

Carlos Marichal, *Bankruptcy of Empire: Mexican Silver and the Wars between Spain, Britain and France, 1760-1810*. Cambridge: Cambridge University Press, 2007. xiv + 318 pp. \$85 (hardcover), ISBN: 978-0-521-87964-4.

Reviewed for EH.NET by Aldo Musacchio, Harvard Business School.

Between 1760 and 1800, under the reign of the Bourbons, the Spanish empire in the Americas had an extraordinary resurgence, marked by a significant increase in fiscal income across the board. In his new book, Carlos Marichal, a professor of economics and history at El Colegio de Mexico, explains in detail how the Spanish Crown revolutionized the finances of the New Spain in the second half of the eighteenth century, something that partly financed the Crown's major wars against Great Britain (1779-1783, 1796-1801, 1805-1808) and France (1796-1801, 1805-1808).

This monograph contributes to the existing debate on the relationship between war, public finance, and the rise and fall of empires in at least three major ways. First, most of the literature has focused on the relationship between limited government and the government's capacity to extract tax revenue. In this work Marichal focuses on an absolutist regime that was extremely efficient at collecting taxes, something that contrasts starkly with the British colonies in North America. Second, by focusing on the case of New Spain, "the most productive tax colony in the eighteenth-century world," the author highlights that the literature has paid little attention to the capacity or incapacity empires had to tax their colonies. Moreover, while a large literature argues that limited government is more conducive to the development of larger markets for government debt, Marichal shows how effective the Spanish Crown was at mobilizing guilds and the Catholic Church in New Spain to raise loans and donations to finance its sizable deficits after the 1790s. Third, the capacity that the Spanish Crown had to reorganize its colonial finances during the Bourbon reign may explain why Spain was more resilient as a colonial power in the Americas than Great Britain or France.

The book has eight chapters (with an introduction and a conclusion). Chapter 1 explains how military pressures in Europe changed the logic of expenditures in the Spanish empire. Marichal explains how New Spain was a unique colony in that it had a fiscal surplus that was used to finance the defense of other colonies in the Caribbean and the Gulf of Mexico. The system of intra-imperial transfers, the 'situados', was large enough to make Spanish colonies mostly self-sufficient when it came to paying for their defense and administration. Chapter 2 disentangles two puzzles: a) how was it that New Spain collected more taxes than the thirteen British mainland colonies; and b) how was it that an autocratic regime was effective at collecting taxes without using too much coercion. The answer is that New Spain had professional colonial administrators that with only minor use of coercion were able to negotiate the introduction of new taxes with artisan, mining, and commercial guilds, the church, and Indian communities. Chapter 3 explains how even after aggressive tax campaigns, the Spanish Crown had to resort to debt issues to cover the deficits generated as a consequence of a series of wars against Great Britain and France. Colonial governments were able to obtain both interest-bearing and non-interest-bearing loans as well as plain donations through a mix of approaches, including coercion. Again, these efforts were successful only because colonial elites collaborated with the government. Marichal hypothesizes that perhaps "providing advances to the Crown was a way for rich lenders to accumulate political capital" and mentions that some lenders received nobility titles in exchange for their contributions.

Chapter 4 describes the close relation between the colonial government in New Spain and the Catholic Church. The author examines how this relationship facilitated the collection of revenue and loans. The Church itself was one of the main creditors

and donors of the Crown. Moreover, Marichal suggests that the legitimacy of the Spanish Crown in New Spain perhaps started to erode in 1804, when the Crown decided to forcefully exchange 3 percent bonds for the capital of the religious institutions operating in the colony. Since this capital was commonly used to provide long-term funding to landlords, miners, and merchants, this royal decree severely affected both the interests of local elites and of charitable institutions.

Chapter 5 describes in extreme detail the convoluted mechanisms to send silver from Mexico to Spain and France (which at the time were allies) during the beginning of the Napoleonic Wars. Then, Chapter 6 explains how using an Anglo-Spanish commercial house, the crown overcame the British naval blockades to continue the operation of its tobacco monopoly and the supply of Spanish mercury to the silver mines of New Spain. Chapter 7 provides a detailed explanation of how the church and colonial authorities collected donations and loans to finance the Spanish resistance against Napoleon's invasion of the Iberian Peninsula in 1807, once the French-Spanish alliance broke down.

Finally, Chapter 8 describes the fiscal challenges that the royalist government in New Spain had to face after 1801, when a series of local insurrections broke out. Marichal blames the drainage of resources from 1780 to 1810 to the metropolis for the beginning of the colonial government's financial difficulties, but shows how, despite the financial support of some of the wealthy elites in New Spain, the viceroyalty could not keep up with its debt obligations and military expenditures after 1810. According to Marichal, it was "clearly the war that finally undermined the royal administration, but the weakening of the fiscal and financial system was also a key factor" leading to the independence of the colony in 1821.

The book is clearly written and accessible to readers of all levels. It would make a fantastic assignment for a course on colonial Latin America, economic history of Latin America, or any course on the rise and fall of European empires, both at the undergraduate and graduate level. The book is really a major breakthrough in its genre.

Aldo Musacchio is the author of "Experiments in Financial Democracy: Corporate Governance and Financial Development in Brazil, 1882-1950" (Cambridge University Press, forthcoming).

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