Representation without taxation, taxation without consent
The legacy of Spanish colonialism in America

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London School of Economics
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London School of Economics
m.a.irigoin@lse.ac.uk
+44 (0)20 7955 7068

Abstract

The essay examines Spain’s colonial legacy in the long run development of Spanish America. It surveys the fiscal and constitutional outcomes of independence and assesses the relative burden imposed by colonialism. Constitutional asymmetries between revenue collecting and spending agents constrained de facto governments’ power to tax. Inherent disparities embedded in colonial fiscal system worsened with vaguely defined representation for subjects and territories and troubled their aggregation into a modern representative polity. Governments with limited fiscal capacity failed to deliver public goods and to equitably distribute costs and benefits of independence. Growing indirect taxes, debt and money creation allowed them to transfer the fiscal burden to other constituents or future generations. Taxpayers realised the asymmetry between private contributions and public goods and hence favoured a low but regressive taxation. Comparisons with trajectories in the metropolis and the US are offered to qualify this legacy.

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Keywords: Colonial legacy- institutions- long run development - Spanish America, Spain US, fiscal, monetary, constitutional history.

JEL Codes: N, N1, N10,N16, N2,N20, N4, N40
This paper takes issue with institutionalist models to discuss the notion of colonial legacy in setting the development path of Latin America¹. It conversely digs in the history of colonial Spanish America searching for other possible set of institutions which might well explain Latin America economic development. It builds on previous research on the political economy, taxation and governance of the Spanish Empire and echoes other assessments of the region's economic performance in the post-independence. Thus it revisits the notion of Spanish colonialism current in the institutionalist literature. Following their rationale it addresses how was that – if the colonial rule was so prejudicial for development why independence did not change the path? To what extent this is a history of bad colonialism if it was the case that the metropolis suffered very much of the same malaise – for most of the 19th century at least – and to what extent fundamentals of the colonial political economy remained in place after the end of Spanish rule. In so doing an analytical argument is offered on the channels and mechanisms of persistence; main aspect of the institutionalist interpretation.

Section I briefly describes the governance, the economic basis and workings of the colonial state which permitted the territorial expansion of the empire, and organized the economy under its control. Section II discusses the exogenous shock resulting from the Napoleonic occupation of Spain in 1808, which inflicted a fatal blow for the continuation of the rule and triggered major reforms in both Spain and the colonies on its wake. It discusses interpretations of the colonial fiscal burden – and its release- as the legacy of Independence. Section III offers some first estimates of the subsequent fiscal burden and surveys the institutional changes on taxation and representation which transformed the political fundamentals of the Spanish rule. Focused on the changes opened with the Cadiz’ constitution of 1812 it compares fiscal and financial developments in the colonies and the metropolis to point out the debatable nature of a colonial legacy since both suffered very similar problems – and sought very similar solutions. Section IV analyses institutions of taxation and political representation in the US before and after the Revolution to highlight the differences in fiscal and political matters with Spanish America - making the US a problematic yardstick to assess comparatively the institutional determinants of long run development. The paper concludes with another institutional argument – different from the colonial origins- pointing at another type of legacy that shaped the long run economic performance of Spain and her former colonies: that is the inconsistency between taxation and representation in the constitutional setting implemented in the 19th century which ultimately engendered persistent macroeconomic instability with detrimental consequences visible to date.

¹ Broadly this refers to well-known research by Acemoğlu, Johnson and Robinson and Engerman and Sokoloff (various dates).
A cursory characterization of the economy in this section qualifies some claims made on the nature of Spanish colonialism. As shown elsewhere, the governance that Spain established in the New World relied heavily on local agency from co-opted subject, individuals and corporate. The economic structure organized by Spaniards relied on a disproportionately high land/labour ratio exacerbated by the collapse of native population in the 16th century, a demographic shortfall roughly three times more dramatic than the one caused by the Black Death. Population took more than two centuries to rebound to pre-conquest levels as recovery was constantly checked out by epidemics. By 1800 frontier regions as Northern Mexico, Chile, Venezuela and the River Plate populated at faster rate and were the fastest growing regions at the time together with Cuba – which with increasing African labour constituted another dynamic frontier in the empire.

A great deal of local autonomy in the governance of colonial cities and villages replicated Spain’s institutional order and structure of representation founded in pueblos and towns (Quijada 2008). Citizenry was local and the commonwealth organized in a corporate order led by local notables. Spanish rule relied on overlapping and competing authorities, secular and religious, administrative and judicial, locally appointed (or purchased) and confirmed by the King, which checked each other out. The constant bargaining among bodies and individuals, i.e. the governor and the bishop, the bishop and the religious orders, the governor and the courts (audiencias), made the King in Spain Hispaniarum et Indiarum Rex the authority of last resort; he conceded legality to contracts and was the ultimate arbiter in the disputes among subjects, cities/towns and corporations. By incorporating traditional institutions of authority and conflict resolution indigenous people or pueblos (lit. towns) enjoyed equal status than Europeans before the king though were separated by their own judicial freedoms. As the ecclesiastics, the military, the guilds of merchants and miners, the indigenous pueblos enjoyed judicial and fiscal privileges fueros and were thus unequal before the treasury. This did not make the colonial society more equal; it is just that distinction were not purely established by colour.

By the mid-18th century taxes on external and domestic trade provided most of fiscal revenues. Mining as such was never the main source of royal income, as it was a private venture and burden from direct taxes were somewhat offset by royal subsidies on quicksilver. (Grafe and Irigoin 2006). A significant amount of revenue was redistributed within the territory to near and far distant settlements like Cuba, California, Concepcion

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2 From Latin arbiter, judge, supreme ruler in use in Medieval France and England.
3 Unlike in the US, being black did not mean to be a necessarily a slave and the first minority everywhere was free people of mixed races. These features challenge the triple colour division of the colonial population in Sokoloff, K. and S. Engerman (2000). "Institutions, Factor Endowments and Paths of Development in the New World." Journal of Economic Perspectives 14(3): 217-232.

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table 3
and Manila. This provided working capital to new economic activities and attracted trade
to the ports; it financed the expansion of the Empire and sustained the growth of existing
cities and of the private mining enterprise. Unlike other European empires, this was self–
and abundantly- financed economy, which continued stretching over the territory since
early in the 16th century.

Elsewhere this state has been characterized as ‘developmentalist’ as it was deeply
embedded in the local economy and originated significant re-distributive effects in its
expansion(Grafe and Irigoin 2012); Central or metropolitan control was rather limited as
was its rate of fiscal extraction to Spain. A broadly defined ‘revenues from the Indies’, never
made more than a fifth of metropolitan revenues in the 18th century. Yet these amounts
pale when compared with the money collected in the Empire, as shown in graph a. The
proportion directly appropriated by the Spanish King represented a few percentage points
of the revenue generated in the colonies. Only the lack of a comparison of relative values
could give the impression that there was any sizable ‘extraction’ of revenues. Such was the
wealth of the Spanish American economy.

Figure 1 Contribution from the Indies to the Spanish Treasury, and total and net revenues
in mainland America – in thousands silver pesos

![Graph showing contribution from the Indies to the Spanish Treasury over time.]

Source: data ‘from Indies’ and ‘from Spain’ (Marichal 2008) table 1.1 Appendix; America gross and
net revenues from Grafe & Irigoin (2006, 2012) table 1. Conversion rate between real de vellon and
the Spanish American silver peso was 20:1 as indicated by Marichal.
Colonial administration was in private hands; extended sale of office plus tax collection and spending outsourced to merchants or miners guilds, local priests, and tax farmers all resulted in the near privatization of fiscal functions on the one hand, and the supply of public goods by the church on the other, all of which placed a significant control of the state businesses in locals’ hands. Little European migration went directly to newer remote areas; rather old settlements were the springboards from where population and capital were raised to move further inland. This Smithian type of growth expanded the private economic activities engaged in the production and trade of natural resources intensive goods. In so doing the colonial state was also expanding its fiscal base with the progressive creation of treasury districts. Unlike the process of aggregation or mergers in the European (and US’) path to state formation, revenue collection points multiplied over time in Spanish America. This process accelerated in the 18th C with population growth - hence the fiscal subdivision of Mexico and the River Plate - a feature that qualifies the notion of Bourbons’ greater centralization. Spending was too controlled by locals as imperial defence was organized and run by locally organized militias (Grafe Irigoin, 2012).

The extraction by the colonial state should not be equated to the economic exploitation that Spaniards imposed on the New World; Spanish colonialism was indeed a highly private enterprise, locally run and heavily subsidized by the colonial treasury. Since the early 16th century the bulk of the specie sent to Spain was made of private treasure, eg ‘emigrants remittances, savings of passengers and the bulk of it from the balance of trade’ (Hamilton 1929)(463). The proportion increased together with more mining and trade. No chartered company was established to trade with America in the fashion of the other European companies – until very late and to little effect⁴, no monopoly exploited the production of silver within or its export outside America; the single direct royal stake in the mining economy was the provision of quicksilver crucial for the amalgamation of silver; nor had capital to be raised in the metropolis to establish a viable economic profit in the colonies - unlike most of other European imperial ventures as pointed out by Adam Smith. Indeed, this was a very different political economy than what institutionalists conceive

By the 1800s such distribution of revenues within was assisting the fast growing new regions. As pointed by Summerhill (Summerhill 2008), fiscal transfers did increase output because revenues were flowing from lower productivity areas to areas with potentially higher productivity as was the case of Cuba and the River Plate. Throughout, exports diversified beyond silver towards more land intensive commodities like wheat, copper, indigo, cochineal, tobacco, sugar, cacao and hides; and population – and

⁴ The Casa de Contratación did not own ships; it was rather more a shipping agency for the private fleet convoyed over the Atlantic. The Real Compañía de la Habana briefly enjoyed the monopoly of trade with Cuba from 1740 to 1790, although its decline was noticeable since 1763. A Basque trading company was chartered for the trade with Caracas in 1728; it was transformed in the Real Compañía de Filipinas in 1785. In 1776 trade at Caracas was liberalised.
particularly urban - was growing fast\textsuperscript{5}. Customs yields in both colonies for instance increased 10 folds between 1778 and 1805, and this should be considered a lowest bound for growth of commerce since trade with ‘neutrals’ and contraband was the norm. Both colonies ‘per capita GDP in 1800 was higher than the US’ (Coatsworth 1998) and higher than any other Spanish settlement at the time. It is a challenge to both endowments and institutional models to disentangle how colonies of the same empire with such a different set of endowments, free available land and low population in the temperate river Plate and tropical agriculture with slave labour in Cuba, could both stand out. Economic historians have adhered to the idea of trade openness, which somewhat characterised both export economies. But both were also main recipients of large revenues transfer from other treasuries, which ought to lower the relative cost of capital locally. Maps below show the relative importance of the intra-colonial transfers as proportion of net revenues in each fiscal district.

Figure 2a: New Spain 1796-1800

\textsuperscript{5}Cuba’s slave population grew at 3.7 % and free population at 2% per year between 1774 and 1792. (Grafe Irigoin 2006 259). Annual growth rates in Buenos Aires were respectively 1.8% to 3.2% Johnson, L. (1979). “Estimaciones de la población de Buenos Aires en 1744, 1778 y 1810 ” Desarrollo Económico \textbf{19} (73 (Apr.- Jun., 1979)): 107-119
When other European powers threatened the colonies in the 1760s investments for defence demanded a greater tax take from the economy; Without a centralized administrative structure and barely control of its bureaucracy, further spending required greater state autonomy with which to extract more – ie, greater state capacity. In order to extract more the metropolitan government had to gain control over collection from vested interests or find new sources\(^6\). It tried both. This is in a nutshell what the so called Bourbon reforms sought and to which the establishment of monopolies was decisive: the extension of monopolies on price inelastic goods as tobacco in the 1760s, substantially increased revenues in districts such as Mexico, Puebla, Guanajuato, Havana, Manila, Santiago de Chile, Caracas, Santo Domingo, Quito. Start-up capital for the production and distribution of tobacco at imperial scale originated in Mexico’s treasury transfers. This improvement however did not stop the dissipation of revenues into private hands. Running costs of Mexico’s tobacco factory consumed 50% of its income ((Deans Smith 1992) p54).

Between 1730 and 1780 the number of fiscal districts doubled from 36 to 71 – at least in the region covered by TePaske & Klein sample. An excise tax, the *alcabala*, was extended to

\(^6\)Already in 1787 Carlos III felt hopeless about the resistance to the (failed) implementation the 1749' *Unica Contribución* levy in Spain. Cited in (Fontana, 1987 p 2)
products and taxpayers formerly exempted; the rate was increased too, but its collection remained farmed to individuals and local corporations like the Cabildo in Puebla or the Consulado in colonial capital cities. Constrained by the very (unwritten) constitutional structure and centuries of – in practice - limited government, imperial rivalries ironically pushed the Spanish King to greater dependency from his wealthy colonial subjects. Colonial treasuries borrowed heavily from local subjects –in various ways - particularly from the 1780s (Marichal 2008, Grafe Irigoin 2012, (Grieco 2014). Marichal (2008) argues that colonials’ contribution to metropolitan finances bankrupted the Mexican treasury. He is not conclusive however in the degree by which local vested interests might have profited from such ‘extraction’. Under Charles III treasuries extracted a larger amount of revenues; but at the same time expenses increased even further; and even if they were only partly appropriated by colonial stakeholders the ‘reforms’ brought locals substantial opportunities to cream off the newly expanded fiscal capacity. A back on the envelope calculation in table 1 – considering the partial nature of the data- shows the impressive growth of fiscal income and of spending throughout the 18th century.

Table 1 total revenue, expenses and transferences to Spain and America, annual growth in selected years in pesos

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Revenue</th>
<th>%</th>
<th>Total Expenses</th>
<th>%</th>
<th>To America</th>
<th>%</th>
<th>To Spain</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1691-95</td>
<td>43,195,438</td>
<td></td>
<td>43,219,682</td>
<td></td>
<td>13,059,053</td>
<td></td>
<td>5,047,838</td>
<td></td>
</tr>
<tr>
<td>1729-33</td>
<td>50,394,431</td>
<td>0.4</td>
<td>52,145,319</td>
<td>0.5</td>
<td>13,854,670</td>
<td>0.2</td>
<td>5,548,888</td>
<td>2.66</td>
</tr>
<tr>
<td>1785-89</td>
<td>255,194,445</td>
<td>2.9</td>
<td>220,817,011</td>
<td>2.56</td>
<td>92,207,404</td>
<td>3.4</td>
<td>11,791,137</td>
<td>1.4</td>
</tr>
<tr>
<td>1796-800</td>
<td>413,710,965</td>
<td>4.5</td>
<td>384,517,409</td>
<td>5.17</td>
<td>124,655,854</td>
<td>2.8</td>
<td>21,591,802</td>
<td>5.7</td>
</tr>
</tbody>
</table>

Source (Grafe Irigoin, 2012)

It seems paradoxical that intra colonial transfers skyrocketed at the time when Madrid stiffened metropolitan control; they represented a third of the total money collected and the proportion varied within the districts. Expenses grew even faster than revenues; and despite the growth in the royal remittances to Spain (it does not account for private monies7) the initial low levels make their importance in the total tax take relative. Like

Cuba and Buenos Aires, some regions benefited greatly at the expense of others according to their participation in the private-public partnership that managed the transfers (and the treasuries) in America. The diversion of income from more populated (more consumers) regions to coastal (trading overseas) and administrative centres is visible in table 3 below. Thus disproportion between costs and benefits among colonies was inbuilt in the system and it would inevitably create regional inequalities once the system failed.

II

This happened in 1808 when Napoleon forced the abdication of King Charles IV and imprisoned his heir, future Ferdinand VII. The population rejected the French surrogate king with crucial institutional consequences. The manoeuvre was preventing the legitimate ruler to rule; without a proper succession mechanism as the sovereign was still alive, the rejection to an ‘illegitimate’ rule opened an unprecedented constitutional crisis; Spain waged their own ‘War of Independence’ in Europe. Representatives of all parts of the Spanish monarchy - including the colonies on equal footing than that of metropolitan Spaniards- assembled in Cadiz to establish a provisional government of sorts. This congress hurried a constitution in 1812 altering the nature of the political regime towards a somewhat representative constitutional monarchy, though the complete transition took the rest of the century.

In America elections of deputies to the Cadiz Congress gave way to provisional governments in every sizable urban centre – most of them also treasury sites. In needs to establish a new sovereignty and some form of governance a number of political and constitutional experiments developed (Dye 2006). Between 1808 and 1830 fifteen future nations in South America sanctioned 46 constitutions. By 1825 most of them had turned into a republican form of government, some structured in a federal or confederal form, others centralized, but for the most these were just designs on paper. Thus a centrifugal process of territorial fragmentation triggered the political, fiscal and finally monetary disintegration of the empire and the system of intra-colonial transfers disappeared altogether. Thereafter, competition for revenues and resources prejudiced further the loss of income from missing transfers; regional disparities evolved into civil war.

What were the economic consequences of such exogenous shock? Maddison data shows a sharp fall on per capita GDP after 1820, which helps to explain Latin American falling behind in the post-independence (Coatsworth 1998). Prados (Prados de la Escosura 2009) challenges this notion as he argues that region grew moderately on average and in this

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8 Numbers do not include charters at subnational level. Source political database EAW School of Foreign Service Georgetown University http://sfs.georgetown.edu/ accessed December 2014
period outperformed other parts of the world with which a comparison is more realistic than using the US as yardstick 9. Two other arguments he posed there refer neatly to the legacy of Spanish colonialism. Namely 1) that net benefits from the release of the fiscal and trade burden imposed by the metropolis were offset by the costs of establishing an independent political regime and, a less surprising one, that b) location and endowments prejudiced the efficient distribution of the expected gains from a ‘less costly’ integration into the world economy. These two issues have a core on the fiscal developments resulting from the end of the colonial rule and are central to the argument of this paper.

Prados is not conclusive about the extent to which the disappearance of the tax burden might have brought relief to the colonies. Representing a 35% of total foreign trade between 1783 and 1810, Spain’ loss of her colonies did not mean a major setback for her economic activity10. Marichal (2008, 54) estimates that the burden the empire laid with the Mexican taxpayer was 50% higher than what was paid by metropolitan subjects; 3.6 pesos per capita in American against 2.5 in Spain. In an earlier article (Coatsworth 1978) table 2 calculated that the losses for Mexico from Spanish restrictive policies amounted to 5 to 7.5 % of GDP made by a trade burden of 3% of gdp or 1.20 pesos per capita and a fiscal burden of 1.68 pesos per capita - equivalent to 4.2 per cent of GDP. This made the burden of the Spanish colonialism ‘35 times greater than that of Britain’; yet the thirteen British colonies embarked in a fiscal rebellion against the metropolis in 1770s as a result and yet no equivalent reaction was ever recorded in Spanish America.

All these authors expect that the release of such burden should bring economic advantages to the independent governments. As Marichal (2008, 257) states

‘If the external transfers (tax transfers to the metropolis and to other Spanish American colonies) had not been realized, New Spain’s annual tax burden would have been reduced ... This income, in the hands of the taxpayers, would certainly have generated greater consumption, but might also have increased savings .. With regard to savings, it may be presumed that wealthier groups would have increased their silver holdings or invested them in trade or enterprise’.

The quality of comparable GPD data for all districts is very uneven so a different estimate has been constructed where robust population data is available. Table 2 shows estimates for per capita net revenues and net expenditures, ie exclusive of all remittances to

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10 Prados concludes that ‘fiscal insufficiency from a weak fiscal base together with the weakness of Spanish manufacturing at the time may explain the critical economic situation following the loss of the empire in mainland America’ (Prados 1993, pp 284) my translation.
neighbouring treasuries and to Spain for the regions which would be the independent republics.

Table 2 Gross and net\(^a\) per capita revenues and expenditure by 19\(^{th}\) Century’ political aggregates

<table>
<thead>
<tr>
<th></th>
<th>Revenue 1785-89</th>
<th>Revenue 1796-800</th>
<th>Net rev(^a) 1785-89</th>
<th>Net rev(^a) 1796-800</th>
<th>Expend 1785-89</th>
<th>Expend 1796-800</th>
<th>Net Exp(^a) 1785-89</th>
<th>Net Exp(^a) 1796-800</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>7.90</td>
<td>11.60</td>
<td>6.13</td>
<td>9.15</td>
<td>5.62</td>
<td>11.14</td>
<td>2.57</td>
<td>6.94</td>
</tr>
<tr>
<td>Chile</td>
<td>1.71</td>
<td>5.25</td>
<td>1.21</td>
<td>5.11</td>
<td>1.40</td>
<td>2.80</td>
<td>1.28</td>
<td>2.78</td>
</tr>
<tr>
<td>River Plate</td>
<td>6.90</td>
<td>8.42</td>
<td>3.16</td>
<td>4.29</td>
<td>5.38</td>
<td>7.67</td>
<td>4.87</td>
<td>7.16</td>
</tr>
<tr>
<td>Bolivia</td>
<td>5.47</td>
<td>6.25</td>
<td>4.31</td>
<td>4.33</td>
<td>3.85</td>
<td>4.14</td>
<td>1.85</td>
<td>1.73</td>
</tr>
<tr>
<td>Peru</td>
<td>5.39</td>
<td>3.51</td>
<td>4.49</td>
<td>2.28</td>
<td>3.80</td>
<td>3.09</td>
<td>2.98</td>
<td>2.00</td>
</tr>
<tr>
<td>Spain</td>
<td></td>
<td></td>
<td>3.17(^b)</td>
<td></td>
<td></td>
<td></td>
<td>2.77</td>
<td>5.59</td>
</tr>
</tbody>
</table>

Source: Grafe, Irigoin (2012) table 1 Notes a) Net of transference to Spain and other colonies; b) data for 1800

By the end of the century the fiscal burden had increased in Mexico; but per capita net expenditure – exclusive of transfers- grew even more. Largely privately managed, substantial remittances to Cuba, other Caribbean posts and territories in today US, ought to render economic benefit to some (if not to the average) Mexicans. There is plenty of qualitative evidence showing the participation of Mexican merchants in the management, transport and apportioning of these remittances: the financing of the Tobacco royal monopoly is a great example (Marichal and Grafenstein 2012), (Irigoin and Grafe 2008). So if gains were no evenly distributed is it fair to assume that the per capita burden was even? Before addressing this point a clarification about the role of transfers is due.

The per capita tax take cannot capture the fiscal burden fully if equivalent amounts were ploughed back in the district by means of spending. Colonial treasuries rarely performed in deficit as expenditures, total and net per capita, always matched revenues. This is a result of the very nature of the data, ie reports of the state of treasury to the King. It is thus anachronistic to interpret the flow of transfers in terms of deficits or surpluses. Indeed treasuries spent what they got as revenues –cash flow needs were sourced from local lending while waiting for the remittances to clear the debts. This does not mean that treasuries did not borrow – as suggested by absence of interest bearing loans in the accounts; they did it by other means, and heavily as will be seen below.

More importantly these transfers meant a sizable disparity in the burden of the contribution American subjects to the royal purse. As seen in table 3 the River Plate,
Buenos Aires and Montevideo, could (and did) spend well above their genuine income – and in a substantial disproportion of their income; conversely in most of Bolivian treasuries: revenues were not spent locally, ie only half or less remained invested in the same district. Peru as a whole in the 1780s afforded a 50% of extra spending over their genuine means which was shouldered by taxpayers elsewhere. Overall locally raised revenues made only half of what treasuries spent in the region before transfers, so arguably the regional distribution of the fiscal burden was indeed very uneven.

Table 3. Regional variation of tax burden, per capita revenues and expenditures, and transfers selected treasuries c. 1800.

<table>
<thead>
<tr>
<th>City</th>
<th>Net Rev pc 1800 @1800</th>
<th>Net Exp pc 1800 @1800</th>
<th>Transfer pc 1796-1800 annual avg</th>
<th>population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arequipa</td>
<td>5.39</td>
<td>3.87</td>
<td>-3.34</td>
<td>37,721</td>
</tr>
<tr>
<td>Cuzco</td>
<td>12.15</td>
<td>7.56</td>
<td>-5.17</td>
<td>32,082</td>
</tr>
<tr>
<td>Huamanga</td>
<td>6.80</td>
<td>4.49</td>
<td>-5.03</td>
<td>25,970</td>
</tr>
<tr>
<td>Lima</td>
<td>5.24</td>
<td>8.87</td>
<td>6.67</td>
<td>201,259</td>
</tr>
<tr>
<td>Trujillo</td>
<td>18.13</td>
<td>12.15</td>
<td>-10.22</td>
<td>17,700</td>
</tr>
<tr>
<td>Guayaquil</td>
<td>4.06</td>
<td>3.53</td>
<td>n.a</td>
<td>39,045</td>
</tr>
<tr>
<td>La Paz</td>
<td>12.32</td>
<td>3.47</td>
<td>-5.72</td>
<td>40,000</td>
</tr>
<tr>
<td>Potosi</td>
<td>18.29</td>
<td>17.03</td>
<td>4.75</td>
<td>35,000</td>
</tr>
<tr>
<td>Concepcion</td>
<td>5.23</td>
<td>2.76</td>
<td>n.a</td>
<td>105,114</td>
</tr>
<tr>
<td>Chiloe</td>
<td>4.38</td>
<td>4.50</td>
<td>n.a</td>
<td>26,703</td>
</tr>
<tr>
<td>Mendoza</td>
<td>4.61</td>
<td>1.46</td>
<td>-0.16</td>
<td>8,765</td>
</tr>
<tr>
<td>Santiago</td>
<td>9.26</td>
<td>4.28</td>
<td>n.a</td>
<td>203,732</td>
</tr>
<tr>
<td>Buenos Aires</td>
<td>16.40</td>
<td>28.44</td>
<td>19.85</td>
<td>72,165</td>
</tr>
<tr>
<td>Montevideo</td>
<td>40.31</td>
<td>49</td>
<td>7.32</td>
<td>14,093</td>
</tr>
<tr>
<td>Paraguay</td>
<td>1.03</td>
<td>1.07</td>
<td>0.27</td>
<td>100,000</td>
</tr>
<tr>
<td>Salta</td>
<td>4.58</td>
<td>3.98</td>
<td>n.a</td>
<td>13,528</td>
</tr>
<tr>
<td>Santa Fe</td>
<td>0.07</td>
<td>1.63</td>
<td>-0.11</td>
<td>12,600</td>
</tr>
<tr>
<td>Durango</td>
<td>2.95</td>
<td>0.24</td>
<td>-2.54</td>
<td>157,970</td>
</tr>
<tr>
<td>Guadalajara</td>
<td>1.57</td>
<td>0.20</td>
<td>-1.21</td>
<td>623,572</td>
</tr>
<tr>
<td>Guanajuato</td>
<td>2.36</td>
<td>0.15</td>
<td>-1.74</td>
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Notes: Shade corresponds to the respective large colonial administrative unit, ie. Viceroyalties; In brackets the corresponding 19th republic, Source: Own estimates from Grafe Irigoin (2012)
Without uniformity in tax rates and exemptions and without a single centralized fiscal authority the tax burden - measured by the per capita amounts transferred and received in each district - varied greatly within the same larger region. In fact regional inequalities were embedded in the system. Indigenous tribute in Bolivia ranged between 6 and 13.6 pesos per capita (Klein 1993) table 3.15), so the average of 4.30 pesos for Bolivia as a whole masks a substantial dispersion in the burden of colonial taxation. Table 3 also shows the redistributive effects of the intra colonial transfers throughout. It distinguishes those who gained: the capital and the ports, from those who paid into; in Mexico for instance, the big mining towns Durango, Guanajuato, Guadalajara, San Luis Potosi and Zacatecas, or the populous indigenous districts of South Peru. The observed negative sign for Mexico City is compensated by surpluses received in Veracruz – or Acapulco for which there is no population data available. From these ports revenues were sent to Cuba, Spain and to Manila and worked as capital for private trade.

This does not mean that mining revenues were directly extracted however. Collection of indirect taxes on trade and consumption fostered by silver dissemination within explains the multiplication of treasuries in the interior: connecting mining towns and populated consumer centres with coastal trading ports. This structure persisted after Independence and gave way to a number of internal customs within each new republic – distorting whatever benefit from freer trade. Hence post-independence ‘free’ trade legislation initially lowered the tariff at the ports, but internal customs still taxed goods moving inland. Alcabala as an overland trade tax levied on domestic or foreign goods in transit persisted well into the 19thC; whereas in Spain it was abolished only in 1845. Mexicans living in the capital had to pay an additional 15% ‘introduction’ surtax on consumer goods entering the city after 1821 (Sanchez Santiro 2009) so benefits from the ‘release of the trade burden’ were lost in the poor integration of domestic markets. Thus colonial taxation became the institutional legacy which dissipated any gains to expect from greater openness to the international economy.

III

Economic historians explaining the 1820-1870’ slump point at political-institutional causes: instability, warfare, fiscal and financial disorder. For Prados (2009) the ‘costs of self- government’ and the ‘costs of administering political units’ of a suboptimal size increased transaction costs that offset any benefits from the release of colonial –trade and fiscal- burdens. Yet, earlier scholarship had found positive externalities from ‘more liberal’

11 There was neither a single fiscal jurisdiction nor was there a single constituency in Spain. Taxes were particular to individual territories. Treasury relied on tax farming and encabezamientos or contributions made by the ayuntamientos – town council– in proportion to the population. Attempts to centralize the collection of taxes started in 1742 in some Andalusian and Castilian big towns without success. (Fontana 1987 p 22-26)
policies followed by Buenos Aires or Cuba for example, which distinguished them as successful export economies from the more backwards ‘closed’ economies in the mainland. Some countries were more effective than others at creating ‘modern’ institutions that better protected private property rights (Bordo and Cortes Conde 2001) – away from predatory caudillos- (Amaral 1993); or were more able in setting market- friendlier institutions (Coatsworth 1993). Export growth and access to international capital markets mirror their institutional success.

Indeed nearly all the states that emerged after 1808 in Spanish America – and in the metropolis - dealt with the constitutional crisis with similar institutional designs. In America this was cue for autonomy from neighbouring colonial authorities rather than for independence from Spain since de-facto, the metropolis had very little control over their resources12; However, not all the colonies had enjoyed the benefits of being part of the same political compact in the same way as seen in table 3. It is thus not surprising that the Plan de Gobierno de la Junta Tuitiva of La Paz (Bolivia) early in 1809 manifested their decision to cease sending money to Buenos Aires; while renewing their allegiance to the imprisoned king (Roca 2007) p 20). Each proclamation in the colonies following these events echoes this issue somewhat – even among those which initially remained loyal to the King. Autonomy from colonial authorities not independence from Spain was the issue. Regions with fewer treasury districts and more homogenous size were relatively spared from these tensions, like Chile or Ecuador (Alexander Rodriguez 1992).

Both metropolis and colonies sought an institutional solution in the Cortes of Cadiz. With colonial representation the Cortes sanctioned a constitution to be the foundation for a provisional government for ‘las Españas’. The charter conceived representation of ‘both hemispheres’ in the Cortes and in the 7-members’ government to provisionally replace the king [art 7, 10]. Population -as one single constituency- was to be represented ‘in proportion’ erasing the historical territorial jurisdictions, eg. one deputy every 70,000 people according the 1797 census for Spain however there was no counting for population in America [art 31]. This threshold left the majority of medium and small size towns, the majority of treasury districts, without representation [art 32-33] and conferred the political control to big colonial cities. Moreover, citizenship as political rights was granted to all male who were ‘not broke or servant, nor unemployed or a felon’; as a mean to incorporate individual subjects to a single constituency –abrogating privileges ie fueros – was equally ambiguous. There were no property restrictions to suffrage and literacy was to become a requirement only after 1830 [art 25]. The mita and personal tribute were abolished. To this, first constitutional texts in America added the end of slave trade and

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12 It may be slightly inaccurate to assign to 1808 the drive for Independence in the colonies. Conservative policies of the restoration governments in in 1814 precipitated such reaction which ended up with the separation, formally, by 1820 and the ‘liberal’ revolution in Spain.
emancipation of slaves. Famously the Plan de Iguala in 1821 Mexico recognized all inhabitants, Europeans, Africans and indigenous alike as citizens ‘without distinction’ (art 12) and like most early charters incorporated the vast majority of male citizens into an inclusive but vaguely defined nation-state. Similar liberality about of political and civil rights appear in early constitutional charts as Venezuela (1811), Antioquia (1812), or Peru (1821) (Perez Herrero 2015/2009).

On these bases for representation the Cortes filled in the legitimacy vacuum. The 1812 text was mostly concerned with the constitutional role of the king and of the Cortes. The new form of government was a defined as “moderate monarchy” (art 14) and representation of the constituents was consistent with Spanish tradition (Guerra 1994). Direct election was the means to appoint new legitimate authorities. Political historians have convincingly shown that elections were a widespread practice of the late 18th century political culture (Benson 1946; Posada-Carbó 1996). Thus with the 1808 crisis and across of Spanish America now contested elections repeated in viceregal capitals as well as in pueblos de indios or small towns (Warren 1996; Caplan 2003), (Echeverri 2015; Ternavasio 2015), and (Sartorious 2015) for Cuba’ exceptional case) and the 1812 charter organized the template for popular sovereignty and the recognition of equal political rights to all citizens (Eastman and Sobrevilla Perea 2015). The Buenos Aires constitution of 1821 granted universal male suffrage – which was replicated later in other provinces (Annino 1995). In some places participation was initially high – eg Santiago, Bogota, Buenos Aires - but turnout steadily reduced over time13. Between 1812 and 1854 Mexico only sanctioned 35 electoral laws and statues that reformed mechanism of elections making procedures more arbitrary and placing ever more stringent restrictions – eg. wealth, property, age, literacy- to franchise (Garcia Orozco 1978). This points out that the exclusionary character of Latin American politics is not a direct legacy of colonialism; but rather an outcome of 19th century politics. Nonetheless elections repeated at irregular intervals; they systematically occurred right after a revolution to invest legality to the new order, thus developing more a perfunctory role of legitimization ex-post (Fowler 2010),(Halperin Donghi 1979). Thus the nature of the Spanish monarchy, formerly based in privileges and hierarchies of corporate subjects and historical territories arbitrated by the King was altered for an ill-defined popular sovereignty in a territorial compact whose constituents were now individuals all equal before the treasury. Yet the fiscal basis to sustain such state remained de-facto unchanged. Ambiguities regarding territorial and individual representation in fiscal matters are one major institutional legacy of the Spanish Ancien Régime and colonialism.


The 1824 Mexican Constitution established biannual elections for Congress, However, between 1821 and 1855 there were 22 elections. Aguilar Rivera, J., Ed. (2010). Las Elecciones y el Gobierno Representativo en Mexico (1810-1910). Mexico, CFE-IFE.
The chapter on taxation is very short: only 17 of a total of 371 articles, and is particularly ambiguous about sources of revenues and prerogatives of the state to collect taxes. Cortes to be elected was to establish or ‘confirm taxes, direct or indirect, provincial or municipal’ in the future. In practice the charter allowed for the continuation of the existing taxes ‘until new levies were established’. Consistent with the liberal rhetoric taxes were to be borne by all Spanish in ‘proportion of their facultades’ and the king’s prerogative to grant privileges and exemptions to individuals and corporate bodies was abrogated. This aimed to establish a uniform – and wider- fiscal base but said nothing about particular fiscal regimes in the peninsula like the Basque or Navarra’s, nor made any special reference to the transfers among (or out of) the colonies. Article 11 listed the territories comprising ‘Spain in America, Asia and Europe’ and postponed ‘the division of this territory by a constitutional law for a convenient time political circumstances permitting’. Notably article 340 established that ‘taxes were to be proportional to expenditures’ disregarding the identity principle that treasuries need to collect in order to spend14. Territories were to be subject to an unspecified direct contribution ‘contribución directa’ to be apportioned among the provinces ‘according to their wealth’ without any indication of its source or mechanism to assess it.

Aiming for greater centralization one general treasury was to be created at the top of similar single treasury in each of the unspecified provinces; however, collection remained in the hands of the towns, ie ayuntamientos and cabildos [art 321-323]. Revenues should thereafter be sent to the main treasury districts where authorities decided over their spending. This additional lack of identity between agents who spent and who collected revenues was to be crucial thereafter. Article 354 abolished all Customs ‘other than maritime and at the borders’, but the borders were not defined [art 11]; so in America internal customs appeared between former treasury districts -now autonomous- and the fiscal autonomy of historical territories in the metropolis persisted. The charter admitted that the public debt was ‘a matter of the first order importance’ (particularly after the failed consolidation of the vales reales) however it did not earmark revenues for a sinking fund -or made any effective decision on the debt that mattered. Notably as per article 131 the Cortes was to determine the value, weight, fineness and denomination of the coins, without a mint or a bank with which to implement it. A final very short chapter on education with 6 articles [366-371] promised free access to primary schools and even allowed for the creation of universities but without indication of the means with which to do it.

But two major constitutional issues were not resolved: the representation and the aggregation of territories and subjects constituents of this state and the means to fund it accordingly. This double ambiguity meant an unsurmountable limitation to the fiscal

14 Official budgets in 1840s Spain still conceived nearly a 50% deficit without any provision to meet the gap. (Tedde, 1994 p 32-33)
sovereignty of the state which only exacerbated the ongoing institutional crisis: Existing economic and fiscal disparities among districts made even less feasible to incorporate them into new sovereign polities. Deep local roots of the structure of taxation from pervasive tax farming, sale of office and privileges were a formidable obstacle to any negotiation thereafter about some territorial integration of treasuries. With local autonomy – and without a clear sovereign - the fiscal compact disintegrated. Lacking legitimacy, public property rights to taxation disappeared and without transfers from other districts governments’ income everywhere reduced sharply. Legitimacy to rule and to tax was put into question and any successive political aggregation at a broader regional scale like the Gran Colombia, the Central America Confederation and the Provincias Unidas del Rio de la Plata, failed soon.

These were the costs of independence; but focusing on the disintegration of the empire has overshadowed that the political and fiscal history of the metropolis is very comparable: there too the process of political ‘aggregation’ and fiscal constitution of a popular sovereignty proved as haphazard. The failure of every political compromise led to war over resources and revenues; and military spending fuelled public deficits and mounting debts. But war and disorder have not been an impediment for the making of strong states - and successful economic development- as the literature on the fiscal military states in modern Europe attests. Unable to pay for allegiance or recruits revolutionary governments in America offered very generous entitlements to large sectors of the population. Tax exemptions, tariff reductions, and entitlements, ie a wide definition of citizenry to all Americans, elimination of tribute, emancipation of slaves, direct elections to appoint army officials, etc not always gave immediate yield to the treasury but helped out to mobilize support without money. They also created a significant if confuse set of rights – civil, social and political- available to all individuals in their own transition from subjects of the King to citizens of the republican states.

IV

Representation without taxation

Seeking to broaden the fiscal base of the republican state, governments in the 1820s tried to move away from indirect trade and consumption taxes to more direct contributions - echoing the rhetoric about representation of the 1812 charter. Probably the most dramatic reform program was General Sucre’s in Bolivia, which abolished the mita, the tobacco monopoly and the alcabala together with the indigenous tribute; Instead, it devised a direct, universal levy on every Bolivian – the non-descript contribución directa- which was
rejected by all parties affected and was abolished within three years.\textsuperscript{15} Under Spanish rule indigenous people paid tribute but had been exempted from \textit{alcabala}; the rest white, free blacks and mestizos alike paid this sale tax but did not pay any head taxes. In Mexico, the 1821 Federal Constitution abolished the tribute and granted the levy of direct taxes to state (provincial) governments; however regional elites rejected the new taxation and by the 1830s most states had increased further the indirect contributions like \textit{alcabalas} and monopolies. Few populous states like Oaxaca and Yucatan continued the indigenous capitation and the tithe from which they obtained the bulk of their income well into the 1840s (Serrano Ortega 2007). Tribute was also abolished in Ecuador in 1823 - to be re-established within three or four years - and in Peru by the 1821 reforms together with the \textit{alcabala}. Yet tribute did not cease completely until 1895 (Contreras 2006). This contrast between Mexico and Peru is explained by the greater commercial orientation of the Mexican indigenous economy. The relative greater dispersion of silver mining in Mexico may also explain the choice for the persistence of the \textit{alcabala} until the 1857 constitution (in paper) and beyond, until 1896 in practice\textsuperscript{16}. In any case this feature, which troubled the integration of the domestic economy, mirrors the different degree of centralization than Peru enjoyed over Mexico - and the respective path in their constitutional designs\textsuperscript{17}.

The 1820s fiscal reforms in Latin America - e.g Rivadavia’s in Buenos Aires, San Martin’s in Peru (Anna 1974), Santander’s in Colombia (Bushnell 1953/1970), Sucre in Bolivia (Lofstrom 1970) - failed on three main issues: to establish direct taxation, to increase revenues collection and to build fiscal capacity. The same happened with the 1813 reform in Spain. Paradoxically the failure reinforced central governments’ dependence on Customs and on monopolies even further (Centeno 2002). Tariff in the hands of central governments continuously increased throughout. Taxes mainly levied on imports made at least half of the revenues as in Mexico and 80\% of revenues in most other countries. With the continuation of the colonial \textit{alcabala} the fiscal burden fell squarely on consumers. Few like Peru obtained similar income from taxes on Guano exports after 1850 or Chile, later, with similar near monopolistic position in the production of nitrates. For most of the

\textsuperscript{15} It consisted of a vaguely defined personal or head tax, partly a property tax, and partly an income tax. Indigenous villages rejected them to keep ownership of communal lands Sanchez Albornoiz, N. (1978). \textit{Indios y Tributos en el Alto Peru.} Lima, Instituto de Estudios Peruanos.


\textsuperscript{17} Republican governments in both cases replaced the mining tithe – which was collected by the church- for a 3\% tax. Contreras, C. (1999). La Minería Hispanoamericana después de la Independencia. Estudio comparativo de Bolivia, Chile, México y Peru. \textit{Dos decadas de investigacion en historia economica comparada en America Latina, homenaje a Carlos S. Assadourian}. M. Bomemann. Mexico.
period in Chile and Mexico the colonial tobacco monopoly still made for 60% or more of total revenues (Tenenbaum 1986). Together with the salt monopoly it formed 60% of revenues in Colombia until the 1850s. Elsewhere land sales, either public as in the River Plate or expropriated to the church as in Bolivia or to Indigenous villages as in Colombia (Halperin 1979), (Abendroth 1990; Kalmanovitz 2006) occasionally rendered additional revenues.

Yet the per capita tax take of republican governments was lower than what the colonial treasury had extracted. Assembling information from a patchwork of sources for population and revenues table 4 shows the estimated fiscal burden for comparable districts in years for which data are available. Caution is on order as robustness of the indicators is debatable so real values are no more than a makeshift. These are all nominal values but price data is even paltrier; possibly the best available estimate of 19th century living standards is Peru’s (Gootenberg 1990) which basically counts for prices in Lima only. Yet comparing with estimates displayed in table 2 the government’s tax take had reduced dramatically in the Mexican Federation, Chile, Peru and Bolivia, and this repeats when comparing the colonial fiscal burden at district level shown in table 3 above. Veracruz’ dramatic fall mirrors the end of the intra-colonial transfers; other Mexican states government had lost half or more of their nominal value in 1800 in spite of that population remained stable or migrated to larger cities.

Table 4 Estimated per capita fiscal burden, Spanish America 1820-1850.

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**Unlike colonial data used in table 3, table 4 data states indiscriminately gross revenue and includes carryovers and financial income of all sorts. Systematic counting of the population – itself a measure of state capacity – started only in the second half of the century in most republics.
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<td>1830</td>
<td>844049</td>
<td>274537</td>
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<td>1832</td>
<td>1476757</td>
<td>314121</td>
<td>4.70</td>
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</table>

Notes: * data from annual average ‘net per capita revenues’ 1796-1800 Ibid table 2; ** Mexico adjusted by annual CPI value in silver grains index from (Challu and Gomez Galvarriato 2015), *** Peru: adjusted by annual inflation index from (Gootenberg 1990 table 3); a) Annual average net per
capita revenue for Buenos Aires only, b) data for 1822 (Burgin table 7)* M. Burgin, The Economic Aspects of Argentine Federalism, 1820-1850 (Cambridge, 1947)p 53

Back in 1989 Jacobsen had estimated that per capita collection of revenues in Peru had fallen from “28.9 reals in the mid-1790s to 23.3 reals in 1850”. This nearly 20% reduction in the nominal value of the collection represented about 43% in real terms as he assumed “a 30 % inflation rate for the period 1800s and 1850s” (Jacobsen 1989)p 315. More recent data shows successive cycles of deflation and inflation as result of lower levels of silver in circulation and inflationary financing of wars before the Guano boom (Gootenberg 1990, 28-30). This explains the relatively higher tax burden of the 1840s. Otherwise, like in Mexico the tax take of the republican government was a fraction of the colonial burden in spite of moderate price inflation (Challu Gomez Galvarriato 2015).

In Spain, the Mon Santillan 1843-45 reforms – together with a new constitution- abolished internal customs by the discontinuation of alcabalas; exemptions and tax farming still in hands of the church and individuals ceased granting a slightly greater control to the central government (Serrano 2015/2009). Yet still in the 1850s the bulk of revenues originated in Custom, monopolies and a other consumption taxes (Yun Casalilla, O’Brien et al. 2012). A new direct tax ‘contribución territorial’ did not yield; this ill-defined levy on land property (not on income or capital) left the valuation and collection of taxes in the hands of ayuntamientos. Various disentailments of royal and Church real estate (1811, 1836-37, 1841, 1855) to pay for old debts or paid with depreciated scrip provided some occasional income. But as in Spanish America large sales of lands distorted land markets and fostered concentration of assets.

Everywhere ‘Liberals and Absolutist’ (or conservative) governments alike faced the same fiscal problems and resolved them very much in the same fashion: repeated insolvency, further indebtedness and further indirect taxes19. This was not a matter of politics or ideologies. In Buenos Aires for instance the same individual Manuel Garcia was responsible of the Finances for fifteen years and served under diametrically different governments –in the eyes of political historians - that of Rivadavia and Rosas (Irigoin 2000). Yet frequent change of governments in both former colonies and metropolis are a symptom of protracted instability. But changes in the responsible of the Treasury intimate that this was far from a legacy of colonialism. Between 1827 and 1855 Mexico had 49 different governments and 119 ministers of finance, who lasted in office an average of 4 months if the government was constitutionally appointed, or barely 3 weeks in the facto regimes. In

19 In Spain the government unilaterally restructured the debt as in 1818, repudiated (partly) it in 1828, defaulted or nearly defaulted in 1836 and 1847.
the metropolis, between the French withdrawal in 1814 and the 1868 revolution, there were 54 cabinets and 92 different ministers of Finances\textsuperscript{20}. Indeed both Spanish and Spanish American governments became insolvent in the wake of the crisis following the Napoleonic occupation of Spain; and their commercial and fiscal deficits continued sternly (Comin 1988). Both colonies and metropolis amassed huge domestic debts and borrowed heavily in European capital markets; cash strapped Spanish American republics found ready money in London in the 1820s – and applied fresh funds to make the reforms viable; within few years all them defaulted and remained sealed off from further foreign borrowing for the next forty years (Marichal 1989). Only when governments could restore some soundness to their treasuries, they became again credible borrowers in London. Spanish governments could do slightly better: they repeatedly defaulted or repudiated the domestic debt (1836, 1840) (Tedde de Lorca and Marichal 1994) p 64. Spain too could borrow in London in the 1820s – and in France in the early 1830s; adding this debt to the arrears from the Dutch loans of the 1800s (Canga Arguelles 1833) - but lost direct access to foreign finance in the late 1830s (Platt 1983) p124. Thereafter the government could only survive with short run lending from the house of Rothschild – but at a significant fiscal cost: the loss of revenues from one of the world’s most important quicksilver deposits\textsuperscript{21}.

Taxation without consent

In the 1820s most of the republics also consolidated the debt – including arrears from old colonial claims. In Mexico by 1816 it represented 120\% of the total revenues of the Mexican treasury in the bountiful years of 1800s; the proportion was 300\% for Lima in 1821 and 150\% in Buenos Aires\textsuperscript{22}. The three treasuries had been large recipients of transfers before 1810 so without these extra-revenues the debt burden was several times larger in the 1820s [Grafe Irigoin 2012 p 629]. As part of the reforms some republican governments launched their first public debt issues. Early on Buenos Aires chartered a private bank of issue and established a Stock Exchange as marketplace for public funds and


\textsuperscript{21} In 1835 Almaden' mines were leased to Rothschild. Mercury was a critical input for the refining of silver and the house controlled the refining of precious metals in Paris and London which made it dominant in the exchange business in Europe. Lopez Morell, M. (2013). The House of Rothschild in Spain, 1812-1941. Burlington, Ashgate.

, p83 fig.12.10)

\textsuperscript{22} The amount of the certified debt was 21.6 million pesos in Mexico, 21.7 millions in Peru and 4 million in Buenos Aires (Grafe Irigoin 2012). Using Coatsworth’ 1998 GDP data these stand at 10\% of Mexican GDP, 50\% of Peru’s GDP and 16\% of Argentina’ GDP. Spain’ amounted to 13,120 million reals but 60\% of it was repudiated by the government in 1828 (Tedde 1994 p12)
foreign exchange. The funded debt in 1821 amounted to twice as much as the yearly treasury revenue at the time. By 1840 it had multiplied ten-fold as it helped to fund the Customs shortfall from European blockades to the port. Unsurprisingly bonds as financial resource vanished; a 20 times increase in the volume of the fiduciary currency issued by the bank and a subsequent depreciation of the exchange rate to gold that fell from 17 to 370 pesos in the same period annihilated the domestic market for government debt (Irigoin 2000).

Spain’s domestic debt by 1821 – which included the principal and arrears of the failed Vales Reales - represented about the same amount that annual revenues (Tedde 1999, 12, Prados 1993, Table 10). Then the metropolis had lost the fiscal returns from re-exports of other European goods to the colonies and revenues from trade services had collapsed. Spain could still borrow abroad for a while. After 1834 short term bills – mainly from France - multiplied the nominal volume of external debt. It was already 20 times larger than in 1821 and it grew 50 % further in the subsequent fifteen years (Sardá Dexeus 1948 p 60, 90). Established in 1829 on the remains of the failed Banco de San Carlos, the Banco de San Fernando - with limited large operations confined to Madrid - issued notes to lend to the government without building equivalent metallic reserves. (Tedde, 1994, 30, Sarda, 1948, 32). The bank assisted the government during the Carlito war and it helped further with an extraordinary expansion of notes without reserves – as fiduciary money in 1844-47 (Tedde 1994 table 1.4, Sarda, 1948, 94). It was merged with the Banco de Isabel II in 1847 which had multiplied its issues even more. Funding the government debt represented 60-70% of the bank’s assets and crippled the peculiar banking system of the country as Tedde has painstakingly described. Unsurprisingly lending to private business was minimal. Yet, the financial reform and creation of Banco de España in the 1850s did not end the recourse to finance debt by monetary means; it will turn into open inflationary finance policy later in 1883 with the inconvertibility of the peseta (Martin Acena 1981 ).

Thus, recurrent deficits were increasingly financed with debt (which was often re-structured) or money creation when both foreign and domestic lenders exhausted; In some countries the last resort eventually was money creation by means of rigging the banks like in 1840s Spain, debasing the currency as in 1830s Mexico or 1850s Bolivia or just printing fiat money as in Buenos Aires since 1826 (Mitre 1986); (Tedde 1999; Irigoin 2000; Centeno 2002), (Torres Medina 1998). This also triggered a remarkable change in monetary policy with lasting impact: the expansion of currency to meet fiscal disequilibrium opened an early door to governments to use money as a fiscal instrument. Hence depreciated exchange rates provided also additional protection and stimulated the production of some exports – especially when international prices were falling - despite scholar insistence on the importance of tariffs throughout the 19th century (Coatsworth and Williamson 2004).
Effects from the monetization of the deficit further disintegrated money markets and exacerbated regional and political tensions within a formerly integrated monetary union.

According to Spanish monetary historians a ‘contradictory’ monetary policy particularly after 1823 failed to attract specie to the mint (Sarda, 1948), imposing substantial deflationary effects to the Spanish economy ([Sardá Dexeus 1947]), (Nogues-Marc 2005) for a qualification. Throughout a systematic – but unexplained – overvaluation of the silver drove specie out of circulation; e.g. the gold/silver exchange rate was 1:15.2 in UK, 15.5 in France and 16.5 even 16.7 in Spain, so ‘Spanish coins were hence hoarded or exported en masse’. Thus insufficient circulating medium sustained demand for lesser quality French coins for decades. Liberal governments hoped to revert this early in the 1820s without success. The 1824 Restoration’ monetary policy was notoriously prejudicial and the flight ‘of pesos duros or fuertes’ continued despite large foreign loans. Deflation was significant up to 1830 but continued through the 1840s (Carreras 2005) (Table 16.9 p 1288-90) despite the reopening of the Barcelona mint and renewed coinage in Madrid (Sarda, 1948 80-88). Then even other foreign coins, Mexicans and Portuguese, entered in circulation for greater disorder. However, without means governments were unlikely to run effectively a mint or any policy on foreign exchange, so low coinage it is no wonder. Yet it is unclear which were the Spanish silver coins that were dominant in circulation; according to Sarda (p 67) these were pesos ‘fuertes of duros’ with higher intrinsic silver value than French coins, and were most likely good Spanish American pesos. As in Peru, and elsewhere, from the mid-1820s to the mid-1830s good silver coins were siphoned off given their appreciation in France, Britain and even more so in the traditional Asian markets. Deflation was a common trait in these economies (Gootenberg 1990). In some silver rich countries several mints appeared and cut coins of various qualities – some of which reasonably should have ended in Spain (Irigoin 2009). In circulation along with the francesas, Gresham effects occurred and arguably resulted in deflationary consequences as those described by Sarda. Notably the exchange rate of sterling and the French franc remained relatively stable throughout the period 1821-1855 – with exceptional blips in 1847 (Tedde 1999 table V-2 and XI-3), (Prados de la Escosura 1986) app 7. As the banking system was, the markets for money and exchange were highly fragmented adding further transaction costs to the already weak integration of the Spanish domestic economy (Nogues-Marc 2015).

Research on the macroeconomic situation of Spain in this period is still a work in progress but evidence from very detailed narratives presents the problems of Spain very similar in nature to those of her former colonies. Whereas in some parts of Spanish America inflation was an optimal solution to debt finances in times of war (Bordo and Vegh 2002); it continued being a source in peaceful times and for economies with very different
endowments and institutions – like Bolivia or Buenos Aires still by the 1850s (Irigoin 2009). The lack of consensus about the form of the state, about the sources of revenues and the liable subjects, and the disassociation between tax collectors and bearers, all contributed to a very low collection rate, a shallow fiscal base and ultimately to insufficient revenues. In a political regime in which representation bore no relation with taxation, governments became insolvent; lacking fiscal capacity or legitimacy (often both), taxation ought to happen without consent.

Another legacy

Institutionalist interpretations of Latin American long run development customarily assess her performance against the United States’. However, the political and fiscal trajectories of Spain’s and Britain’s former colonies after their Independence were hardly comparable. As historian Max Edling (Edling 2003) rightly explains, the revolution in the British colonies was ‘in the favour of government’, not ‘against the government’ as precisely was the case in the Spanish colonies. This difference makes the comparison of their respective institutional paths quite problematic. Moreover considering that both Spain and her former colonies were in similar predicament after Independence it is difficult to assign it as a prejudice from the colonial legacy. Under British rule North American colonies were also separated fiscal and political units; but they were financed by a metropolis which took on its defence and minimal government expenses. Unlike the Spanish settlements, where the church provided most of public goods with substantial funding from the royal purse, the British colonies funded public goods such as education with direct taxes raised locally. When the French Indian War in the 1750s and 1760s demanded further revenues – or to the colonies to bear part of the fiscal costs - Parliament met fierce resistance to further (indirect) consumption taxes required from the colonists. This asymmetry between taxation and representation that the colonies had in parliament triggered the American Revolution and tax resistance continued until the 1790s.

The British levied direct taxes on colonial property and faculty from as early as 1660; however no comparable taxes were charged in the metropolis where direct taxes increased only after 1792. In parliamentary England sources of direct taxation –mainly land - had been in relative decline since the 1690s. For most of the 18th century custom and excise made the bulk of her revenues (Ashworth 2003). Apparently the fiscal burden was low in

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23 The Townshend Act followed the (repealed) Stamp Act, the Sugar Act and others sought to raise revenue in the colonies for self-maintenance. It culminated with the Tea Act of 1773 and protests in Boston.
24 Faculty taxes were levied on the faculty or earning capacity or persons following certain trades or having certain skills. G. Fisher, History of Property Taxes in the US. http://Eh.net/encyclopedia/history-of-property-taxes-in-the-united-states accessed on 3rd January 2015
the British colonies – and certainly much lower than in the metropolis. However, as Zolt shows ‘representation came at a cost’ to independent US: from 1792 to 1811 the per capita tax take increased 10 times from what the Empire had charged in 1765-1775. (Zolt, 2009, 455). Direct taxes collected by local government did not cease with the revolution and their income represented a substantial part of the revenues available to the new state governments. By 1825 the total tax take of the US government was $ 4.33 per person of which 54% corresponded to income appropriated by the state and local governments (Zolt, 2009 table 1). It jumped to $ 8.86 in 1855, which meant more than double in real terms of the 1825 value25. This burden was certainly much higher than the per capita contribution borne by Spanish Americans as seen in table 426.

This growth includes the extraordinary fiscal expansion of the Federalist period. Only in 1787-89 the Philadelphia Convention incorporated the former colonies into a federal United States transforming the equal representation of states in the Continental Congress for the proportional representation of citizens in the House of Representatives. This political experiment, the Confederation in which Congress took the governing role the King, had collapsed under the compound of insolvency and currency inflation in 1782-8827 (Edling 2014). As part of the Federalist fiscal program the federal government assumed the debt of the individual states and paid them at par with new federal public bonds; this significantly relieved the state governments of the cost of the transition to a new political order. In 1790, seventy four million dollars’ worth of domestic and foreign debt – about 30% of GNP28 - were consolidated in long term interest bearing bonds which the federal government serviced regularly with revenues from trade taxes. Having been part of the fiscal burden levied by the British, the US government appropriated what formerly belonged to the empire. The tariff was a prerogative the states surrendered to the federal government by the Impost Acts of 1790. Together with some low excise taxes on alcohol, tobacco and sugar, the tariff thereafter made 70-80% of the federal income in the period. Customs revenues amounted to $ 4.6 million in 1792 (about 2% of GNP) or $1.36 per capita; in nominal terms they doubled by 1800, tripled by 1805 and further quadrupled by 1820. By 1850, the tariff at $ 39 million – or $1.98 per capita - still made 82% of the federal revenues (Finances 1870).

25 According to the US dollar purchasing power www.measuringworth.com/uscompare/relativevalue.php accessed Feb 6th 2015. The annualised inflation rate in the period was -0.45%
26 The US dollar and the Spanish American silver peso remained legal tender at par until 1856.
27 The Constitutional Convention alienated the rights to coin or print money from the state and gave the power to coin to the federal government in 1792. It also changed the states’ for proportional representation in Congress.
What sets the Federalist and Republican programs apart from the Latin American fiscal reforms - and from the previous disastrous experience of the Confederation- is the extraordinary capacity the federal state had to service the interest and principal of its debt (Wallis 2000). This capacity to tax was not available to governments in Spanish America – nor in Spain- not because of the type of levies, but because governments there could not establish a taxation system that worked. North Americans eventually agreed to shoulder heavier taxes than under British rule (Edling, 2003, 156). The per capita burden calculated by tax take of the three levels of government combined had doubled in 1855 from the per capita contribution of 1820, meanwhile population had tripled. (Zolt, 2009 p 458). So even if the US, like Latin American republics, relied on Customs to service the debt the argument about the colonial fiscal burden in the case of Spanish America needs some closer scrutiny to substantiate.

Prados (2009) explains the extremely different success of the financial origin of republics in the Americas by the recurrence of deficits. Latin American already weak governments were further prejudiced by vicious circles of insolvency, debt and inflation. Indeed the problem was the impossibility to raise debt because they were no credible payers29. But by looking solely at the federal level scholars tend not to see the real size of the fiscal burden borne by the US taxpayer. Considering that the federal burden was half or less of what the three levels of government take was, it means that there was a significant amount of money still appropriated by local and state treasuries. This income was originated in direct taxes and, more importantly, it was spent on education and infrastructure; something which no fiscal district in Spanish America was remotely able to dream of as the overwhelming share of expenses went to war (Centeno 2002)

Spanish American (aspiring) governments in capital cities were charging taxpayers elsewhere with indirect trade taxes; the latter had not vote or say on the spending of these revenues; nor there were channels for redistribution as the transfers that had formerly allowed the co-optation of regional elites - even if for marginally productive ventures. Indirect taxation without representation was the means that republican governments had to establish their authority at the centre and at the top of the polity in Spanish America. For taxpayers the burden was greater if a government elsewhere controlled the Custom house at the port or the tobacco monopoly – as in landlocked capitals like Bogota, Mexico and Santiago de Chile. Relief from colonial tax burden was none for the people overall – if any it was appropriated by elites at the capital cities who increasingly restricted political representation of territories and individuals. Unsurprisingly fiscal federalism failed.

Whereas in the federal US some states even invested in banks, turnpike and canals construction through private public partnership and taxed profits from banks and insurance companies and capital gains on these stocks (Sylla 1999) 266. Thus some states managed to fund up to 60 % of their expenses and participated of the greater fiscal capacity of the federal state which relieved them from the old debts. The federal government also shared revenues from land sales and taxes on businesses. Furthermore in New England these revenues were sufficient to enable some reduction or elimination of state property taxes early on.

Scholars have shown the importance of state revenues for the provision of public education in the US (Go and Lindert 2007); by 1820 the Common School achieved the best literacy rate in the world thanks to income from direct taxes invested in education serving a broad population. There were significant regional variations among states however. Zolt argues that this explains the different type of taxes chosen to support public education spending, and hence inequality levels within the US (Zolt, 2009(Lindert 2004)). Elsewhere Sokoloff and Zolt have related this to the contemporary extension of the franchise in the US (Sokoloff and Zolt 2006) 179). They thus explain the different growth performance in South and North America in the provision of education resultant from the legacy of inequality that taxation imposed in each part of the continent. The channel, they argue, was suffrage institutions. Thus, allegedly North Americans had a less restricted franchise, greater turnout at the ballots and a vigorous primary education funded by direct taxation. Latin Americans, on the other hand, increasingly had more restricted franchise, lower turnout and did not – and could not- invest in education to account for (Curvale and Przeworski 2008). However, only the Fifteenth Amendment to the Constitution in 1870 granted all US male citizens the right to vote; and most blacks were yet disenfranchised, banned or discriminated at the ballots until the Voting Rights Act of 1965 made suffrage universal. Ironically until 1964 five southern states used the payment of poll tax as requirement to vote, which was repealed by the Twenty Fourth Amendment – yet eight states have not ratified it to date.

Notwithstanding, Spanish Americans were not originally precluded from voting and had significant means for investing in education at their disposal – at the rate they controlled the colonial treasuries. Furthermore every early constitutional text aimed at it. However asymmetries between agents decing collection and spending of revenues from mainly indirect taxes rendered paltry yields to the Treasury. Direct taxation in the US proved also an advantage for more equal, better educated, societies (in some states) because as Zolt points out ‘where the median voter has less income than the mean, the median voter will favour income tax regimes under which her share of taxes will be less than their share of government benefit supported by the tax revenue’ (2009, 449). This theorem may not work if the median voter pays indirect taxes of which moreover rates are decided elsewhere and
revenues are disinvested from public goods to service debt or eroded by inflation. This was the situation in republican Spanish America, where a substantial provision of public goods was done by private sources like the church and charities and so not perceived as return for taxation. Similarly a number of private goods were provided by public sources which made the ‘developmentalism’ of the colonial state; thus employment, food security and a host of subsidies to private activities were then understood as entitlements. In this case the median voter would dissociate the identity between revenue and expenditure and may unreasonably prefer lower taxation to fund lower expenditure – if there were no real redistributive effects to hope for.

**Conclusions**

Weakened governments could not tax, without income they could not last and they yet had to spend ever more to remain in power. Political instability was rooted in the fiscal fragility of the state and every new constitution faltered as fast as the previous one. Paradoxically in Spanish America, instead of relieving the burden from the colonial taxation, Independence weakened yet more the capacities –fiscal, legal and administrative- of the republican state and undermined the political institutions that it organized. Over time – because of inelastic expenses from political turmoil on top of growing demands on future income from debt and prejudices from monetary disorder - all compounded in chronic fiscal deficits and broken governments. Fiscal basis were shallow and shrinking as countries lost import or consumption capacity from exchange rate problems and disintegrating domestic markets. Borrowing further at shorter terms and higher interest rates led governments such as of Mexico’s to real bankruptcy within 30 years (Tenembaum 1996, Irigoïn, 2009). Other governments with even lower fiscal capacity inflated their debts by monetary expansion like Bolivia’s, or suffered from the impossibility to execute any monetary policy, as Spain or Peru until the 1850s. The lack of consensus about the form of the state, about its fiscal basis and the disassociation between tax collectors and bearers ultimately undermined the capacities of the (any) state. The incidence of regressive taxation on producers (exporters) and consumers originated large redistribution effects which further aggravated centrifugal tensions.

Without fiscal capacity neither debt service nor tax smoothing was possible for Latin American governments. Lack of fiscal capacity and regressive taxation had persistent implications in the making of the republican state. For instance the first Mexican

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constitution of 1824 devised a mechanism to incorporate formerly separate 19 treasury districts into a federal republic. It was meant to be a compromise between states and ayuntamientos to fund the fiscal reorganization of the new federation. Replicating Cadiz’ article 340 the Mexican congress apportioned each state contribution by a poorly defined combination of population size and consumption, i.e. the Contingente. The political bargaining was extremely difficult and returns foundered shortly: they made 24% of federal revenues in 1824 and originated in the same mining regions that had formerly transferred large shares of their revenues to the colonial capital, but without vote or voice (Arroyo 2006). It fell to a 10% in the following years and collapsed further to 3% in 1831 when contributions ceased; meanwhile total revenues of the federal government nearly halved. Conversely, in the US when in needs for war expenses as in 1812 the federal government could temporarily raise an extraordinary federal property tax among the states on the basis of population to great effect. Underpinning the failure of Mexican fiscal federalism – comparable to other experiments in Spanish America - was the protracted conflict about the sources of national revenues and the form of the state.

In the process, restrictions to suffrage mounted with wealth and literacy requirements throughout Spanish America; elections evolved into a form of proclamation of every new government more than actually an organized and fair competition for power. The early open contest for the popular will ran out of funds soon; henceforth governments traded entitlements for support. Political strife moved from the ballots to the battleground, and further to the streets. Suffrage lost its nature. With an hoc elections representative democracy in Spanish America moved one step towards what scholars calls a ‘Delegative Democracy’ (O’Donnell 1994) as opposed to a representative one. In this environment there were no effective means to fund governance and far less to deliver the constitutional promises of public education. As governments resorted to even more perverse means to defray expenses, like selling massively lands at once when relative its price was rising from greater labour ratios and higher prices for land intensive commodities from globalization, they only accelerated already high levels of inequality. Thus in 19th century Spanish America – and in Spain- inequality is the by-product of another institutional legacy other than colonial status. Elites on the other hand managed to deter both greater fiscal extraction from governments and institutional demands for political redistribution from fellow citizens. Fiscal reforms were ineffectual or null and representation was increasingly more restrictive. Low taxation was in their interest as they could acquire public goods privately. For the masses the expectation – and experience- of public provision of private goods put governments in the position of continuous patronage in order to buy out their legitimacy, irrespective of the financial means available. Insolvency, inflation and instability are long term features in these countries, together with regressive fiscal policies. Placing the fiscal burden on others or in the future brought elites and masses together in a perverse combination of low taxation and representation. This intertemporal trap of the
peculiar Latin American political and macroeconomic (dis)equilibrium seems to be indeed more a legacy of the 19th century.
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