked with England in North America, with the experience of some self-government, on the one side, and the Spanish Empire, spreading over a huge area, covering heterogeneous regions, only maintained thanks to the silver revenues.

2.2 The institutional heritage

Political regimes, Transition. The cost of the institutional heritage and the creation of institutions.

The political and administrative regimes in both worlds

In the newly discovered territories, Castile imported its institutions – some of them dating from the *Reconquista* –, but they had to be adapted to the peculiar circumstances existent in the continent. The colonies were established under the direct rule of the King, who appointed his delegate (Viceroy), following the experience of the peripheral Spain or Italy (. Besides, by the former Council of Castile, the direct tool for administration was the Council of Indies. The Viceroy was subordinated to the King through the Council, and besides, there was a complicated system: a judiciary, a governor, a *capitan general*, a military authority. The provinces of the Rio de la Plata Viceroyalty did not have direct connection with the King, but with the Viceroy. Unlike the American colonies, which were not subordinated among them, the Rio de la Plata provinces were subordinated to the Viceroy, who had his seat in Buenos Aires.

Local colonists did not have a representative body: *cabildos*, as Zorraquin Becu (1962, 1969) has proved, did not have such functions – they were not local assemblies.

The American colonies were established by grants given by the Crown. They were of different types: there were property colonies, like New York; Companies colonies, like Virginia, and associations of settlers, like The Massachusetts Bay. The King, interested in promoting settlement in the colonies in order to increase production and trade, made direct concessions to the settlers through charters. In principle, as British subjects, settlers had the same rights they would enjoy in the metropolis, but in the colonies they enjoyed some specific rights that allowed them to meet in representative bodies, an elected assembly that accompanied the governor appointed by

the King. While the British functionaries were paid by the Crown, the local bureaucracy and expenditures were afforded with local taxes, passed by settlers in their assemblies (KROOS & STUDENSKY 1952).

Those rights existed even before the Glorious revolution, and to some extent they reflect an old tradition of local government (*counties, shires*), that existed in England among the freemen.

In Spain, ever since Philip II, the powers of the Cortes to decide on taxes had diminished; they only met if specially summoned by the King whenever he was in need of *ayudas*, and it was accentuated the power of the central government.

While England it remained features of territorial autonomy coming from old Germanic traditions and the medieval feudal contract between the lord and the vassal, Spaniards seemed to respond rather to the idea of centralization of the national authority in the person of the King consolidated during the Austrias and strengthened during the Bourbons.

Independence in the Rio de la Plata. The costs of creating new institutions.

The new republic was not very successful in achieving quick progress through the establishment of liberal trade and political institutions, because its development was path dependent on the structure and institutional frameworks that had remained from the colonial times.

In the first place, while claiming for the authority they inherited from the Crown in the former viceroyalty's jurisdiction, an attempt was made to organize a government over very vast and many times unpopulated territories. The colony's administrative units had been designed to keep them under the empire's control (thanks to the enormous amount of mining resources). The outlook was not the same when these resources no longer existed and the political objectives were different. This institutional legacy imposed costs that hindered the supply of public goods and services and the enforcement of property rights.

The first task in the new independent country was to set up a government capable of supplying public goods and services and thus enable the functioning of the markets. This objective was not achieved due, *inter alia*, to the following:

1. The legacy of an inadequate administrative design (size of the state) to fit the new conditions, thus making monitoring very costly.
2. The problem of the resources required for consolidating the State's authority and supplying the military forces in outlying territories; secure and permanent sources of revenue were needed. So as to consolidate the new states it was essential to have an effective military force. Several problems arose in this respect:
 - a) There had been a change in the supplying source as far as fiscal revenue was concerned. There was a shift from mining in Potosi to the taxes on trade collected in Buenos Aires, the only maritime port. Even though the latter did not suffice to replace the old levies, struggles soon arose on the right of the different regions to the fiscal income from the Buenos Aires Customs.
 - b) An economic structure based on mining. When Bolivia was separated from the Rio de la Plata, livestock became the main activity in the latter district. This had an incidence on the scale and design of the organization

in charge of providing public goods and services and on military technology.

- c) A cost of defense .A society with no farmers could not organize militia. The initial attempts of the city to set up these forces were frustrated by the growing importance of the rural area where the cavalry prevailed. The central state had to face great cash expenditures organize armies. In a pastoral society with abundant grazing fields and numerous horses, the cheapest technology was the cavalry. This privileged the position of the cattle and horse breeders who were able to substitute the central power in the supply of services, within a certain order, although primitive and despotic. This military force obtained resources in kind from voluntary contributions or from confiscating the enemies' properties. Taxes were also levied on the transportation of merchandise. The situation was not stable and property rights were not respected.

- 3. A problem of legitimacy related to obtaining consensus in the different regions on the new authority to succeed the King, when there were diverse ideologies and regional interests (Upper Peru and the Interior vis-à-vis Buenos Aires). The monarchy's legitimacy severely punished dissidents and the separatist attempts something that no longer happened when the monarchy was replaced by a revolutionary government.

During most of the 19th century there did not exist a state capable of successfully providing public goods and services, and holding the necessary coercive power. There were endless conflicts over the rights of the different regions and provinces on the sources of fiscal revenue.

Having been attacked from various fronts, the central government lasted only one decade and was dissolved in 1820; the provinces, in an increasing number, took over their own government. During the period of independence, the system structured in colonial times on the basis of the collection of mining and internal trade taxes (*alcabalas*) had negative consequences on market formation and the country's development.

At the beginning of the 1820s several provinces tried to implement financial reforms but they did not get round to adopting a system of taxes on property or income like the U.S.A. because they were primitive pastoral economies. In farming areas, the population settles down and works all year round on the same piece of land that can be duly assessed, thus leading to a more effective tax collection system than in a rudimentary and nomad livestock economy. Vis-à-vis the above problem, while some anachronistic taxes were abolished, those on internal trade (*alcabalas*) were maintained.

The Main and Secondary Treasuries or collection centers, although with different income levels, increased in number when each city with an Under-Treasury Office claimed for autonomy. While the geography of a country, which at the time was land-locked, condemned the area to subordination to the only overseas port in the Rio de la Plata estuary, distances, transportation costs and the various interests led to political and fiscal fragmentation.

The existence of inland customs increased the cost of merchandise that was already high because transportation cost and kept markets small and fragmented, which had an incidence on the backwardness of the interior (not in Buenos Aires that did have access to the international market).

Fragmentation brought about conflicts which poverty turned into endless conflicts since no one had enough power to win. Wars meant permanent expenses which in some cases were faced with tax revenue, in others through debt, mostly in kind and not in currency and finally with an anachronistic levy, i.e., confiscation.

After 1824 Buenos Aires repeatedly resorted to the inflation tax but things were different in the interior. On the one hand, and although the lack of cash was a generalized issue, silver coins (*bolivianos*) circulated as a result of the positive balance of trade once the conflict was no longer present in the scenario with the neighboring countries. Somehow this forced them to have a greater fiscal discipline although they resorted – as already mentioned – to archaic methods, forced loans or directly to confiscation.

Without the revenue that had supported the colonial bureaucracy, the new governments were unable to exert a monopolic power. Enormous unpopulated areas and the distances between the cities represented a permanent challenge for the authorities. If the government could not guarantee security to the inhabitants, other alternatives would soon appear. That is how the *caudillos* or strong leaders arose and fulfilled these functions in more limited environments in exchange for other services. Costs were so high for the central authorities that in practice the system was inefficient. On the other hand, the fracture that followed the independence process produced divisions and ambiguities in the definition of boundaries.

There was practically one conflict after another, both internal and external, and war expenses absorbed most of the fiscal revenues. Poverty was one of the reasons for the governments' weakness which very frequently found themselves in the uncomfortable situation of default. This situation favored the creation of small political units in which the real exercise of power was not so costly and the negotiation costs were lower. Tax collection was more difficult in predominantly rural economies where there was little cash circulation. In these cases, services were offered or paid in kind: private armies were created with rural workers, horses and livestock owned by the large landowners. This made the *caudillo's* authority that is, the authority of these rural leaders who owned the resources, more effective. At the same time, it brought about confusion once again between the public resources and those of the ruler.

One of the attributes of the modern state was the exercise of a monopolic coercive power. For such a monopoly not to be purely nominal, there must be an organization and a force to hinder the appearance of rival powers which may offer essential public services (defense, security, justice) collecting to this effect tributes only from those who live in that jurisdiction.

Moreover, there existed the problem of long distances, the lack of roads and navigable rivers that together with the technology of those times kept transportation costs high. This was not only an almost unswayable obstacle to the normal flow of goods (less valuable than silver) among the different regions but also to the exercise of authority in such regions.

The problem regarding the formation of the state was not only that of achieving consensus among the different regions on the political structure for a national state that would conciliate their interests but also referred to the financing of the central authority. The extensive debate between the Province of Buenos Aires and those of the interior, on the Buenos Aires Customs' tariffs, did not refer to the fact that they wanted this revenue transferred to the Nation. They were claiming for a share of this income. On the other hand, the provinces did not wish to waive the possibility of collecting their own taxes on internal trade. Although the latter were not too significant, they were the only resources they had within a very rudimentary economy.

Despite the elimination of the monopolies and the establishment of free trade, the legacy of the colonial institutional frameworks and structures exerted a negative influence on the formation of a state that could provide public goods and services. High transportation costs, wars, confiscations and the internal customs lasted for decades and maintained the markets segmented as well as high interest rates that discouraged investment and, therefore, growth.

3. Conclusions

The main argument, both in this paper and in my previous one, lies in the importance of Spanish America early patterns of colonization, which were determined by the discovery of the richest silver mines in the American continent. Geography and resources, plus the adapted institutional heritage, led to the creation of large political administrative units covering wide heterogeneous regions which implied high administrative and defense cost. Thanks to the huge revenues coming from the mines, the Crown was able to maintain such system and avoid, for centuries, the break up of the Empire.

Mining production, although varied along time declined; and local expenditures rose. Besides, territories lacking mining resources received subsidies (transferences, *situados*). That was the case of the *caja de Buenos Aires*, which was sustained by the *caja de Potosi*. When the new government in Buenos Aires claimed jurisdiction over the former Viceroyalty, the Upper Peru, which was far away to the North and had different interests⁴ did not follow it. Finally, when they separated in 1815, the central government definitively lost that revenue.

Independence did not only mean a separation from Spain, but the break down of the whole Spanish America regional system (CORTÉS CONDE 1986). The new governments were not able to exert the monopoly of the supply of protection in the territories on which they claimed rule (LANE 1958). Since the cost of access to the market of the supply of protection was lower, multiple offers appeared in limited spaces, and violence was widespread. Significant resources were deviated because of the need to spend them in violence. Capital flights or hoarding thwarted capital formation. Markets were segmented, and property rights not enforced. This was complicated by the lack of legitimacy of the new republican governments, in an ideological constellation of international powers after the Vienna Congress.

Technology, namely the lack of a system of inland transportation in a region with only one navigable river (Parana), delayed the formation of a central government, and reiterated the struggle among heterogeneous regions over the right to receive the revenues from the Customs of Buenos Aires (the only external port). Only when a new

⁴ In my paper it is stated – based on Klein’s arguments – that “although it was second in importance to New Spain, the viceroyalty of the Rio de la Plata did not generate significant profits for the Royal Treasury in Madrid. However, since the viceroyalty did not run deficits, the Crown was able to maintain its control of the south of the continent without drawing resources from the metropolis.

Nonetheless, he added, the viceroyalty at the end of the eighteenth century did not present itself as a united country. When “a proportion so high of its income was assigned to pay for the coastal defenses and fortifications against the Indians, one can conclude that Upper Peru was being taxed beyond reason, for the lower regions. Upper Peru needed neither the coastal installations nor the port, could trade through Lima, and had its own Audiencia and Casa de Moneda.” In this case, Klein concluded, “one can argue that the cost of being a part of the viceroyalty was excessive for Upper Peru given the minimum defense it received”.

The preceding conflicts led to the breakup of the viceroyalty of the Rio de la Plata once the Spanish authority was removed. Not only that, they contributed greatly to the fiscal and political problems of the emerging nation of Argentina”. Cortés Conde in Bordo and Cortés Conde (eds), 2001.

technology arrived in the form of the railway revolution, and there occurred a reduction in ocean freights over the South Atlantic, there were enough incentives to overcome those disputes and constitute a central government capable of enforcing property rights, and thus paving the way for capital and labor to come from abroad. But that happened only after half a century had passed since Independence from Spain.

Finally, under the conditions of the geography and transportation technology of the first half of nineteenth century, a central government in a new Argentine state that had inherited its size from the Virreynato (which covered wide territories and heterogeneous regions) was unviable, and this resulted in anarchy, wars, power fragmentation and slow economic growth.

Those conditions changed in the second half of the nineteenth century because of a new technology that lowered the cost of transportation, opening the country to world trade. Why is it, however, that during those decades the idea of one Argentine state persisted and the country was not fragmented? Probably because institutions persisted (the Virreynato, the *utis possedetis iursi*), there was an ideological element (one nation), and -last but not least- because those provinces had only one seaport with a custom house whose revenues, although perceived by Buenos Aires, were claimed by all the other provinces.

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