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# FISCAL INNOVATIONS IN EARLY MODERN STATES: WHICH WAR DID REALLY MATTER IN THE PORTUGUESE CASE?

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## **Abstract**

Throughout the Early Modern times, European dynastic states started a long-term process towards the building of a territorial organization, depending on increasing revenues and creating its own self-sustaining logics. Different solutions were found to face expenditures; hence different paths to fiscal efficiency came up. This paper brings up the Portuguese case to add new issues to the debate of the factors for fiscal innovation and political-military efficiency in Early Modern times.

Prior to the Spanish Secession war, the Portuguese state had faced the Spanish armies in the 14<sup>th</sup> century and again in the 17<sup>th</sup> century. Both wars triggered fiscal innovations, shaping the Portuguese fiscal system for centuries afterwards.

Taking as benchmarks 1580 and 1680, this paper questions the choice for an income tax precisely at a time when excises were being generalized in North-western Europe. It makes an assessment of state revenues and of the role of this income tax (*décima*) on a comparative approach. The endurance of *décima*, as had happened to medieval excises, will be questioned taking into account cost-benefit considerations, regarding the costs (economic and political issues) of any change in collection and assessment.

It will be argued that there are good examples of fiscal innovation in the Portuguese case. However, the importance of fiscal innovation for the process of state making and financial modernization may be overestimated just where institutional rigidities had subverted its potentials.

**Key words:** Modern State; public finance; taxes.

**JEL classification:** H11; N44.

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## 1. Introduction<sup>1</sup>

In the early modern period, European political units attempted deep transformations which brought about a new model of organisation firstly described by Joseph Schumpeter as the Tax State.<sup>2</sup> The concept refers to changes in the type of state revenues, which carried a reduction in domain revenues and the subsequent emergence of fiscal income. In the long-run such a change would be accompanied by the increase of indirect taxation, granting the financial success of the fiscal state. It is safe to say that, in the last quarter of the 17th century, the English and Dutch fiscal systems relied heavily on indirect taxation. This change underpinned new public debt management which was of greater importance to the modernisation of the financial structures of the state. The elasticity of receipts provided by indirect taxation supported a growing public deficit and enabled the state to earn credibility as a debtor<sup>3</sup>. These fiscal and financial transformations, since they led to the self-sustaining growth of public budgets, supported a superior level of “stateness” and gave the pattern to define a modern state<sup>4</sup>.

Fiscal History has been considering different coexisting fiscal systems in Early Modern Europe, thus avoiding a teleological analysis. Nonetheless, concepts such as domain state, tax state and fiscal-military state are to describe different paths towards the common outcome referred above. Regardless of such divergent national paths, war seems to have been the predominant factor for

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1 Paper submitted and presented at Third Iberian Economic History Workshop: IBEROMETRICS III, Valencia, March 23 and 24, 2007.

2 Joseph SCHUMPETER, “The Crisis of the Tax State”, in SWEDBERG, R. (ed), *The Economics and Sociology of Capitalism*, Princeton, 1991, pp. 99-140.

3 For all see, P.G.M. DICKSON, *The Financial Revolution in England: a study in the development of public credit, 1688-1756*, London, Macmillan, 1967; Patrick O'BRIEN, Philip A. HUNT, “England, 1485-1815”, in Richard BONNEY (ed), *The Rise of the Fiscal State in Europe, c.1200-1815*, Oxford, Oxford University Press, 1999, pp. 52-100; John BREWER, *The Sinews of Power. War, Money and the English State, 1688-1783*, New York, Alfred A. Knopf, 1989; Forrest CAPIE, “The Origins and Development of Stable Fiscal and Monetary Institutions in England” in Michael BORDO, Roberto CORTÉS-CONDE, *Transferring Wealth and Power from the Old to the New World. Monetary and Fiscal Institutions in the 17<sup>th</sup> through the 19<sup>th</sup> centuries*, Cambridge, Cambridge University Press, pp. 19- 58; Jan DE VRIES, “The Netherlands in the New World. The legacy of European fiscal, monetary and trading institutions for the New World Development, from the Seventeenth to the Nineteenth centuries” in Michael BORDO, Roberto CORTÉS-CONDE, *Transferring Wealth and Power from the Old to the New World. Monetary and Fiscal Institutions in the 17<sup>th</sup> through the 19<sup>th</sup> centuries*, Cambridge, Cambridge University Press, pp.100-139; Marjolein C.'T HART, *The making of a Bourgeois State. War, Politics and Finance during the Dutch Revolt*, Manchester, New York, Manchester University Press, 1993.

4 R. BONNEY, W.M. ORMOROD, “Introduction. Crises, Revolutions and Self-Sustained Growth: towards a conceptual model of change in Fiscal History”, in W.M. ORMOROD, M.BONNEY, R. BONNEY, *Crises, Revolutions and Self-Sustained Growth. Essays in European Fiscal History, 1130-1830*, Stamford, Shaun Tyas, 1999, p. 18.

the self-sustaining growth of the state, even in the 20th century.<sup>5</sup> On the other hand, as the state captured the monopoly of defence, the evolution of the fiscal constitution of European states in recurring situations of war defined the functional boundaries between the public and private sectors. This process occurred through conflicts with other, comparable and competitive powers, both internally and externally. But it also demanded consensus through recognising the necessary role of alliances between the monarch and ruling elites. From such an imbalance between conflict and consensus, came the success, or lack of it, of each national case. Successful cases were those which defended themselves from disintegrating or agglutinating forces, and this resistance forged the financial bases of their assertion<sup>6</sup>.

The association of the state building to the provision of public goods such as defence allowed taxation to be thought of as a cost of protection<sup>7</sup>. This idea is central to the argument raised in this article which deals with fiscal innovation. However, it attempts to dismantle the conceptual link between fiscal innovation, modernisation process, and conditions for the success of a state in warfare. It is argued that a state can be successful when defending the sovereignty over a territory with stable boundaries and providing good examples of fiscal innovation, although without achieving higher levels of political centralisation and administrative effectiveness, or monopolizing defence. In such cases fiscal innovations might have been a factor for the endurance of a non-modernized institutional framework, whether referring to the relationship between interest groups and the state, the central and local political structures, or the structure of revenues<sup>8</sup>. If an innovation fails in its main purpose and thus having limited impact on the modernization of political and financial organizations, the financial alternatives of the state may include the privatisation of public services and goods (creating new economic opportunities for rent seeking behaviour) or legitimizing methods of expropriating property, which hinders the making of an institutional framework that grants property rights.

The factors for an innovation not providing expected financial results raises the question of costs of fiscal compliance during the Early Modern period and focuses on internal, rather than on external, challenges in the making of a fiscal state. This analysis uses Portugal to illustrate the discussion. It considers an income tax known in Portugal as the *décima*. Introduced in 1641, during the second war of independence in Portuguese history (the first under went in 1383-1385), the tax remained for a period beyond that which justified it, becoming a common revenue of the state long after 1820. The *décima* when introduced, not only altered the Portuguese fiscal system, but

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5 R. MUSGRAVE, *Fiscal Systems*, New Haven- London, Yale University Press, 1969, pp. 106-109.

6 Ch. TILLY, "Reflections on the History of European State making", in Ch. TILLY (ed.) *The Formation of National States in Western Europe*, Princeton, Princeton University Press, 1975, p. 42.

7 Edward AMES; Richard T. RAPP, "The Birth and Death of Taxes: a hypothesis", *Journal of Economic History*, vol. XXXVII, n°1, 1977, pp. 161- 178.

8 J. BREWER, *The Sinews of Power...*, p. 137; p. 166.

also represented a precursor case of an income tax, as it was later tested in the 18<sup>th</sup> century Europe already under the influence of the Physiocratic theoreticians.

The financial effects of the new tax are at the core of the inquiry, although the financial spill over of the new tax is collateral to the central issue. Since any fiscal innovation has costs of tax-operating, and considering the fact that in any society “taxation is regarded as potentially objectionable”<sup>9</sup>, it is to be assessed the failure or success of the fiscal innovation regarding its costs, both of compliance and administrative costs, although the former reinforced the latter. Hence, the limits of a taxpayer’s compliance are to be questioned taking for granted that he would find an opportunity cost in the new tax. Such an approach considers the relationship between a war tax, seen as a protection cost, and a certain level of risk in the economy during a time of greater insecurity.

The hypothesis considers the new tax rate would be too high relative to other forms of taxpayer’s protection, including that of having no protection whatsoever if war damages were zero. The notion of *extortion* is not relevant, even in the sense of Frederic Lane’s concept of *tribute*, because it is not being discussed whether the expected yields of the new tax were to exceed the military expenditure. This hypothesis presumes there is a tension between fiscal needs oriented by military expenditure and the actual level of damages caused by that same military staff in different sectors of the economy. In short, war might have been too expensive for the level of economic disturbance it caused, and the tax might have affected differently landed and moneyed classes. In the absence of a collective feeling of a national community, the state had to face resistances and solve the tension through adjustments around a “just rate”.

This hypothesis is tested by calculating the rate of risk of the economy considering damages during wartime in agricultural and maritime sectors. The plausibility of the results shall be gauged by the difference between forecast tax yields and actual tax yields.

The first section presents the Portuguese fiscal system as it developed until the Portuguese integration in the Habsburg monarchy, in order to have the context of the fiscal innovation triggered by the war of independence in 1640. Having presented the context in which the *décima* had been introduced into the Portuguese fiscal system, the paper considers yields generated by the tax as a fundamental problem. In the second section the available data are analysed to assess the constraints of collecting the new tax. The third section looks, succinctly, at state budgets from 1640 to 1680, a decade after the war ending, to gauge the effects of the fiscal innovation on levels of stateness. The conclusion evaluates some topics to emphasize the relationship between taxation, war and modernization of the state.

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9 R. BONNEY, “Revenues”, in R. BONNEY (ed), *Economic Systems and State Finance*, Oxford, Oxford University Press, 1995, p. 432.

## 2. The Portuguese fiscal system

When discussing the Portuguese fiscal system, it is of vital importance to consider its Iberian context and recognise the threat of Castile in the creation of the Portuguese state. Portugal's boundaries were defined at the end of the 13th Century. However, the dynastic policies of consecutive Iberian royal houses would place Portugal's independence under threat at two key moments during the formation of its fiscal system. The first threat occurred in 1383, causing a war against Castile following a crisis of succession. The winning side was opposed to handing the Portuguese throne to a Castilian consort and the crisis was solved by installing a new dynasty. The second threat occurred between 1578 and 1580. Without a significant rising of Castilian troops, the legitimate rights of Felipe II Habsburg were recognised and he was proclaimed king of Portugal in 1581. Following 60 years of dynastic union, a *coup d'état* provoked a war of independence which was to last 28 years. Considering these facts, it can be suggested that from 1383 to 1640, the existence of Portugal as an independent kingdom was jeopardised, deliberately, due to royal matrimonial policy. If the coup of 1640 brought about a break with the past, it was the period of the dynastic union that would be decisive for the Portuguese fiscal constitution after 1640.

The integration of Portugal in the Habsburg Empire (1581) meant that Madrid ran a kingdom other than Castile with colonial dominions. Due to this peculiarity, when evaluating the financial resources of each kingdom included in the Habsburg monarchy, Portugal was worth 2 million ducats, whilst Flanders, the second richest region was worth 1.8 million ducats. The Portuguese empire, with its Indian and Atlantic possessions was given as the reason for such extraordinary income<sup>10</sup>.

There is no doubt that the empire shaped the Portuguese fiscal system. Direct taxation is almost imperceptible in Portuguese budgets, thus distinguishing this case from that of other European kingdoms, and revealing an Iberian pattern<sup>11</sup>. However, in Portugal the royal revenues of the empire consisted of royal selling of rights over commercial routes and monopolies as much as levying taxes on goods at customs houses such as Casa da India in Lisbon. Such a presence of the imperial economy in the regal taxation system makes the Portuguese case an entrepreneurial variant of the domain state<sup>12</sup>. Thus the high incomes generated from the spice trade, African gold and slaves, largely explain the low tax burden levied by the state within the kingdom itself. However the empire was somewhat reflected in the kingdom taxation as it contributed to fill the coffers with

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10 A. DOMINGUEZ ORTIZ, *Política y Hacienda de Felipe IV*, Madrid, Ediciones Pegaso, 2nd ed., 1983, pp. 152-153.

11 G. TORTELLA, F. COMÍN, "Fiscal and Monetary Institutions in Spain (1600-1900)", Michael BORDO; Roberto CORTÉS-CONDE, *Transferring Wealth and Power from the Old to the New World...* p. 146.

12 R. BONNEY, W. M. ORMROD, "Introduction..." pp. 12-15.

customs duties, since Portugal's foreign trade with Europe was largely based on re-exporting. This particular feature of the Portuguese external flows shaped the fiscal system from the turn of the 15<sup>th</sup> century to the 16<sup>th</sup> century, reinforcing the position of customs and excise as a major source of income, which the state never disposed of, despite having handed over its collection to a system of tax farming<sup>13</sup>. In the last decade of the 16<sup>th</sup> century and first years of the 17<sup>th</sup>, customs and other fiscal revenues exacted from maritime sectors were about 33 to 35% of the total taxes collected in the kingdom, whereas the rights of the crown over the empire (monopolies and selling rights of slave trade) almost equal the total revenues of the kingdom (Graph I, Table IV).

When considering revenues strictly generated within the boundaries of the kingdom, maritime duties reflect the impact of international trade on the income of the state more than the openness of the economy, which might have remained quite disintegrated from the international market, notwithstanding this topic deserving further research.

The taxation system within the *almojarifado* framework (administrative and fiscal units) demonstrates, in principle, internal circulation, local transactions levied with a sales tax, the *sisá*, that provided the bulk of revenues for this category in the budgets. *Sisá* was the equivalent of the *alcabala* enforced in Castile. Both taxes were mediaeval in origin<sup>14</sup>. In Portugal, the *sisá* became the first universal tax (that is, not strictly local or at a county level and destined to fund central government expenses) during the war against Castile in 1383-5. Contrary to the norm in other European states suffering financial constraints caused by war, an indirect tax was levied in mediaeval times in Portugal. This reveals, as occurred with the *alcabala*, the importance of the market in the Iberian economy which was without parallel in mediaeval Europe.

The introduction of the *sisá* within a context of war in the Middle Ages gave three structuring characteristics to the Portuguese fiscal system. The first considers the peculiarity of a tax originally collected at a local level which then became a "national" tax. This transformation had to be approved in the Cortes and reveals a political and constitutional framework that allowed the transfer of revenues from "periphery" to the administrative centre. The second characteristic points to the symbolism of this transfer when it assumed the guise of a donation of the subjects to their king, meaning that this tax was never included in the numerous rewards the king granted to the nobility, alienating some fiscal and *segneurial* rights sanctioned in *cartas de foral* (town charters). The third characteristic is related to the fact that in spite of those constitutional constraints, this tax became part of the ordinary income of the state, which would explain complains of the people in the Cortes pointing out the origins of this tax as a donation and insisting that it should be abolished (or that it should return to its initial local characteristics). The monarchs of the House of Aviz (1383-1580)

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13 V.M.GODINHO, "Finanças públicas e estrutura do Estado" in *Ensaios II*, Lisboa, Sá da Costa, 1978, pp. 31-74; J. CORDEIRO PEREIRA, *Portugal na Era de Quinhentos*, Cascais, Patrimónia Histórica, 2003.

14 A. DOMINGUEZ ORTIZ, *Política y Hacienda*...p. 195.



maintained their sovereign power in this matter and always declined any such requests. Nonetheless, they did negotiate a reform which would transfer its collection to the municipalities as an alternative to central management. The administration of the *sis*a, from 1565 onwards, remained in the hands of local oligarchies, opening new relationships with the centre through a locally paid fixed sum (*encabeçamento*).<sup>15</sup> The *encabeçamento* ( or the *cabeção da s*isa) fully resembled any system of quotas for collecting direct taxes, as that established in England with the Monthly Assessment taxes, or in the Netherlands with the *Staat van Oorlog*, a kind of a petition to the Provinces<sup>16</sup>.

This balancing act between centralised tax raising but conceding its administration to local authorities reflects a pact between king and subjects in which the state was built, again similar to what was happening in Castile<sup>17</sup>. Such a “pactist” constitution would smooth the coercion character of taxation as well as preventing the state from easily raising extraordinary money.

Through the fiscal enforcement of the *encabeçamento*, the mediaeval innovation was de-characterised because revenues coming from the *almoxarifados* and registered as such in the budgets were deceptive with regards to the strict definition of the *sis*a as an indirect tax. On the one hand, *encabeçamento* has been seen as a regression in terms of Stateness<sup>18</sup>. It is true that the revenue lost its flexibility, as it became subject to contractual review every three to six years and the sums agreed for each of those contracts would guide future negotiations. No wonder such lump-sums loose their relationship to the actual economic base of the tax. However, this negotiation between central and local government did not necessarily penalise the central treasury because there is evidence on the *encabeçamento* of the *sis*a enforcing the local authority to create new ways of raising money in order to achieve the sums stipulated in the contract, as it happened in Coimbra. Thus, 30 to 60% of the value of the lump-sum (*cabeção*) was raised through direct taxation on movables and profits of any trade<sup>19</sup>. The tax lien which local authorities now controlled worked to the benefit of central government. Had tax farming of the various areas of the *sis*a continued to be controlled by the central government, it was highly probable that the revenue would not have been as high as it was with the new system.

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15 António OLIVEIRA, *Vida Económica e Social de Coimbra de 1537 a 1640*, Coimbra, Faculdade de Letras da Universidade de Coimbra, 1972, vol. I, pp. 298-320.

16 J.V. BECKETT, “Land Tax or Excise: the levying of taxation in Seventeenth-and-Eighteenth Century England”, *The English Historical Review*, vol. 100, nº 395, 1985, pp. 285-308; Marjolein C.’T HART, *The Making of a Bourgeois State...*, p. 79.

16 Bartolomé YUN, *Marte contra Minerva. El Precio del Imperio Español. C. 1450-1600*, Barcelona, Ed. Crítica, 2004

17 Bartolomé YUN, *Marte contra Minerva*. ... p.302; J. ROMERO MAGALHÃES, “Estruturas sociais do enquadramento da economia portuguesa: os concelhos”, *Notas Económicas*, nº 4, 1994.

18 A. FERREIRA da SILVA, “Finanças Públicas”, P. LAINS, A. FERREIRA DA SILVA, *História Económica de Portugal, 1800-2000*, Lisboa, ICS, vol. I, p. 244.

19 About 67% in 1605 and 32% in 1617: António OLIVEIRA, *Vida Económica e Social de Coimbra...*, tables pp. 348 and 359. For the change in the base of *sis*a that would transform partly this indirect tax into an assessed tax, p. 308.

Despite the *sis*a including a proportion of direct tax on moveable goods, it did not affect real estate and certainly had no impact on land. This is the fourth characteristic of the Portuguese fiscal system until 1640, which left the land for *segneurial* taxation, controlled both by the church and the nobility.

The variety of different situations between regions, and within the same region, between thresholds, made the *sis*a difficult to be considered as a strictly indirect tax. Nevertheless, with some margins of error, it is possible to assert that the Portuguese fiscal system relied mostly on indirect taxes, when considering customs, excise and Lisbon custom-houses, on the one hand, and *almoxarifados* on the other hand as items of state budgets. The determination of Felipe IV to increase the *cabeção* of *sis*a by 25% in the 1630s, attempting to obtain immediate additional income, shows the desperation of the treasury, in a decade in which war in Europe meant expenses were far higher than ordinary sources of income in Castile could provide. If the budgets did not reveal a critical fall in revenues, it was the urgent need for money that erode a contractual principle in place since 1565.

The extra revenue demanded by Felipe IV would raise nominal income from the *sis*a *cabeção* to 219,377,500 réis, a nominal sum not critical different from that contracted in 1612. However, the royal determination in raising money from *sis*a inflamed the opposition and justified a surge of riots from 1635 to 1637 which would eventually anticipate the noble secession movement of 1640.<sup>20</sup> This is nothing new, as the ways in which taxation served popular revolt are well known and are not always due to over-taxing, but because of changes in the constitutional principles of tax collection. Furthermore, if Portugal was seen by Madrid in 1616 as being a rich kingdom thanks to its empire, it was also well known that the sustaining of such an empire, especially since the end of the truce with the United Provinces in 1621, hindered the transfer of any sum from Lisbon to Castile whereas Castilian resources were a part in military expeditions to Brazil or India. However, demanding more from Portugal was to be very expensive for Madrid which would lose the kingdom in 1640.

Besides the increase in the *sis*a *cabeção* and the end of ecclesiastic immunity with the enforcement of an ecclesiastic payment of 80.000.000 réis<sup>21</sup>, other taxes were introduced in order to gather 160.000.000 réis to send troops to India. These new fiscal demands, known as *real de água*, was to interfere with taxes managed by the municipalities, when they took the liberty to levy meat and wine to respond to unforeseen local expenses, for example. It is impossible to grasp even an approximate idea of the sums in question at a nationwide level of the so-called *real d'água* (tax on meat and wine)<sup>22</sup>. For Lisbon alone it was approximately 35,000,000 réis in the 1640s<sup>23</sup>. No

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20 António OLIVEIRA, *Poder e Oposição em Portugal (1580-1640)*, Lisboa, Difel, 1990.

21 Lisbon, Arquivo Histórico Ultramarino, *Conselho Ultramarino*, Cod. 37, fl. 74.

22 António OLIVEIRA, *Movimentos Sociais e Poder em Portugal no século XVII*, Coimbra, Instituto de História Económica e Social, Coimbra, 2002, p. 433.

23 Ajuda Library, Lisbon, Manuscripts, 51-VI-19, fl. 359-364.

matter the amounts at stake, the royal imposition was to cause a fierce opposition, perhaps not because of its effects on the tax burden, but because of its interference with municipal fiscal liberties. Any way, it is possible to gain some idea of the tax burden in place in the 1630s and to find out the political fiscal limits of Portugal in the last decades of the Habsburg period.

The last known budget before these new demands was in 1632. Looking only at income from the kingdom itself, revenues totalled 822,546,000 réis with 175,502,000 coming from the *almofarixados* of which over 90% came from the *sisas*. The state intended to increase the value of the *cabeção* by 25% which would have meant an increase of approximately 43,875,500 réis. It is useful to convert these nominal sums to real sums, using the average price of wheat for that year<sup>24</sup>. That general sum of receipts for the kingdom was the equivalent of 63.272.769 kg of wheat. The population at the time was approximately 1,650,000, giving estimated taxation revenue of 38 kg per person. This estimation may be compared to the tax burden in Ancient Rome, which was about 33 kg per person. According to R. Bonney, this was greater than that in 16<sup>th</sup> century England, but much less than that in 18<sup>th</sup> century<sup>25</sup>. The comparison ignores the increase in agricultural productivity. Above all it does not take into account the meaning of such taxation for military expenditures which were certainly quite different from Ancient Rome to Habsburg Madrid. The exercise aims to build up a value to be used in a broader time scale, for it may be compared to a person's maximum consumption of wheat per year. Assuming the annual consumption of cereal per capita to be a minimum of 547 kg and a maximum of 730 kg<sup>26</sup>, that level of taxation per capita was equal to 5% of consumption of wheat. These 38 kg per capita result from a calculation which assumes 478,100,000 réis of indirect taxes coming from customs and excise duties, consular duties, taxes on salt and fisheries; all revenues which had an impact on different sectors of the economy. Only duties on salt and fisheries would have had an impact on consumer goods for the majority of the population, which was circumscribed for rural areas of the kingdom (imported wheat was exempt from customs duties). Therefore, if the calculation is restricted to the imposition of the new *sisas cabeções*, to reflect how much orders from Madrid increased the tax burden on the majority of the population of the kingdom, the calculation should be repeated taking into account only the *almojarifado* revenues and that which the government estimated it would raise with an additional 25% on the *sisas*. The tax collected from the *almojarifado*, 175,502,000 réis, places the tax threshold at 8,2 kg per capita and the increase of 25% (43,875,500 réis) would add another 2 kg per

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24 Price per bushel in 1636: 196 réis (5 years moving average). Each bushel = 15 kg. See data on prices in R. SANTOS, *Sociogênese do Latifúndio Moderno. Mercado, Crises e Mudança Social na Região de Évora, século XVII a XIX*, Lisboa, Banco de Portugal, 2003, Appendix

25 R. BONNEY, "Introduction", *The Rise of the Fiscal State in Europe, c. 1200-1895*, Oxford, Oxford University Press, 1999, p. 9.

26 Aurélio OLIVEIRA, "A Renda Agrícola em Portugal durante o Antigo Regime (séculos XVII-XVIII). Alguns aspectos e problemas", *Revista de História Económica e Social*, nº 6, 1980, p. 20.

capita, or approximately one day's consumption. These values suggest that there was still a reasonable economic margin for increases in taxation.

If the interference in the *sis*a *cabeç*ão provoked strong political upheaval, it should be noted that the forecast financial results were relatively modest because the approximately 44 million réis would only add 5.3% to the budget. The new taxes of the 1630s were an act of defiance by Madrid which caused serious political turmoil and little financial return. From this tension caused in the 1630s, the Portuguese elite were left with the notion that the *sis*a *cabeç*ão was a source of little flexibility for future settlements. As soon as the war of independence required extraordinary income, the *sis*a was seen as an old tax and its purpose was a "donation" which had had its day in 1383.

The revolt of December 1640 drew Portugal into a war against the Habsburgs that would last 28 years. The costs of this bid for independence were debated in the Cortes of 1641 which requested 720.000.000 réis. Soon after, it was to be proven insufficient. The Cortes newly convened in 1642 approved expenditure up to 860.000.000 réis.

If the war demanded an increase in taxation, the way in which to do it had to be different to that which Felipe IV had tried in the 1630s especially as the political speech of the promoters of the coup d'État (a peculiar coalition of nobility and the clergy) exaggerated accusations of extortion by the Habsburgs. With this political argument, preached from the pulpits, popular approval for the revolt was achieved, but the state would lose room to manoeuvre in order to better explore sources of income already known. It is also worth mentioning that the empire was under fire from the Dutch in the Atlantic and in the Indian Ocean which affected income from the empire as well as customs duties.

Between 1641 and 1642, during the most turbulent years of the revolution, an ambitious fiscal reform was undertaken. The first universal direct tax was introduced. This was, without doubt, a fiscal innovation. Above all, the base of the tax was entirely new, both in economic and political terms. The universal income tax was levied on rental, profits, interests and wages and it was to affect the landed classes, which was totally new in what concerned the relationship of the state with the social elites. The enforcement of the tax required members of the local government to be supervised by officials nominated by the king represented in a central body known as the *Junta dos Três Estados* (Council of the Three Estates) which gathered members of the three social estates present in the Cortes: the church, nobility and the Third Estate<sup>27</sup>.

In the context of the Portuguese fiscal system, the *décima* was an innovation as important as the *sis*a had been in 1383. However it was the concept of a taxable income as well as its

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27 J. ROMERO MAGALHÃES, "Dinheiro para a guerra: as décimas da Restauração", *Hispania. Revista Española de Historia*, Vol. LXIV, nº 1, 2004, pp. 157-182. For the regulation of *décima*, 1642, see J. J. ANDRADE E SILVA, *Collecção Chronologica de Legislação Portuguesa*, Lisboa, 1856, pp. 143-148.

implications for the administration of such a tax which provided the characteristics of a fiscal revolution: the creation of a tax collection structure controlled by central government, never liable to be part of tax farming and with the intention of imposing a rate of 10% on net incomes. There were two exceptions, one for the individual members of the clergy, who were exempted (although the social estate, as a whole, was not) and the other for those depending exclusively on their wages, who were levied at a rate of 2%.

This innovation raises interesting issues regarding the political and economic culture which cannot be discussed in this paper. However, it is important to emphasize the modernity of the concept of a net income, which was mentioned indirectly in the regulations of 1642 and 1656 (still cited as the fundamental text of regulation of the *décima* in 1762 legislation). “Net” income, as the base of the new tax, was already an idea explicit in one of the reports the king collected from his counsellors of state in 1642 in the hesitant stages of the implementation of this fiscal reform<sup>28</sup>.

The *décima* represented a notable fiscal burden (graphs II, III) placing the budget at a height never before reached for strictly domestic income sources (Graph I). By 1656, that increase was 90% due to the *décima*, a revenue entirely devoted to expenses with the war of independence. Only later, through the royal monopoly of tobacco was the budget balanced with 290.000.000 réis (table IV).

Once the details of the fiscal reform are known, it is fundamental to emphasize that amounts forecasted were never raised. This may support the hypothesis that any fiscal reform in a time of war could have been condemned to failure. The next section discusses this issue and assesses the financial results of the fiscal innovation.

## **2. Was there a failure?**

The introduction of the *décima* was based on the mediaeval principle of a donation by the people to the king for the defence of the realm. During the war, especially between 1640 and 1654, the central government would launch a powerful propaganda machine, evoking a common fatherland, fruit of a dynasty which shared the blood of the founder of the Portuguese monarchy. This inheritance had to be defended from the Castilian menace. The pactist nature of the government was reinforced. The assumed temporary character of the new tax forced the Cortes to be convened on a three-yearly basis where the new tax would be renewed for a further period of time. However, the legitimacy, the fiscal constitutionality of the tax or problems of enforcement were never discussed in the Cortes. Nonetheless, the geographic distribution of the defensive effort was

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<sup>28</sup> Ajuda Library, Lisbon, *Manuscripts*, 51-VI-19, fl. 102.

unequal and there were times in which protests could be heard in the Cortes against the demands of the war, especially regarding conscription. It had been argued that there was an unintentional double taxation: the tax itself and military service<sup>29</sup>.

The war demanded a fiscal effort to the order of 87.755.102 kg of wheat<sup>30</sup>, i.e., 53 kg per capita, which was, without doubt, a considerable increase in comparison to the period of dynastic union. Considering the calculations made above, strictly in relation to the *sisá*, it was possible to extrapolate that the economy of the kingdom would allow increases in taxation and the war placed the level of taxation on the economy of the kingdom (*almoxarifados* and *décima*) at 61 kg (say, 8.6% - 11.3% of consumption). These estimates serve to analyse the point to which resources existed in the kingdom for the effort demanded and, in fact, the rate of 10% was not inadequate to raise 860.000.000 réis. On the other hand, it stresses the previously low level of taxation per capita in Portugal.

The estimates for the money to be raised through the new *décima* were probably guided by the experience of the church with the collection of the *dízimo* (ecclesiastical tithe) and here is the explanation for such an accurate estimation of the money to be raised from an incidence rate of 10% two months after the coup (without a new administration having been formed). Furthermore, this same ecclesiastical income was included in the base of the tax which was, from the beginning, universal (in the sense that it concerned the three social estates convened in Cortes). Contemporary documents show that the administration of the treasury knew the revenue of the church to be around 640.000.000 réis and the main source of this income was the *dízimo*<sup>31</sup>. Despite one of the counsellors of state having alerted the king in 1642 to the fact that the *dízimo* was based on gross income and what was being levied was based on net income, he also advised that it was important that *dízimo* (tithe) collectors should be part of the administration of the tax to provide information on each location. The adoption of administrative practices, well known in the church, seemed to be the way forward for the implementation of this new fiscal innovation, thus lowering the administrative costs of the reform.

If it was not the problem of over-evaluation of the base of the tax which hampered collection of the forecasted amounts, the tax rate, understood to be a protection charge, provides another perspective on the difficulties the State had to overcome to implement the system. It is to be asked whether the risks of the economy in a time of war were critically under this rate. Different perceptions of risk either due to the region of the country or the type of income most affected by the war, create a number of possible scenarios for the tax to be considered excessive, explaining the

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29 F. D. COSTA, "Interpreting the Portuguese War of Restoration (1641-1668) in a European context", *e-journal of Portuguese History*, n°3, vol.1, <http://WWW.brown.edu/Departments/Portuguese-Brazilian-Studies/ejph/>.

30 At a price of 147,6 réis a bushel, in 1641. See data on prices in R. SANTOS, appendixes.

31 A. HESPANHA, *As Vésperas do Leviathan. Instituições e poder político. Portugal, século XVII*, Lisboa, Almedina, 1994, p. 144.

resistance to its collection at the intended rate, which, in turn, may tell why the forecasted amounts were not actually collected. The proximity of the taxpayer to the political centre would have its role, since he had political means to react against what he would consider extortion. However it is necessary to widen the analysis of the problem beyond difficulties of collection due to the presumed ineffectiveness of the coercive structures of the state and to find out the economic boundaries of the resistance through risk assessment.

Following this hypothesis, the tax rate is compared with the risk rate of the economy, analysing firstly the behaviour of the agricultural sector in a region representative of the risk of war, bearing in mind the unequal geographical distribution of members of the armed forces.

The Alentejo is the most representative region as a battleground. For strictly logistical reasons of troop manoeuvres and military tactics, it was the part of the kingdom most susceptible to invasion and that which suffered the most intense campaigns of the 28-year war. It was here that 50% of the infantry and 73% of the cavalry were stationed. In financial terms, the Alentejo province consumed 71% of expenses as the war was purely defensive, not offensive, with the memory of 1580 fresh in the mind of military strategists when Lisbon was easily taken by the Duke of Alba, who didn't find resistance to the entry of the armies through the Alentejo border. In comparison, the sea fortresses of the Lisbon / Cascais, Peniche and Setúbal coasts consumed only 1.7% of war expenditure<sup>32</sup>.

There is no place here for an analysis of expenses as the focus is on revenues. This summary picture of military resource distribution intends to prove that the Alentejo was the region of the kingdom that was subjected to the greatest pressure within a framework of notable inequality. Where, in order to assess the impact of the war on the agricultural sector, the behaviour of revenues in the area is a good proxy for the instability of the sector.

The data allowing the calculation of an average rate of damage to agriculture result from the behaviour of the rental market in 31 properties in the Alentejo. Two series are available to be analysed jointly, using 1640 to 1679 as benchmarks<sup>33</sup>. One of the series contains the contract-specified rents; the other contains the rents actually paid, with this difference being the result of a number of loss-making situations which caused the tenant to negotiate a reassessment of the rent with the landlord. The causes of this disparity between nominal and actual rents are not systematically available, but environmental factors were to interfere alongside war damages. Rui Santos estimated the risk in the sector as being 10%, whilst using other variables which were not strictly the difference between nominal and actual rents. The author created an index for which the number of situations where alterations in one party of the contract was also considered as a risk factor in the rental market<sup>34</sup>. For the purposes of this paper, only the reduction in rent is seen as

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32 Ajuda Library, Lisbon, *Manuscripts*, 51-VI-19, fl. 359-364.

33 R. SANTOS, *Sociogénese do Latifúndio Moderno...*

34 R. SANTOS, *Sociogénese do Latifúndio Moderno...*, pp. 377-378.

significant as it defines the value of the damages of war. It is also intended to compare the risk in this sector with the risk at sea where such contractual variables are not considered (it is unknown how the rotation of contracts between shipmasters and freighters interfered in the economics shipping, and it is also unknown whether such rotation was a variable depending on greater levels of insecurity).

For this type of analysis, the contracted rents and the actual rents is data for an estimate of a ratio taking the sum of discounted damages and the sum of discounted rents at a fixed rate of 6.25% (the discount rate based on the nominal interest rate) over a time period of 29 years (strictly considering the period of war) and over a time range of 40 years (considering the period after the war ended, and during which the tax became part of the ordinary revenues of the state)<sup>35</sup>.

The calculation estimates a rate of damages of 4.69 % for the period of the war (1640-68) and of 4.35% for the 40-year period between 1640 and 1679 (Tables I, II-a). The years of peace, when analysed separately, show a damage rate of 1.39 % which is certainly the result of bad harvests (table II- b). From this exercise, based on the main field of conflict in the country, the conclusion is war could affect the rent approximately 4.7%. If such is the case, the compliance of the landlords to the new tax was conditioned by this level of risk, since it meant the tax had an opportunity cost around 5.3%.

If on the land border the adversary was the Habsburg, the enemy at sea were forces also considered as rebels by the Habsburgs. The war between Portugal and the United Provinces although never formally declared, intensified in the 1640s, prolonged a situation which began in 1624 when the Dutch West India Company (WIC) assaulted São Salvador da Bahia and then started the occupation of a significant part of the sugar producing region in Brazil in 1630. The Dutch piracy inflicted serious damages on the Portuguese fleet in the Brazilian Atlantic. In only two years (1647 and 1648), 108 ships were lost (see table III for sources). It is certain that this high number of casualties had repercussions on customs and excise duties as a large part of the cargo would have been sugar, essential for re-export and a source of revenue, paying 3% on entry and

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$$\frac{\sum_{t=1}^n \frac{D_t}{(1+i)^t}}{\sum_{t=1}^n \frac{R_t}{(1+i)^t}}$$

D = damages; R= rents; n = number of years elapsed since 1640; t= year; i = discount rate (fixed rate 6.25%). Calculations in tables I-II a and b .



another 3% on exit. In addition to this excise tax, another tax was added to sugar to subsidise the war and would raise approximately 6.400.000 réis<sup>36</sup>.

From the information on casualties of ships afloat (type and number of ships lost), an average damage rate has been calculated, considering setting out costs (as an indicator of crew wages), freight rates and value of cargo (Table III). The calculation used was identical to that of the rents, although taking into account the different discount rate throughout the period, as credit was subject to rules of the bottomry loan contracts<sup>37</sup>. This exercise gives a damage rate in the order of 11.8%, which is quite close both to the rate of the *décima* and to the insurance premiums underwritten by Portuguese merchants in Hamburg who covered the risk of voyages, back and forth, Lisbon and Bahia or Rio de Janeiro<sup>38</sup>. A Memorial written between 1630 and 1635 claims that the annual average loss of Portuguese ships was 35, because of the enemy's ability to plunder. The author of this memorial asserts that the risk at sea forced the Portuguese to insure in Hamburg, where an insurance premium of 10% was charged<sup>39</sup>. It can be stated that war at sea was perceived as causing high damages and it incited economic agents to seek different protection structures given the absence of a royal escort to the fleet. As far as the maritime sector was concerned, the new tax had a "just rate".

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<sup>36</sup> Ajuda Library, Lisbon, *Manuscripts*, 51-VI-19, pp. 359-364.

<sup>37</sup>

$$TX = \frac{\sum_{t=1}^n \frac{D_t}{\prod_{t=1}^n [(1+i_t)^{-1}]}}{\dots}$$

$$\sum_{t=1}^n \frac{C_t}{\prod_{t=1}^n [(1+i_t)^{-1}]}$$

D= damages ; C= capital at sea ; t= year ; i= interest rate; n= number of years elapsed since 1624.

<sup>38</sup> See Table III, for sources and calculation considering different interest rates from 1634 to 1648.

<sup>39</sup> Livro I do Governo do Brasil, J. P. SALVADO; S. M. MIRANDA, (editing and footnoting), Lisboa, CNCDP, 2002, p. 52.

No information is available regarding the structure of the GDP to gauge the collateral effects of the maritime risk in the economy. Assuming the structure of the state revenues tells roughly the share of the maritime sector in the economy, data of the 1660 budget leads to an estimation of 22% as the share of the maritime sector (customs, including *consulado*, salt and fisheries). If this share is taken into account by educated guesswork it is plausible that the risk of the economy did not surpass 6% (actually, the interest rate legally fixed), which leads again to the conclusion that the tax was over-rated.

More relevant, however, is the fact that war affected differently the sectors of the economy and thus landed classes were confronted with a fiscal burden higher than the rate of damages in their lands. Despite the war of independence being decided on the border, namely on the Alentejo and Beira Baixa fronts, the overall picture is that disturbances in the agricultural sector were restricted to few years, namely from 1662 to 1665, which were not sufficient to approximate the risk rates to the tax rate. Although the question about which social groups and sectors of the economy carried the tax burden has no precise answers<sup>40</sup>, it can be taken as more than a mere impression that in Portugal the landed classes paid for the war more than the mercantile class, becoming the social and economic context for the costs of compliance of this fiscal innovation. Even if the calculations overestimated the share of the sea in the national income, the conclusions are not affected by this lack of precision: proportionally to damages suffered, the interest groups connected with maritime traffic should not consider the tax an extortion, whilst claiming for a royal escort to the fleets.

The calculations which show a gap of approximately 5 percentage points between the risk and tax rate for the landed classes are confirmed by documents produced by the *Junta dos Três Estados*. Despite dealing with the foundation of the Fiscal State, supposedly the organisation which would have produced the greatest number of documents in the Early Modern Period, this assertion is totally wrong in a Portuguese context. The difficulties come precisely from this point, that is, in the failure of the Treasury to maintain systematic records. Therefore, such a lack of information speaks for itself when considering the low level of stateness of the Portuguese society.

The sparse information available is based on circumstantial reports of the sums evaluated for assessment and what was enforced. They reveal two levels of disagreement relating to the sums sanctioned by the Cortes which, in their turn, were dictated by expenditure needs. The first level of disagreement, of small importance, is based on what local administrators of the tax declared as being taxable, or assessed. It should be emphasised that they did not declare sums much lower than the ceilings decreed by the Cortes. The second level of disagreement is related to that which

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40 P.O'BRIEN, "The Political Economy of British taxation, 1660-1815", *The Economic History Review*, vol. 41, n° 1, 1988, pp. 1-32; J.V.BECKETT; M. TURNER, "Taxation and Economic Growth in Eighteenth-century England", *The Economic History Review*, vol. 43, n° 3, 1990, pp. 377-403.

was actually enforced with the balance being negative between the amount assessed and the amount raised, seen as taxpayer indebtedness.

The *Junta dos Três Estados* carried out an audit to serve as an illustration to the Cortes of 1652 as justification for the need to maintain the tax for the following three years. It demonstrated that the revenue authorised in 1646 of 860.000.000 réis was in part reached through the levy of *décima*, which guaranteed up to 680.000.000 réis, and the remainder would be obtained from new indirect taxes, some of which had been attempted by Felipe IV but had given rise to civil unrest (the *real d'água*, tax on officeholders salaries - the "*meia anata*", new duties on sugar). A part from these indirect taxes, the additional 180.000.000 réis included rents from properties expropriated by the crown (which until 1657 were properties confiscated from noble houses sided with the Habsburgs) and a contribution from the house of Braganza itself, which, despite being the noble house of the king (the former duke of Braganza), it was never incorporated into the crown estates<sup>41</sup>. Despite these contributions, the essential costs of the war would have been financed to the tune of 81% by the *décima*. The table below shows various documents prepared by the *Junta dos Três Estados* for the Cortes of 1652 and considered only the enforcement of the *décima*.

Enforcement of the *Décima*

Years	Sums Enforced (réis)	Sums Predicted (réis)	Annual Shortfall (réis)	Enforcement Rate (%)
1641-1649	397.457.830	5.440.000.000	630.317.771	7
1650	502.687.269	680.000.000	177.312.731	74
1651	454.703.986	680.000.000	225.296.014	67
1652	196.616.914	680.000.000	483.383.086	29
1653	523.324.540	680.000.000	156.675.460	77

The hiatus between sums collected and those approved by the Cortes determined the calculation of the enforcement rate as shown in the table. That ineffectiveness during the first decade (1641-1649) invokes administrative hindrances, being the administrative staff in an embryonic phase. The small rate of enforcement caused a serious increase of the public debt since the state contracted short-term loans to merchants whose capital was funded to the *décima* receipts. In 1650's the system was already in motion. The enforcement may be a proxy of costs of compliance. Unfortunately this document only separates the receivables for 1650. However, when

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<sup>41</sup> Ajuda Library, Lisbon, *Manuscripts*, 51-VII19, fl. 127 ss.

used as an exemplifying year, it is possible to confirm that the enforcement rate of the tax varied depending on the categories specified. In total, 638.229.049 réis were assessed (very similar to the 660.000.000 réis fixed since 1646) of which only 502.687.269 réis were actually collected, as featured in the above table. Hence, the assessment operation placed taxable income very close to the forecast threshold, supporting the theory that the scarcity of revenues was not due to the taxable base shrinking but to resistance to enforcement. This would have been known by the centrally employed officers charged with administering the tax alongside the local collection officers. This is a very different situation from that usual in England when the Land Tax was at stake. Here, the under assessment was the main cause for the decrease of yields, or for a gap between amounts expected and actual revenues. Being that so, assessment was fiercely kept in the hands of local authorities and was tolerated by the central government as a necessary cost of compliance, whereas non-payment would have legal action or government sanctions<sup>42</sup>. In the Portuguese case, the rate of enforcement mirrored the state's coercion ability as much as the taxpayer resistance to pay more than the risks incurred.

If the resistance factors were due to the difference between risk rates and the tax rate, the capacity to react to fiscal demands depended on the "social space" of the taxpayer. It is possible to recognise particular social positions in the categories in which the *décima* budget for 1650 is broken-down. Church and nobility, the highest social ranks, appear associated to items in which enforcement was mostly critical. The church revenue was assessed at 61.339.004 réis (roughly 10% of the value of the *dízimo* at the time). Of that sum, only 29.237.936 réis were collected, reducing the rate of enforcement to 47%, which is approximately 4 to 5% of the total income of the church *dízimo*. The military orders also constitute another category specified. Their taxable income came from *comendas* (rents of properties to which the *dízimo* right and the collection of variable privileges was restricted. These rents, in the form of the *comendas* were one of the ways in which the king could ingratiate himself to the high nobility for their services). An income of 5,248,000 réis was allocated to this category of which also only 47% of the *décima* was collected. Next, the Lisbon parishes come with the city complying with 69% of the 48,468,774 réis assessed. In all, the regions included in as counties / *almofarixados*, geographically distant from the political centre, show the highest rate of enforcement of the tax, with 88% of the 412,277,635 réis of taxable income being paid.

Considering this scenario, in order that this fiscal innovation provided the necessary revenues, central government either had to create a repressive machine able to enforce the "debtors" – something inadvisable in a time of war and while building a base of legitimacy for a new dynastic

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42 C. BROOKS, "Public Finance and Political Stability: the Administration of the Land Tax, 1688/1720", *The Historical Journal*, vol. 17, n° 2, 1974, p. 282.

house – or adapt its budgets to this difficulty in enforcing tax collection, managing the systematic difference between assessment values, actual revenues and expenses. The latter option was that chosen. The budgets refer to average revenue “in most years” of 480,000,000 réis (which was taken for Graph II)<sup>43</sup>.

In brief, 72% of the tax would be collected. Landed social groups were to contribute the most to lowering the enforcement at this level. The church, although heavily involved in propaganda legitimising the restoration, reflected the sensitivity of landed classes to the new tax. In its resistance to the royal treasury, it brought the enforcement rate closer to the risk rate of the agricultural sector. Budgetary figures just mirror the consensus between king and subjects around 7% rate for the *décima*.

The submission of the central government, in order to maintain a consensus, shows the limits of coercive effectiveness of the state in relation to landed social strata, especially in a revolutionary period that used in propaganda a negative image of Habsburg power as a synonym of extortion. Such image fed many of the sermons preached in Portuguese churches to encourage popular compliance with war. But this necessary pact between state and the elites that intended to serve the cause of the revolution by preaching instead of paying the new taxes would have repercussions on the national debt, which in 1656 represented 104% of revenue. It is not surprising that in this year, the state had to find alternative forms of financing from the foundation of new monopolies, as was the case with Brazilian tobacco. The visible recovery in place by 1660 (graph II) is due to these new property revenues whilst the fall in the 1680s is justified by the reduction in *décima* revenues once the war ended.

#### **4. Fiscal innovation and state building**

The tax remained after the peace treaty being signed in 1668 despite the people having demanded its abolition in the Cortes. They were promised it would be abolished as long as the debt contracted with merchants who financed the wars was settled. This debt was due to advances having been paid on tax revenues during the decades of conflict with the Habsburgs (1640-68) and the Netherlands (1641-61). Due to this debt, conditions were in place for the *décima* to form a permanent part of the Portuguese fiscal constitution, albeit subject to different rates. However no changes were made as public finances were still suffering from the calamitous state they had been left in when the war of the Spanish Succession justified again a tax rate of 10%.

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<sup>43</sup> Ajuda Library, Lisbon, *Manuscripts*, 51-VI-19, fl. 369-364.

The accumulation of debts in time of war was nothing new and the detailed debate over managing the debt would divert the central theme of this paper to the relationship between the state and its merchant creditors. The essence of the *décima*, during and after the war, was designed to serve the debt taken out with these “*assentistas*”. It is therefore important to focus on the consequences of a fiscal innovation piloted during a period of nation-building and a war of independence.

Firstly, the sharp fall in revenues (graph II – forecast) between 1641 and 1656 demands some comments. The available information for this year was produced by the *Conselho da Fazenda* (Treasury) to show the deplorable state of the coffers and how traditional revenues from the *almofarixados* and customs and excise duties were falling. Meanwhile, it was during this period that Portugal had a decisive victory over the Dutch, retaking the north east of Brazil following conflict in the colony since 1645. The victory was unexpected considering the instability on the Portuguese Atlantic routes for sugar and the consequences of the Zeeland piracy on Portuguese customs posts. Without going into details on comparative costs between, on the one hand, naval forces needed for fleet defence and, on the other, the resources placed at the disposal of the army stationed in the Alentejo, it is sufficient to say that Portugal was outnumbered in terms of active servicemen in both the navy and army. The Dutch navy possessed 46 vessels and Portugal had no more than 21<sup>44</sup>. The Dutch had over 30,000 men on their European fronts and Portugal, during the entire war effort, which emptied the coffers of the state, had approximately 14,000 infantrymen and 3600 cavalymen.

The inequality of military forces and financial resources shows that war in early modern Europe did not always depend on financial power as what was in jeopardy in Brazil – a colony which would come to guarantee the bulk of Portuguese tax revenues in the following century – cannot be seen from the point of view of what each national power was able to mobilise. In Brazil, the question was related to the military capacity of two private companies. Maritime defence was privatised in Portugal in 1649 with the creation of a monopoly company to escort the fleets (*Companhia Geral do Comércio do Brasil*). The WIC surrendered to the navy of this company. The transfer of defence to a private company representing merchant interests emphasises one of the results of the financial difficulties caused by a fiscal innovation with almost no results for the first decade in which it was introduced.

The privatisation of marine defence was, in truth, a stage in the affirmation of autonomy of the Portuguese state which enabled it to distance itself from the concept that a modern state holds a defence monopoly. While in other areas, namely symbolic, and not any less decisive for the

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44 Marjolein C. T HART, *The Making of a Bourgeois State...* p. 51. Leonor F.COSTA, Mafalda S. CUNHA, *D. João IV*, Lisboa, Círculo de Leitores, 2006, p. 223.

success of its autonomy, the mobilisation of discursive resources proved itself to be less expensive but highly effective, both through irreprehensible diplomacy and through preaching in the pulpits providing the religious justification for the war. The resistance of the Church to the payment of taxes was not a matter of political opposition to the autonomy of the kingdom. It was just a way of bargaining services for the cause, since its preaching services would be no less important for the masses to comply with a tax burden quite higher than that Felipe IV had ever tried to enforce<sup>45</sup>.

Secondly, it is notable that the 1680 budget had, in real terms, an income threshold equal to that of the last decade of the Spanish era (1632). This was a real reduction of the tax burden in comparison with 1632 as between 1641 and 1688 GDP is thought as having grown by 0.7% a year<sup>46</sup>. The 28-year war certainly interfered in the Portuguese fiscal constitution and thus the Portuguese experience is not different from what happened in any kingdom of Europe, where wars demanded fiscal innovation. However, if the budget is a suitable indicator to measure levels of stateness, the *décima* had no visible effects on the budget, although in the long-run, it would enable the State to enforce a revenue already institutionalized for military purposes. When new conjunctures of war occurred, it was just a matter of altering the rate of the tax as it would happen twice in the 18<sup>th</sup> century.

Notwithstanding this possibility, Portuguese case adds new insights to other national cases, which were submitted to econometric analysis to questioning the relationship between war and higher level of political and institutional modernization. The relationship between both phenomena is highly positive for cumulative years whereas the effect of particular wars on taxes increases had to be very robust to be statistically significant<sup>47</sup>. Portugal may be a case of state building without the challenge of long periods of war, thus remaining with a relative low level of stateness.

Thirdly, and considering strictly the traditional sources of revenue (fig II), the second half of the 17<sup>th</sup> century shows the reduction of their role which, in turn, highlights the importance of other sources of income and stresses the features of a domain state, as 47% of new revenues in the 1680 budget came from the monopoly of Brazilian tobacco. In addition to this, the item identified as “royal seizures” reveals the archaic side of the structure of this budget, despite the justification of the treasury administration for making this an independent category lying in the two previous decades of political upheaval. The other part of this income had its origin in the traditional ways in which the Inquisition managed the treasury. In 1674, three of the biggest financiers of the state with

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45 R. BONNEY, “Revenues”, R. BONNEY (ed), *Economic Systems and State Finance*, Oxford, Oxford University Press, 1995, p. 427 e 432.

46 Jorge B. MACEDO; Álvaro FERREIRA DA SILVA, Rita M.SOUSA, “War, taxes and gold. The Inheritance of the real”, in Michael BORDO; Roberto CORTÉS-CONDE, *Transferring Wealth and Power from the Old to the New World...* p. 190.

47 E. KISER, A. LINTON, “Determinants of the Growth of the State: war and taxation in Early Modern France and England”, *Social Forces*, vol. 80, n° 2, 2001, pp. 411-448.

assets based on income from the *décima*, were imprisoned by the Inquisition and their assets were handed to the Royal Treasury<sup>48</sup>. The perpetuation of such actions when obtaining money damaged the building of trustworthy relationships between interest groups with financial capital and the state, while impeding recognition of the state as guarantor of inviolable property rights.

Last but not least, the way in which direct taxation entered the Portuguese fiscal system did not grant higher levels of stateness. The original ideal of proportionality of the tax lessened with alterations in enforcement. The lump-sum of 200,000,000 réis was to be collected using a local administrative system having a role similar to that which it had had in collecting the *sisá* since the last quarter of the 16<sup>th</sup> century. When combined with the *sisá*, the new *décima* placed taxation at 13.8 kg per capita (or approximately 1.8% of consumption).

What seems to be structural in the process of building the Portuguese state is rooted in the fragility of the administrative network of central government and its repercussions in the low levels of taxation per capita.

## 5. Conclusion

Last section drew the four lines of thought which question the association of fiscal innovation with the construction of superior levels of stateness in a unidirectional progression. In this way, successful states, as described by Ch. Tilly, at least until the first half of the 18th century, may include socio-political units with a relatively small capacity for fiscal enforcement. Put another way, if taxation was not the only way in which the state could capture the available economic resources, the potential for fiscal innovation to modernise the state could be relatively negligible and relatively independent of the defensive conditions in place.

This argument was demonstrated by analysing a national case for which the concept of fiscal innovation is suitable. First, because it shows examples of the introduction of new taxes to subsidise wars of independence or recovery of political autonomy. Second, because any one of these taxes interfered in the fiscal constitution. In all, fiscal innovations in the Portuguese case, when seen through the dichotomy which shares taxation between direct and indirect taxes, have a peculiarity. It is this peculiarity which bestows the Portuguese fiscal system with a divergent evolution from other, better studied European cases. Firstly, the *sisá*: if it was not a specifically Portuguese tax, on being introduced as the first universal tax in the kingdom during the Middle Ages it already showed specificity to Iberia, whose states complicated sources of revenue creating indirect taxes whilst in other, contemporary political entities, direct taxes on assets or goods

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48 L. F.COSTA, "Elite mercantil na Restauração: para uma releitura", in N.G.MONTEIRO, P.CARDIM, M.S.CUNHA (eds), *Óptima Pars. Elites Ibero-americanas do Antigo Regime*, Lisboa, ICS, 2005, pp. 117-127.



sustained the growth of royal budgets. Secondly, the *décima*: a tax which better demonstrates the place of the 17<sup>th</sup> century in European fiscal history as the period of varying solutions to meet the ever heavier demands of war. Whilst the Netherlands increased their number of indirect taxes, thus confirming the importance of a highly merchant-based economy for the elasticity of fiscal revenues, Portugal, similarly dragged into a war against the Habsburgs, introduced a direct, universal income tax. As the economy was essentially agricultural, this tax was thought as having a larger base to collect the lump-sum needed for the war.

The balance of this innovation must consider that the tax, at the time of its conception, showed undeniable forward-thinking: its universality and a conception of net income (net rent, profits, interest and wages). On the other hand, although being the first universal direct tax, its legitimization was based on personal ties between subjects and a “natural” king, making use of proto-nationalistic issues. When taken as a donation to the “natural” king, lower costs of compliance could be forecasted. However, such a modern appeal to a collective national feeling did not match taxpayer’s interests who dealt with levels of risk much lower than the costs of protection the state was charging him. Such a disparity between legitimizing arguments and the limits of taxes within the political culture of the Ancien Régime was taken in this paper as a fundamental factor for the actual rate of the tax.

The tension mentioned above, having effects on the enforcement, brings to mind John Brewer’s contend on the importance of the timing of any fiscal or political innovation<sup>49</sup>. The *décima* seems, in truth, out of its time. If seen as the introduction of the first direct universal tax, other European states introduced it much earlier, and if seen as universal income tax, it was too soon for having the required low operating-costs<sup>50</sup>.

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49 John BREWER, *The Sinews of Power...*, p. 24.

50 G.ARDENT, “Financial Policy and Economic Infrastructures”, in Ch. TILLY (ed.) *The Formation of National States...*, p.169.

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## Appendix

**Table I - Damages on land**  
(deflates values in "alqueires" of wheat)

Ano	Nominal Rents	Discounted Nominal Rent at 6,25%	Discount factor	Nominal Damages	Discounted Damages at 6,25%	Discounted Damages/ Nominal discounted rents
		68477,02			2980,66	4,35%
1640	4649,40	4649,40	1	30,00	30,00	0,65%
1641	5670,10	5336,56	0,9411765	124,40	117,08	2,19%
1642	2832,10	2508,71	0,8858131	299,80	265,57	10,59%
1643	5326,70	4440,90	0,8337065	152,30	126,97	2,86%
1644	2718,69	2133,26	0,7846649	0,00	0,00	0,00%
1645	5256,00	3881,60	0,7385082	92,90	68,61	1,77%
1646	5422,60	3769,07	0,6950665	47,80	33,22	0,88%
1647	5469,80	3578,24	0,6541803	205,90	134,70	3,76%
1648	5361,51	3301,07	0,6156991	0,00	0,00	0,00%
1649	5265,46	3051,24	0,5794815	0,00	0,00	0,00%
1650	5066,90	2763,46	0,5453943	1119,90	610,79	22,10%
1651	2927,40	1502,67	0,5133123	191,60	98,35	6,55%
1652	2831,50	1367,95	0,4831175	77,40	37,39	2,73%
1653	4808,20	2186,28	0,4546988	392,10	178,29	8,15%
1654	5596,45	2395,01	0,4279518	0,00	0,00	0,00%
1655	5352,00	2155,67	0,4027782	17,50	7,05	0,33%
1656	5709,50	2164,39	0,3790853	45,90	17,40	0,80%
1657	4941,10	1762,92	0,3567862	155,60	55,52	3,15%
1658	5179,70	1739,34	0,3357988	60,30	20,25	1,16%
1659	5481,30	1732,34	0,3160459	505,00	159,60	9,21%
1660	5681,50	1689,99	0,2974550	107,30	31,92	1,89%
1661	5029,80	1408,13	0,2799576	299,00	83,71	5,94%
1662	2215,20	583,68	0,2634895	553,90	145,95	25,00%
1663	3581,60	888,20	0,2479901	672,50	166,77	18,78%
1664	4637,40	1082,38	0,2334025	923,20	215,48	19,91%
1665	4090,80	898,64	0,2196729	921,80	202,49	22,53%
1666	4968,60	1027,26	0,2067510	143,70	29,71	2,89%
1667	5448,00	1060,12	0,1945892	45,00	8,76	0,83%
1668	5324,70	975,18	0,1831427	198,80	36,41	3,73%
1669	5238,50	902,96	0,1723696	25,40	4,38	0,48%
1670	5403,90	876,68	0,1622303	5,00	0,81	0,09%
1671	4741,55	723,97	0,1526873	0,00	0,00	0,00%
1672	4774,18	686,08	0,1437057	0,00	0,00	0,00%
1673	5224,44	706,62	0,1352524	0,00	0,00	0,00%
1674	4117,80	524,18	0,1272964	81,20	10,34	1,97%
1675	4849,56	581,02	0,1198084	0,00	0,00	0,00%
1676	5354,10	603,73	0,1127608	11,70	1,32	0,22%
1677	4945,50	524,86	0,1061278	522,70	55,47	10,57%
1678	4513,40	450,82	0,0998850	264,00	26,37	5,85%
1679	5444,66	511,85	0,0940094	0,00	0,00	0,00%

**Table II – a**  
**Damages on land: period of war**  
**(Deflated values in bushels of wheat)**

	Rents	Discounted Rens at 6,25%	Discount factor	Damages	Discounted Damages at 6,25%	Discounted Damages/ discounted rents
		61384,26			2881,98	4,69%
1640	4649,40	4649,40	1,0000000	30,00	30,00	0,65%
1641	5670,10	5336,56	0,9411765	124,40	117,08	2,19%
1642	2832,10	2508,71	0,8858131	299,80	265,57	10,59%
1643	5326,70	4440,90	0,8337065	152,30	126,97	2,86%
1644	2718,69	2133,26	0,7846649	0,00	0,00	0,00%
1645	5256,00	3881,60	0,7385082	92,90	68,61	1,77%
1646	5422,60	3769,07	0,6950665	47,80	33,22	0,88%
1647	5469,80	3578,24	0,6541803	205,90	134,70	3,76%
1648	5361,51	3301,07	0,6156991	0,00	0,00	0,00%
1649	5265,46	3051,24	0,5794815	0,00	0,00	0,00%
1650	5066,90	2763,46	0,5453943	1119,90	610,79	22,10%
1651	2927,40	1502,67	0,5133123	191,60	98,35	6,55%
1652	2831,50	1367,95	0,4831175	77,40	37,39	2,73%
1653	4808,20	2186,28	0,4546988	392,10	178,29	8,15%
1654	5596,45	2395,01	0,4279518	0,00	0,00	0,00%
1655	5352,00	2155,67	0,4027782	17,50	7,05	0,33%
1656	5709,50	2164,39	0,3790853	45,90	17,40	0,80%
1657	4941,10	1762,92	0,3567862	155,60	55,52	3,15%
1658	5179,70	1739,34	0,3357988	60,30	20,25	1,16%
1659	5481,30	1732,34	0,3160459	505,00	159,60	9,21%
1660	5681,50	1689,99	0,2974550	107,30	31,92	1,89%
1661	5029,80	1408,13	0,2799576	299,00	83,71	5,94%
1662	2215,20	583,68	0,2634895	553,90	145,95	25,00%
1663	3581,60	888,20	0,2479901	672,50	166,77	18,78%
1664	4637,40	1082,38	0,2334025	923,20	215,48	19,91%
1665	4090,80	898,64	0,2196729	921,80	202,49	22,53%
1666	4968,60	1027,26	0,2067510	143,70	29,71	2,89%
1667	5448,00	1060,12	0,1945892	45,00	8,76	0,83%
1668	5324,70	975,18	0,1831427	198,80	36,41	3,73%

**Table II – b**

Damages on land: period after the war  
(Deflated values in bushels of wheat)

Years	Rents	Discounted Rents at 6,25%	Discount factor	Damages	Discounted Damages at 6,25%	Discounted Damages/ discounted rents
		41148,5			572,53566	1,39%
1669	5238,50	5238,50	1,0000000	25,40	25,40	0,48%
1670	5403,90	5086,02	0,9411765	5,00	4,71	0,09%
1671	4741,55	4200,13	0,8858131	0,00	0,00	0,00%
1672	4774,18	3980,26	0,8337065	0,00	0,00	0,00%
1673	5224,44	4099,43	0,7846649	0,00	0,00	0,00%
1674	4117,80	3041,03	0,7385082	81,20	59,97	1,97%
1675	4849,56	3370,77	0,6950665	0,00	0,00	0,00%
1676	5354,10	3502,55	0,6541803	11,70	7,65	0,22%
1677	4945,50	3044,94	0,6156991	522,70	321,83	10,57%
1678	4513,40	2615,43	0,5794815	264,00	152,98	5,85%
1679	5444,66	2969,49	0,5453943	0,00	0,00	0,00%

**Sources:**

Tables I and II (a, b): SANTOS, R., *Sociogénese do Latifúndio Moderno. Mercado, Crises e Mudança Social n a Região de Évora, século XVII a XIX*, Lisboa, Banco de Portugal, 2003.

**Table III**  
Damages at sea: period of war  
Deflated values in silver marcs

year	interest rate	deflat	capital at sea	Discount Factor	Discounted capital at sea	damages	Discounted damages	Discounted damages/Discounted capital
					847812,78		97348,59352	11,48%
1624	50,00%	0,000357143	383049,43	0,6666667	255366,29	75123,85	50082,57	19,61%
1625	50,00%	0,000357143	451403,23	0,4444444	200623,66	12945,56	5753,58	2,87%
1626	50,00%	0,000357143	415423,44	0,2962963	123088,43	7758,58	2298,84	1,87%
1627	50,00%	0,000357143	534328,48	0,1975309	105546,37	133362,81	26343,27	24,96%
1628	70,00%	0,000357143	616500,09	0,1161946	71634,00	58065,15	6746,86	9,42%
1629	85,00%	0,000357143	829588,36	0,0628079	52104,71	22723,80	1427,23	2,74%
1630	100,00%	0,000357143	732811,83	0,0314040	23013,19	68209,48	2142,05	9,31%
1631	102,50%	0,000357143	531896,97	0,0155081	8248,72	69484,17	1077,57	13,06%
1632	105,00%	0,000357143	590801,04	0,0075649	4469,37	59682,74	451,50	10,10%
1633	107,50%	0,000357143	654678,65	0,0036458	2386,80	212971,14	776,44	32,53%
1634	110,00%	0,000357143	471306,87	0,0017361	818,22	119017,51	206,62	25,25%
1635	120,00%	0,000357143	450644,70	0,0007891	355,61	37559,27	29,64	8,33%
1636	127,50%	0,000357143	414071,97	0,0003469	143,63	20527,61	7,12	4,96%
1637				0,0001476	0,00		0,00	0,00%
1638				0,0000628	0,00		0,00	0,00%
1639				0,0000267	0,00		0,00	0,00%
1640				0,0000267	0,00		0,00	0,00%
1641				0,0000267	0,00		0,00	0,00%
1642				0,0000267	0,00		0,00	0,00%
1643				0,0000267	0,00		0,00	0,00%
1644				0,0000267	0,00		0,00	0,00%
1645				0,0000267	0,00		0,00	0,00%
1646				0,0000267	0,00		0,00	0,00%
1647	75,00%	0,00025	379578,75	0,0000153	5,80	112638,75	1,72	29,67%
1648	80,00%	0,00025	453885,00	0,0000085	3,85	234663,75	1,99	51,70%

**Sources:**

Capital at sea: estimations based on costs of setting up a ship; freight rates per ton and the number of ships annually allocated to the sugar fleet, in Leonor F. COSTA, *O Transporte no Atlântico e a Companhia Geral do Comércio do Brasil*, Lisbon, CNCDP, 2002, pp. 175-178; p. 360.

For data on cargo (prices of sugar only): archive sources quoted in Leonor F. Costa, *O Transporte no Atlântico...* p. 241; Frédéric MAURO, *Le Portugal, le Brésil et l'Atlantique au XVII<sup>e</sup> ème Siècle*, Paris, Fondation Caloust Gulbenkian, 1983, pp. 298-299; Stuart SCHWARTZ, *Sugar Plantations in the Formation of Brazilian Society Bahia, 1550-1835* (Portuguese edition), São Paulo, Companhia das Letras, 1988, pp. 400-401.

The capital estimated for each ship sailing on the Portuguese-Brazilian routes took into account a 210-day voyage (back and forth) and a rate of optimal exploitation of freight tonnage (for rates of optimal exploitation of freight tonnages, Leonor F. Costa, *O Transporte...* table in p. 319), providing the average value of a sailing ship which also enables the estimation of damages according the number of casualties.

**Casualties:**

Number of ships and cargo (other than sugar) for the period 1624-1636: Joannees LAET, *História ou Anais dos Feitos da Companhia Privilegiada das Índias Ocidentais, desde o seu começo até ao fim do ano de 1636*, Rio de Janeiro, Biblioteca Nacional do Rio de Janeiro, 1925, vol. II, pp. 621-636.

For the period 1647-1648: Ch. BOXER, *The Dutch in Brazil, 1624-1654*, Oxford, Clarendon Press, 1957, Appendix III.

Interest rate: Leonor F. Costa, *O Transporte no Atlântico...* Appendix V.



**Table IV**  
State revenues – nominal values (réis)

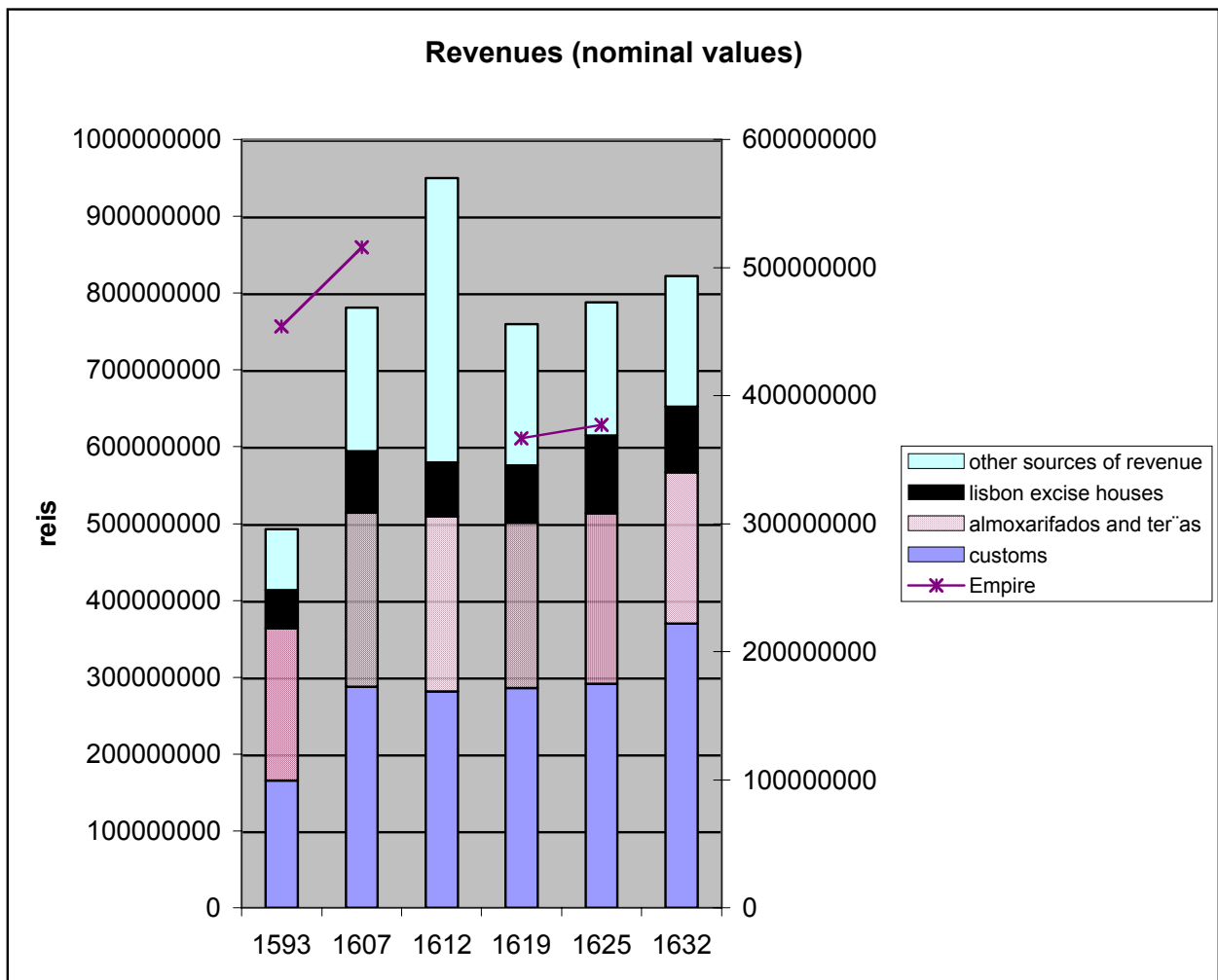
	1593	1607	1612	1619	1625	1632	1641	1656	1660	1680
"Almoxarifados"	198298447	205680471	228068968	194082000	201112000	175502000	202442429		196608000	197608488
"Terças" (levied on municipalities)		21000000		21000000	21000000	21000000	21000000		22914000	22913264
Maritime Customs	165405500	186500000	185367585	170000000	187230000	250000000	172662378		291833000	341475026
Lisbon excises	50000000	80000000	70000000	75000000	101144000	86000000	100626283		143798000	143792522
Customs along the Spanish Border		46000000	46000000	36000000	34000000	45000000			24033000	24033320
Fisheries	15438060	10686600	10686600	14000000	8100000	8100000	736000		736000	736400
Salt		24000000	203564490	16000000	16000000	14000000	25000000	25000000	88316000	77252863
"Consulado" - maritime customs		55000000	50000000	80000000	70000000	75000000	50000000		50000000	60866858
Domain revenues		75283827	75283827	75283827	75283827	74000000	74000000	4800000	13735000	13735000
Stamp taxes	8475745	13000000	50500000	97000000	97000000	97000000	55928800		10140000	10826387
Royal monopolies (soap and game)		14600000	14600000	14600000	14600000	14600000				2650000
Military Orders in Madeira Island	24240000	21400000	21400000	24221000	19400000	19400000	19400000		19400000	0
Military Orders in Azores	30636734	40000000	40000000	30000000	30244000	30244000	30244000		30244000	55237000
<b>TOTAL I</b>	<b>492494486</b>	<b>781450898</b>	<b>950021470</b>	<b>759886827</b>	<b>787813827</b>	<b>822546000</b>	<b>752039890</b>	<b>514006729</b>	<b>891757000</b>	<b>951127128</b>
<i>New Taxes for the war of independence:</i>										
D'cima							680000000	680000000	680000000	200000000
total new indirect taxes							180000000	180000000	180000000	
new stamp duties										14000000
excise on sugar										8000000
Monopoly of Tobacco										290052621
"real de água de Lx"										
d'cima: Atlantic Islands										
extra loan of dioceses										
House of Braganza										
additional indirect taxes										83061057
seizures										24000000
<b>TOTAL II</b>							<b>1612039890</b>	<b>1374006729</b>	<b>1751757000</b>	<b>1570240806</b>
<b>Empire</b>	<b>454141332</b>	<b>516000000</b>		<b>366760000</b>	<b>377087838</b>					

**Sources:**

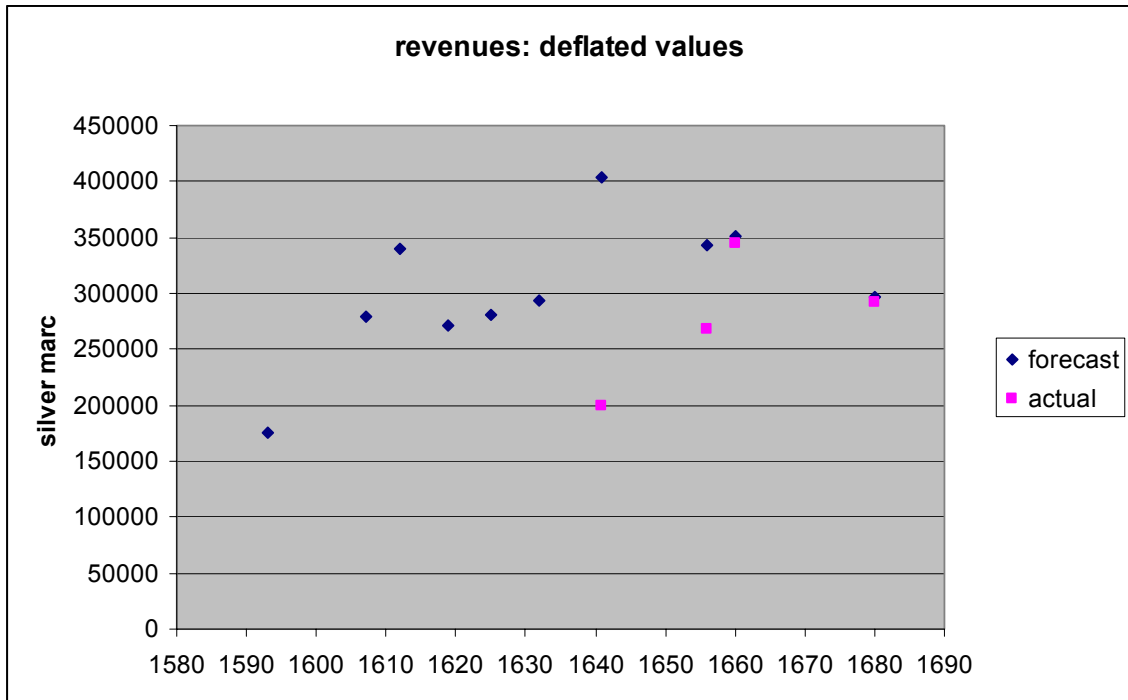
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Graph I



Graph II



Graph III

