

# FROM PIONEERING MERCANTILE STATE TO ORDINARY FISCAL STATE: PORTUGAL 16<sup>th</sup>-19<sup>th</sup> CENTURIES \*

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## RESUMEN

Portugal, un reino pobre y pequeño, llegó a ser un Estado Mercantil pionero gracias a sus descubrimientos. ¿Cuándo estableció sus instituciones fiscales como potencia mundial? ¿Una potencia marítima capaz de ser punta de lanza de la conexión permanente entre Europa y la India fue capaz de establecer unas instituciones fiscales modernas que garantizaran un presupuesto Estatal estable? El objetivo de este artículo es mostrar cómo el pasado imperial y fiscal impidió a la sociedad civil portuguesa generar el consenso social necesario para incrementar la recaudación de impuestos y establecer instituciones fiscales eficientes.

**Palabras clave:** Estado Mercantil, Estado Fiscal, Historia Fiscal, Portugal siglos XVI-XIX

## ABSTRACT

Portugal, a poor and small kingdom, became a pioneering mercantile state thanks to its Discoveries. When did Portugal establish its fiscal institutions as a world power? Was such a powerful maritime nation,

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\* Received on 10<sup>th</sup> December 2006. Harvard Business School, Alfred Chandler Junior International Scholar 2007.

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capable of spearheading a permanent link between Europe and India, able to establish modern fiscal institutions strong enough to guarantee a stable State budget? The objective for this paper is to show that the country's fiscal and imperial past prevented Portuguese civil society from establishing efficient fiscal institutions and generating a social consent for increasing tax collection.

**Keywords:** Mercantile state, Fiscal state, Fiscal history, Portugal 16<sup>th</sup>-19<sup>th</sup> centuries

**JEL classification:** N23, N24

## 1. INTRODUCTION

According to Schremmer (1989), each political regime designs its own fiscal system, as fiscal revenues must meet the expenditure associated with the political programme of the regime. Sooner or later the connection between the structure of public spending and the (possible) collectable revenues must occur. The rise of fiscal states in Europe in the modern period, has attracted ongoing attention in the last decades.

According to Schön (2005), a fiscal state is a state endorsed with the power to bring in revenues and to service debts in order to change the collective future as a facilitator of long run growth. The building of fiscal states has been the subject of extensive literature. According to O'Brien (1999), the commitment by the central state to a standing navy of the scope, technological efficiency and scale required to provide safety for overseas trade was vital throughout this period. To this end, not only did the central state create political, social and economic institutions, but it also used resources to perform political, social and economic functions that required taxation or even public debt. According to Daunton (2001), the British trusted Leviathan. In the eighteenth century, for example, a powerful fiscal-military state emerged in Britain and, after the Napoleonic wars, the notion of the state as a tax-eater required a lot of support and trust on the part of citizens and taxpayers. In building huge navies, the political power in pre-industrial European countries was easing a commercial revolution and creating conditions for inter-continental trade, maritime cities, agglomeration and networking economies. Acemoglu (2005) stresses the role of efficient institutions in positive long run growth, a decisive aspect for geopolitical hegemony and performance: «From 1500, and especially from 1600 onwards, in countries with non-absolutist initial institutions and easy access to the Atlantic, the rise in Atlantic trade enriched and strengthe-

ned commercial interests outside the royal circle, and enabled them to demand and obtain the institutional changes necessary for economic growth»<sup>1</sup>.

The purpose of this paper is to examine the Portuguese case against this backdrop. In a global perspective Portugal is a particular case study because it was a pioneering mercantile state thanks to its Discoveries. How did the small kingdom of Portugal manage to become such a powerful maritime power that it was able to spearhead a permanent link between Europe and India by sea and yet in the nineteenth-century the state was bankrupt? How did the King of Portugal expect to profit from the monopoly of this trade link? How did the exceptional position of Portugal in the trade between Europe and India collapse and force Portugal to become, little by little, an ordinary fiscal state, a transition which was completed during the 19th century? The main objective of this paper is to show how the pioneering role of Portugal in overseas endeavors made it possible to overcome the early system of feudal revenue and expenditure and move towards a mercantile profile. A second objective is to establish that the success of these overseas endeavors delayed the transition to an efficient fiscal state.

The revenue and expenditure structure in the early sixteenth century was a consequence of the pioneering role of Portugal in overseas Discoveries since the second decade of the fifteenth century. The success of Asian expansion thanks to da Gama's voyage and the formation of the Portuguese State of India supported a mercantile state in Portugal, instead of a feudal state. A light fiscal burden on landed gentry and peasantry, the nominal freezing of internal taxes and the abundance of revenue proceeding from commercial activities in which a prosperous mercantile class was involved were the main consequences. The loss of Eastern trade monopoly in the late sixteenth century seems to have led to a drive to Brazil, where businesses ran from spice trade to sugar plantations, as a response, and the replacement of trading profits by customs as the main revenue. Monarchs and politicians adopted interventionist trade policies to capture profits for their own countries. Irwin (1991) describes the Dutch rivalry in the seventeenth century as «a managerial incentive scheme (...) to achieve a Stackelberg leadership position against the English» and uses a Cournot duopoly model for a standard profit-maximizing objective, also using Helpman and Krugman's theory of strategic trade policy (1989) as an analogy of Mercantilism in this epoch<sup>2</sup>. In Portugal the need to create new taxes such as the wine tax (real de água) and income tax (décima) was a first move towards the

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<sup>1</sup> Page 3.

<sup>2</sup> Pages 1296, 1297.

establishment of a fiscal state, with no class exempt from income tax, although the clergy only paid only *a mode in lieu of* it. In any case, internal taxes did not exceed customs.

According to the literature, increasingly expensive wars in the seventeenth-century had far-reaching effects<sup>3</sup>. For the Portuguese Exchequer, wars with European rivals concerning overseas possessions and with the Western Hapsburg Empire for independence in the seventeenth century were real European challenges which required adaptations. However, Brazilian gold and Portuguese wine as sources of prosperity in the eighteenth century soon meant that customs became the main source of revenue, a situation which meant there was less pressure to modernize the fiscal structure. Only the exhaustion of gold mining really brought about the collapse of the mercantile state. The Portuguese delay in the process of introducing appropriate fiscal adjustments and institutions is a special historical experience among European nations. Not until the nineteenth century would Portugal implement real fiscal and institutional changes. The French wars and the loss of Brazilian trade monopoly (and later of Brazil as a colony as well) would lead to the particularly painful creation of a fiscal state in the nineteenth century, thanks to the pressing need to adapt the Portuguese fiscal structure. Although the mercantile class, landowners and peasants did not enjoy the same possibilities of escape, paying taxes was an attitude that depended on social acceptance and not only on fiscal laws.

Section 1 of this paper deals with the fiscal basis of the early Portuguese voyages of discovery and Section 2 focuses on a model of the ideal mercantile state. The remaining sections deal with the Brazilian empire and its collapse, and the difficult transition of Portugal to a typical liberal fiscal state and its first false start at modern economic growth. The consequences for Portugal were the establishment of a Constitutional Monarchy as a response to the challenges that industrialisation and globalisation were posing to the old powerful maritime Portugal. States establish and sustain institutions and cultures which may promote or restrain long run economic growth. In the mid nineteenth century, the nation which had been a leader during the Discovery period of the early sixteenth century was an underdeveloped indebted country. Although political adjustments occurred in creating a Constitutional Monarchy in the country, no social consent existed regarding the collection of taxes able to support the political blueprint of the new institutional framework.

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<sup>3</sup> For the English fiscal experience see North and Weingast's (1989).

## 2. THE FISCAL ROOTS OF A WORLD POWER

On 6 January 1501, King Manuel I of Portugal went to the village of *Restelo* in the outskirts of Lisbon, from where Vasco da Gama's fleet had left for its discovery of the Cape of Good Hope route almost four years before, and laid the first stone of the Church of Saint Mary of Bethlehem, a memorial to that historic voyage. (Several engravings and paintings on the main altar of the church, locally known as the *Jerónimos*, relate to the feast of Epiphany, evoking the day on which construction of the church began). The king was certainly upset by the failure of the schemes he had prepared during the previous years to become sovereign of a united Iberia (or at least to ensure such a role for one of his descendants), the result of several deaths in his family. The main idea had been for him to marry Isabel, daughter of the King of Aragon, Fernando, and the Queen of Castile, Isabel (1496). Isabel became the heir apparent to the thrones of Aragon and Castile (1497), but died the following year (1498). The situation was repeated with Miguel, the child she bore King Manuel in 1500. The crowns of Castile and Aragon were to skip Juana, the king's other daughter, and pass to her son Charles (born in 1500), and usually known as the Fifth.

The king was certainly pleased with the success of Vasco da Gama's voyage of discovery, which seemed to ensure a firm basis for the future prosperity of the kingdom to be ruled by him and his descendants. As a sign of his confidence he had taken the title of Lord of Trade, Navigation and Conquest of Ethiopia, Arabia, Persia and India, on the return of Vasco da Gama's fleet.

In 1400 (one century before King Manuel's inauguration of *Jerónimos*), the kings of Portugal and Castile had signed a truce putting an end to three decades of protracted, although intermittent, warfare between the two countries (1369-1371, 1372-1373, 1381-1382, 1383-1387, 1396-1400). Repeated and ineffectual attempts at mutual interference in the internal affairs of the neighbouring country had convinced both governments that the ground for political gains had to be found elsewhere, leading to future plans for the unification of Iberia. These wars had, however, a positive consequence from a fiscal point of view for Portugal. In 1385, the *Cortes* (an assembly of representatives of the ecclesiastical, noble and popular orders of the population) voted in favour of the payment of a tax on transactions, the *sisas*. This tax was to become the main fiscal basis of the Portuguese Crown. Curiously, the name of a similar Castilian tax, *alcavalas*, became a synonym of tax hindrance to trade in the Portuguese language. It is fair to conclude that this extension of the fiscal rights of the Crown beyond the traditional tariffs was rather unpopular. However, as the main Portuguese chronicler of these

wars, Fernão Lopes, wrote, referring to the increased taxation and inflation (because of the loss of value of the currency) they caused, «it is better for the Kingdom to suffer, than to be lost». The choice of the Portuguese kings was expansion in Morocco, a decision supported by three ideas. Firstly, the infidel status of the country sanctified the military endeavour there as a holy war. Secondly, Moroccan towns were the points of arrival of trans-Saharan gold caravans, which promised good business. Thirdly, the country had been as badly hurt as the rest of the Mediterranean world by the demographic crisis of the 14th century, so victory might be easy. Alas, only the first proposition proved correct. The Portuguese had a harder time than expected in Morocco. Ceuta (1415) was a good start, but further advance had to wait until the third quarter of the century and was mixed with some bitter defeats (such as Tangier in 1437 and Fez in 1443). Worse still, as Portuguese possessions remained as isolated fortresses in a hostile country, their economic prosperity dwindled as a consequence of the Christian conquest as profitable trade looked for alternative outlets<sup>4</sup>.

Fortunately, Portugal had other cards to play. Not only were there fishermen and traders ready to try to find fresh ground for maritime endeavours, but also, as would be expected in a feudal society, ecclesiastical and aristocratic lords were ready to give formal backing to such ventures. They were used to providing public goods, such as justice and defence, and to collecting fiscal revenue as a compensation for them<sup>5</sup>. The tithe represented a general ecclesiastical tax paid by all Portuguese subjects. Local taxes called *foros* formed the feudal tax system, which, depending on location, benefited local ecclesiastical or aristocratic lords, vassals to the King, or the King himself, if he happened to be the direct local lord.

The Knights of Christ, a religious military order with roots in the Portuguese branch of the Templars, which had been suppressed, and were led by a member of the royal family who came to be known as Henry the Navigator, were particularly active. Although he hardly set foot on a ship himself, he promoted sea borne activities and was rewarded with the control of Madeira (late 1410s), the Azores (1430s) and the trade with the Western coast of Africa (1430s), which eventually provided a direct link to the Trans-Saharan gold trade, bypassing Muslim traders, as well as direct trade in ivory and slaves. Lack of space makes it impossible to go into the very interesting technical details of the seafaring improvements needed for these activities, which formed an impor-

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<sup>4</sup> Godinho 1963); (1971), Vol. I, pp. 65-94.

<sup>5</sup> The feudal character of the Portuguese and Iberian medieval society has been the subject of much debate. Soares, 1979; Mattoso (1985).

tant innovation cluster, including regular sea voyages, astronomic determination of latitudes, etc.

Slowly but steadily, these maritime endeavours began to bring profits to their promoters and to provide a basis for further explorations. Mention should be made of the economic organisation of the colonisation of Madeira and the Azores, because of their importance as early experiments which were to become very important in the colonisation of the New World. Madeira was the first example of a plantation economy, as soon as the Portuguese colonists discovered its suitability for the production of sugar. A slave workforce brought from the Canary Islands and the West coast of Africa was the backbone of this first epoch of Madeira's economy, which ended during the 16th century as American plantations developed. (The second trump card of Madeira's economy would be the vineyard, developed mainly during the 17th century). The Azores, where European peasants tried to reproduce small-scale production of typical European crops, were the first example of a settlement economy. At the same time, the gold, ivory and the slave trade of the West coast of Africa also prospered.

Moreover, for a while (during the 1460s) the eastward orientation of the northern coast of the Gulf of Guinea engendered hopes of a Southeast route to the Indian Ocean near at hand. As these hopes were dashed by the southward turn of the African coast in the region of Cameroon, consolidation of the first Portuguese colonial empire meant, for the first time, concentration of the whole business in the hands of the Crown. Credit for this concentration is usually given to King John II, who also became the crucial figure in the Portuguese version of the process of centralisation of royal power against the traditional prerogatives of ecclesiastical and feudal lords typical of late medieval and early modern Europe. (Of course, such a centralisation of royal power did not mean suppression of the plurality of providers of public goods and fiscal systems, which survived until the early nineteenth century). Expeditions aimed at discovering the Southeast passage to the Indian Ocean followed, succeeding with Bartolomeu Dias' voyage in 1488. The fact that a further decade was needed to transform this discovery into a practical Cape of Good Hope route by Vasco da Gama's voyage of 1497-1499 clearly illustrates the technological and financial difficulties of the project.

### 3. THE FIRST WORLD SYSTEM

At the beginning of the sixteenth century the Portuguese mercantile empire comprised two elements. One was the splendid success of the «Cape (sea) route» to India monopolised by Portugal, and within

Portugal by the Crown. This success was due to the possibility of bringing exotic Asian goods to European markets with low transportation costs<sup>6</sup>. Merchants were often authorised to do private business but had to pay lump sums and custom duties for the privilege. Core European states were too busy building their own central states and for some time no other European country was interested in applying economic resources to an uncertain business. The early Portuguese central state enjoyed monopolistic conditions for as long as possible.

The other element of the Portuguese mercantile empire was the Atlantic and Brazilian trade, under the partitioned hegemony provided by the *Tordesilhas* Treaty with Castile. (The treaty was signed in 1494, roughly mid way between the two pioneering ocean voyages that opened the world: Columbus' discovery in 1492 and da Gama's voyage to India in 1498). Foreign competitors soon appeared and private business was the rule, although the obligation to use Portuguese ports for intermediation of colonial trade (the main rule of the Colonial Pact) was soon introduced.

The Cape route was particularly relevant and successful, as high profits on the goods brought from Asia into Lisbon before they were re-exported from there to the rest of Europe were possible. Foreign trade became a splendid source of fiscal revenues, particularly because of the monopolistic conditions present in this trade for a long time. The necessary circulation of the money (gold and silver – scarce resources), once inside the country, may be recalled as a symbol of the rise of a mercantilist state ruled by a powerful king in the perspective that foreign trade was a zero-sum game<sup>7</sup>. Revenues from duties on imports and exports at the Lisbon customs multiplied seventeen fold between 1496 and 1593<sup>8</sup>. This increase may be considered as a «rent» provided by the exploitation of monopolistic conditions. While some core European countries were involved in wars, the smallest of the Iberian countries ruled the waves of the first world system. Charles V's empire mainly opposed France (1521-1556) and Turkey (1569-1580)<sup>9</sup>.

A central question is whether it was the high central state revenues that helped to build a large trade empire or whether the large Portuguese trade empire of the sixteenth century helped to build the central state, as seems to have been the case in England. Although Portugal could not

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<sup>6</sup> Godinho (1963); (1971), Vol. I, pp. 41, 147; Vol IV, p. 113.

<sup>7</sup> On the role of foreign trade for the central state revenues and the king's power, see Deyon, 1969.

<sup>8</sup> Godinho (1978), p. 56.

<sup>9</sup> On the Portuguese efforts to preserve monopoly conditions for navigation and trade against piracy see Godinho, Vitorino Magalhães, «As incidências da pirataria e da concorrência na economia marítima portuguesa no século XVI», *Ensaios II*, 1978.



rule and administrate vast territories in Asia, control over a network of strategic trading centres through military fortresses and a superior naval power over local navies were enough to rule Asian trade. This system of ruling vast regions with minimal costs was invented by two viceroys in India, Afonso de Albuquerque and Francisco de Almeida.

In an abstract model, the ideal mercantile state enjoys a monopoly of the connections between two important markets. From the foreign market (Asia) came the cargoes of an important commodity (at first chiefly pepper, later other «drugs» such as cinnamon, cloves, nutmeg, coffee, etc, cotton and silk textiles, sophisticated pottery, etc.). As the poet puts it:

He carries burning Pepper, which he brought;  
Nutmegs (the which their own dry'de flow'rs up trim)  
From Banda; the black Clove(for which is sought  
Maluco's Isle) and Cinnamon, through which  
Ceylan is noble, beautiful, and rich  
(Camões, *Lusíadas*, IX, 14)

*«Leva a pimenta ardente que comprara;  
A seca flor de Banda não ficou;  
A noz e o negro cravo, que faz clara  
A nova ilha deMoluco, com a canela  
Com que Ceilão é rica, ilustre e bela»*  
(Camões, *Lusíadas*, IX, 14)

The ideal mercantile state buys this (or these) commodity (commodities) and brings it (them) to the home market (Europe) to be sold to (hopefully) eager and wealthy consumers. The profit of the operation (P), with perfect information as a benchmark case, is, of course, the product of the quantity bought, transported and sold (Q), by the unit profit, which is the difference between the selling price (S), and the sum of the buying price (B) and the transport price (T):

$$P = Q (S - B - T) > 0$$

Of course, what is called here «transport price» must include not only the transport price in the strict sense (which corresponds to the freight that would be paid to a provider of transportation services), but also the losses of cargo in shipwrecks (which corresponds to the premium that would be paid to a provider of insurance services) and the protection costs against predators of the business (mainly pirates in North Atlantic waters between the Azores and the Portuguese mainland from Europe and the Maghreb). Of course, the ideal mercantile state provides the

transportation and the protection and seldom makes insurance contracts.

The short-term strategic variable to be manipulated by the ideal mercantile state is, of course, the quantity of commodity to be bought, transported and sold. To maximise total profit  $P$ , the ideal mercantile state must buy, transport and sell a quantity  $Q^*$  of commodity such that

$$Q^* = - (S - B - T) / (dS/dQ - dB/dQ - dT/dQ)$$

Which makes  $dP/dQ = 0$ .

As  $dS/dQ < 0$  (to increase the quantity sold, the price must be lowered) and  $dB/dQ > 0$  (to increase the quantity bought, the price must be raised), and it is possible to assume without much trouble that  $dT/dQ = 0$  (there are no economies or diseconomies of scale in transportation), we may be confident that  $Q^*$  is positive.

If we assume that  $d^2S/dQ^2 = 0$  and  $d^2B/dQ^2 = 0$ , we may also be confident that  $d^2P/dQ^2 = 2 (dS/dQ - dB/dQ)$  is negative, which ensures that  $Q^*$  is really a maximum.

In practice, the ruler of the ideal mercantile state must find a middle ground between the absence of connection between the two markets, which ensures a maximum difference between the selling and buying prices, but provides no profit because there is no trade, and the full connection between the two markets, which reduces the difference between the selling and buying prices to the level of the transportation prices, and, therefore, also provides no profit.

According to O'Rourke and Williamson (2005) European consumers did not appropriate all the benefits of the Cape route and Portugal could appropriate some of these benefits, exceeding the initial Venetian profit<sup>10</sup>. The short-term problem is to find the best way to maximise total profit in this model. The long-term problem is to preserve the monopoly of the connection, a fairly familiar problem involving entrance barriers, because success depends upon mercantile elites and efficient commercial institutions. The main difficulty in the case of sixteenth century Portugal is that the monopoly depended on the exclusivity of the technology and geographical knowledge needed to sail the Cape of Good Hope route, which was impossible to preserve in the long run, either because of information leaks, or because potential competitors could imitate the Portuguese by trial and error (and it was impossible for the Portuguese to ensure full control of the «closed» sea they claimed in the South Atlantic and South Indian Oceans). By the late sixteenth century

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<sup>10</sup> Pages 26-30 and Fig. 5.

Portuguese monopoly of the Cape route collapsed under the efforts of Dutch, English and French merchants<sup>11</sup>. Portugal tried to resist throughout most of the seventeenth century but by the 1660s it already had only a minor share of the Cape route trade.

#### 4. THE SECOND WORLD SYSTEM

Profitable activities attracted new partners into business. Before the 1560s, the main danger was piracy. As six large ships per year were enough to bring the annual cargoes, piracy was very attractive. From the 1560s on, European countries developed new naval systems for managing sea voyages to Asia, putting an end to the Portuguese monopoly of Asian goods trade that had lasted for almost one hundred years. New ships were quicker and more easily manoeuvrable<sup>12</sup>. As European countries began trading in the Indian Ocean and conquering strategic seaports from 1620 to 1660, competition became the rule in the market under the supervision of the British and Dutch Companies for Trade. For Portugal, Godinho (1978) refers to 1580 as a turning point<sup>13</sup>. Gains of trade, agglomeration and networking economies between maritime cities were shared with other partners. A new world system, based on European water transportation advantages and Marshallian increasing returns, delocalised the core trading centre from Lisbon to Antwerp, Amsterdam and London. However, the number of rival European states engaging in geopolitical and mercantilist competition for trade colonisation and colonial empires was limited. Historical global conditions were much closer to the conditions of the oligopoly game with a succession of leading powers in the world market and followers. In this second world system Portugal could no longer perform the leading role it had enjoyed in the world in sixteenth century and became a follower. Modelsky and Thompson also refer to the 1580s as the turning point from the first to the second world system<sup>14</sup>. The trade in tropical commodities from the American continent was organised as an informal cartel using collusive solutions resulting from tacit agreements reached for geopolitical reasons – an oligopoly with separated production areas, monopolised selling areas in part of Europe and competition in other selling areas. Collusive prices were more likely to be in equilibrium because of countries' permanent interaction in the new trade during the

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<sup>11</sup> Boxer (1969), chapter 6.

<sup>12</sup> Monteiro (1990-93).

<sup>13</sup> Godinho, Vitorino Magalhães, «1580 e a Restauração», *Ensaio* II (1978).

<sup>14</sup> Modelsky (1988). Modelsky (1988a).

seventeenth century and because of the growth of the business. Wars between mercantilist states may be compared to redistribution processes within this cartel of major powers<sup>15</sup>.

For Portugal, the most favourable production area for trade in the new second world system was Brazil. From the 1580s on, the main origin of tropical goods traded in Lisbon became the Brazilian coasts. Several tropical goods were appreciated in European markets and could be produced in this Portuguese colony, still providing high revenues. Brazilian sugar was cultivated by African slave labour and dominated Brazilian exports. However, dye-producing wood and tobacco were also attractive, providing large exports to Lisbon<sup>16</sup>. Not only did European countries manage to cultivate sugar in other South American possessions from 1650 on, but also free business conditions were available for Portuguese merchants and private businesses. The decreasing prices of tropical goods (especially sugar) in European markets were due to competition between Brazil and other producers (such as Dutch, French, English and Spanish cultivation of sugar), as the provision of European markets by all these producers left each of them with smaller shares in the cargoes and lower prices<sup>17</sup>. In fact, the worst price war to punish deviation would have been to set price at the level of marginal cost, meaning zero profit. Considering the markets in isolation, tacit agreements were unstable, but taking them together it was easier to attain equilibriums because the punishment for deviation and defection was to engage in price wars and retaliation in other markets. European partners supported massive and sustained investment in naval power which allowed aggressive commercial policies and interesting discounted payoffs.

The eventual reduction of tax revenues from Brazilian trade and increases of expenditure because of the wars (against the United Provinces, England and France to preserve overseas possessions, and against the Western Hapsburg Empire to restore Portuguese autonomy) forced the Portuguese exchequer to introduce new taxes on consumption (*Real d'água*, a tax on the consumption of wine and meat, created in the 1630s) and income (royal tithes in the 1640s). Thus, the Portuguese state began to adopt a more fiscal and less mercantile profile. National navies were floating fortresses and war periods always made the creation of new taxes necessary in order to support military expenditure. Defence

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<sup>15</sup> For the move of the core of Portuguese colonial empire from Asia to Brazil, see Godinho, Vitorino Magalhães —«Portugal, as frotas do açúcar e as frotas do ouro (1670-1770)»— *Ensaio* II (1978).

<sup>16</sup> Serrão (1992-94).

<sup>17</sup> Godinho (1978).

was a first rank priority and severe foreign tension led to an increasing tax burden<sup>18</sup>.

Peaceful periods followed, but the royal tithe was never abolished and took a permanent place alongside excises and taxes on consumption. These taxes were the main basis for the future Portuguese State fiscal system. Even so, duties were able to provide high revenues and the Portuguese central state was able to go on feeding its budget as colonisation in Brazil continued to provide a mercantile profile to the Portuguese exchequer. The high weight of customs in overall taxation resulted not only from the greater volume of trade, but also from the ease with which imports could be taxed. In Lisbon, the main Portuguese port-city and capital of the empire, a modest number of officers sufficed to collect huge amounts of revenue. In 1641 and 1681 Lisbon customs represented 88 per cent and 79 per cent of total customs revenue respectively<sup>19</sup>.

In the 1680s, gold mines were discovered in *Minas Gerais* in Brazil. A tax amounting to 1/5 of gold inflows from Brazil provided huge amounts of gold for coinage and supported public expenditure in the first half of the eighteenth century (from 1695 to about 1754). Because of the large quantities of gold available, this situation provided a second significant role for Portugal in the world system and glorious support for a leading position in the world market<sup>20</sup>. Brazilian-Portuguese gold fuelled trade with Great Britain and the Baltic region, providing access to silver for trade in Asia. Once again the colonial empire was the main source of public funding. This new model was short-lived, however. Brazilian gold was almost exhausted by the middle of the eighteenth century<sup>21</sup>. At the same time, due to the development of more efficient economic and financial institutions by those countries, Portugal lagged behind<sup>22</sup>.

The Portuguese central state needed to satisfy permanent financial expenditure with domestic fiscal revenues, as did other European states. The Brazilian gold boom coincided with an elevated role for domestic taxes for two reasons. Firstly, the eighteenth century Portuguese kings inherited fairly old domestic taxes (created in times of foreign threat, as explained above) from their ancestors. Secondly, the Portuguese economy saw a period of short-term prosperity (rooted mainly in wine exports), but long-term development did not follow. The Portuguese case does not fit neatly into the European central state profile. As the country

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<sup>18</sup> Macedo, *et al* (1998).

<sup>19</sup> Sideri (1970).

<sup>20</sup> Boxer (1969), chapter 7.

<sup>21</sup> Macedo (1982).

<sup>22</sup> This interpretation follows North (1991) and Acemoglu; Johnson; Robinson (2005).

**TABLE 1**  
**THE STRUCTURE OF PORTUGUESE PUBLIC REVENUES**  
**(AVERAGE DATA FOR THE PERIOD 1762-1777)**

Customs (domestic and foreign).....	24.15 %
Tobacco.....	17.00 %
1/5 on Gold.....	11.75 %
Diamonds .....	4.95 %
Royal tithe .....	10.35 %
Sundry revenues .....	6.7 %
Excise.....	6.25 %
Overseas revenues.....	5.35 %
Brazil wood.....	2.35 %
<b>TOTAL .....</b>	<b>100 % (=5 253 contos)</b>

Source: Tomaz, (1988), p. 362-363.

was much poorer, customs and rents from monopolies still provided a much higher support. Average data for the period 1762-1777 illustrate this situation:

Moreover, the society of the Ancient Regime allowed great discrepancies in taxation according to social status, birth condition and local tradition. Only three taxes applied to everybody: two of them had been created in the past under foreign threat; a local tax on consumption of goods, particularly on meat and wine, was absorbed by the central state in the seventeenth century and applied across the board to all subjects and territories. As in other European countries, the late eighteenth century brought political centralisation to Portugal and broader functions to the central state. Under a pressing need to move towards safer collection systems, the government created a tax on the leading agricultural export staple: wine. This tax was applied to support the University of *Coimbra*. Because of the association of this tax with higher education, it received the special name of «literary subsidy» (*subsídio literario*)<sup>23</sup>.

In order to increase the state's efficiency in the process of assessment and collection of revenue, Pombal's illuminated government also created (in 1761) centralised accounting in the Royal Exchequer (*Erario Regio*). Functions included defence, justice, administration throughout the national territory and primary matters regarding education. In such an illiterate country, literacy became a concern and university teaching even demanded the creation of the *subsídio literario*, as explained above<sup>24</sup>.

<sup>23</sup> Torres (1979).

<sup>24</sup> Macedo (1979).

This was only a first step towards a fiscal profile. The main adjustments were to take place in the nineteenth century. Such a delay provided the background for new political institutions.

## 5. A SECOND STEP TOWARDS A FISCAL PROFILE

Wars against revolutionary and imperial France (1793-1795, 1801) called for new taxes: a stamp tax and a consumption tax on luxury items. Furthermore, French occupations (1807-1808, 1809, 1810-1812) forced the royal family to take refuge in Brazil and to open its ports to direct foreign trade. Brazilian independence soon followed (1822) and put an end to all remnants of the old mercantile state. The superior performance of the navies of other European countries can explain the importance of scale in trading. The British navy was outstandingly efficient but fleets from other rival powers were also successful. These countries could appropriate the gains from the maritime trade, the scale economies as well as the agglomeration and networking economies. According to Krugman (1995) a system of increasing returns can explain delocalisation effects for economic activities and the creation of poles and peripheries. As for Portugal, the Indian and Brazilian colonial empires were gone forever and *peripherisation* became unavoidable, because for other partners the interconnections of the naval-mercantile complex with commerce and international trade pushed their national economies to plateaux of opportunities and capacities for precocious industrialisations. As a new (African) colonial empire would not be created until the «scrambling for Africa» in the last decades of the nineteenth century, a clear fiscal profile was imposed on the Portuguese state. Even this new (African) colonial empire, created after the Berlin Conference (1885), was too poor to allow the same mercantile success as provided by previous empires<sup>25</sup>.

The pattern for the fiscal state had some similarities with most continental countries under the Liberal framework in Europe, but was extremely difficult and painful in the Portuguese case<sup>26</sup>. Late eighteenth century Romantic ideas based on the liberal claim of freedom, equality and fraternity were widespread and brought new ideals of justice and equity. The concept of each man as a citizen aided the fiscal character of central states. The solution to the fiscal problem, in Portugal as in other countries, was to endorse liberal ideas to frame new institutional arrangements – to abolish Church and feudal fiscal systems and to increase State

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<sup>25</sup> Smith (1985).

<sup>26</sup> Comín (1996), pp. 169-236.

fiscal revenue to encompass the revenue of the former<sup>27</sup>. This was a slow and painful process in a society without «inherited Calvinist norms that militated against extravagance». In Portugal it took a civil war to impose a Constitutional Monarchy (1828-1834) and this was followed by further decades of civil unrest (in the 1830s and 1840s). Military expenditure to restore peaceful conditions was supported by foreign borrowing in a country with low saving habits<sup>28</sup>. This cost of the liberal victory meant a legitimisation of the central state as the only institution to collect taxes from citizens. Central state monopoly in taxation allowed an expansion of state revenues all over Europe. The Dutch seventeenth century rival is considered a case of fiscal exception, because «for nearly three centuries, the provincial States had resisted a trend toward centralisation experienced by almost every other European state», but was able to achieve the unification of debts in 1798 as well as a unitary tax system<sup>29</sup>: «The resulting rationalisation of administration, imposition of uniform tax rates, and shift from a reliance on indirect to direct taxation, all had the immediate effect of increasing total tax revenues by nearly one third, notwithstanding the somber economic conditions of the times»<sup>30</sup>. In Portugal the idea was to fill the gap left by the abolition of other fiscal systems by expanding public tax collection, profiting from the citizen's ability to pay. Despite the fact that many could afford to pay, resistance existed and, in fact, was common. In contrast with Rosenthal's (1998) approach to the French case, not only the elite classes refused fiscal pressure in peaceful times, mob uprisings and general social unrest also occurred. Although liberal ideologies and Parliament surveillance of public finance were established in the Constitution of 1834 and were commonly accepted, riots occurred during difficult economic periods. The so-called *Maria-da-Fonte* popular revolt in the 1840s and the so-called *Janeirinha* in Lisbon and Oporto in 1868 were the most critical moments of resistance against two attempts to increase tax payments<sup>31</sup>. This social reaction may be interpreted as «a loss of consent» from taxpayers for more universal and less regressive fiscal systems.

The question was how to expand fiscal exaction. The solution was to divide the traditional royal tithe into different taxes according to the revenues to be taxed (land revenues, industrial revenues, or interests) in order to increase collection throughout the 1850s and '60s using an effective bureaucracy for this purpose. However, customs continued to provi-

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<sup>27</sup> For Constitutions and commitment see North; Weingast (1989).

<sup>28</sup> In comparison with the Dutch case, for example. De Vries; der Woude (1997), p. 124.

<sup>29</sup> De Vries; der Woude (1997), p. 128. For similar questions on fiscal federalism see (Weingast 2005).

<sup>30</sup> De Vries; der Woude (1997), p. 127.

<sup>31</sup> Mata (1991), pp. 755-769.



**TABLE 2**  
RATIO OF CUSTOMS REVENUES ON TOTAL FISCAL REVENUE (%)

Year	UK	Italy	France	Spain	Portugal
1850	23	—	9	13	41 (1852)
1860	37	16	7	11	44
1870	35	10	6	11	33
1880	29	12	9	15	39
1890	28	19	14	17	43
1900	23	19	12	18	33
1910	28	21	15	15	31

Sources: Comín, (1996), p. 219; Mata, (1993b), pp. 129, 136.

de the lion's share to the Exchequer. Table 2 shows comparative data for Mediterranean countries and the UK, the strongest colonial power.

No other country matched the role of customs duties in fiscal revenues in the selected sample. The weight of customs in Portugal was greater than in the UK throughout the nineteenth century. This fact may be the result of the small size and openness of the Portuguese economy, but it is certainly linked to the difficulties of implementing a coercive power after three centuries of imperial customs tradition. Other explanations may reside in the lower exaction cost of customs revenue and the lower political cost compared with internal indirect and (especially) direct taxes. British values are close to the Portuguese levels only in the early twentieth century, but the degree of openness and the tax rate on the traded goods sector differed considerably in the two countries. According to Comín (1996), tax evasion is a common attitude in Latin countries, particularly in Spain, a country with a large colonial empire. However, Table 2 shows a much smaller ratio of customs revenues on total fiscal collection in Spain, because of the larger dimension of the Iberian neighbour and the lower degree of openness of the Spanish economy<sup>32</sup>. The difficulties of implementing a coercive power for a universal fiscal system in Portugal were even recognised in the national Parliament. On 14 May 1880 the Deputy José Rodrigues de Freitas honestly said: «*In Portugal, taxes are not paid according to the direct proportion of the wealth of each person, but according to the inverse proportion of his political influence*»<sup>33</sup>. Evading the payment of one's taxes did not affect reputation or bring social disapproval and such a generalised attitude created a national cultural context prone to fiscal evasion<sup>34</sup>.

<sup>32</sup> Pages 227-232.

<sup>33</sup> Arquivo da Assembleia da República, Diário das Sessões da Câmara dos Deputados, DSD 114, p. 2087.

<sup>34</sup> Mata (1993).

The revenues funding public expenditure constrain the political action of government, as «It seems to be an historical law that governments always wanted to spend more; a different aspect is to consider if they could»<sup>35</sup>. In the Portuguese Parliament, discussions took place to attempt to define the objectives of the fiscal system<sup>36</sup>. To collect as much money as possible? To collect enough money to cover the amount of selected expenditures? To collect the amount required to assure long run economic growth? To collect the amount required to promote national strategic aims related with national geopolitical performance? Curiously, collection in terms of the exact amount that would provide Pareto's optimum for collective welfare was never discussed and the need to collect as much as was considered necessary to maximise the longevity of the government was never confessed to. However, reading the available contemporary Parliamentary political speeches, it is also clear that there was an explicit consciousness of the relationships between the fiscal system and growth.

Improving the efficiency of tax collection meant improving public administration and extending the network of civil servants throughout the country in order to develop a true fiscal network over the entire nation for assessment and collection. This became a priority for the central state from the 1840s on, in order to administrate and control the whole territory and lasted until the First World War. The high transportation and information costs of putting Lisbon (the central state capital) in contact with every part of the country were real problems to be overcome. This was true for the European territory of the kingdom, because private initiatives to build transportation facilities were common throughout Europe but weak in Portugal. This was particularly true for the administration and taxation situation in the Atlantic islands of *Azores* and *Madeira*. Worries about transportation and communication facilities such as roads, railways and telegraph and, later, telephones were presented in Portugal as the main issues for promoting economic growth and modernisation, but this happened very late in comparison with other European partners. In Portugal the ideal of state efficiency included the provision of these public goods by the central state, because of market mechanism failure.

In this way, nineteenth century Portuguese politicians equated progress with material infrastructures and their provision as public goods<sup>37</sup>. Such a framework for social welfare meant subsidising private companies or public provision in the case of a failure through private supply.

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<sup>35</sup> Comín (1996), p. 19.

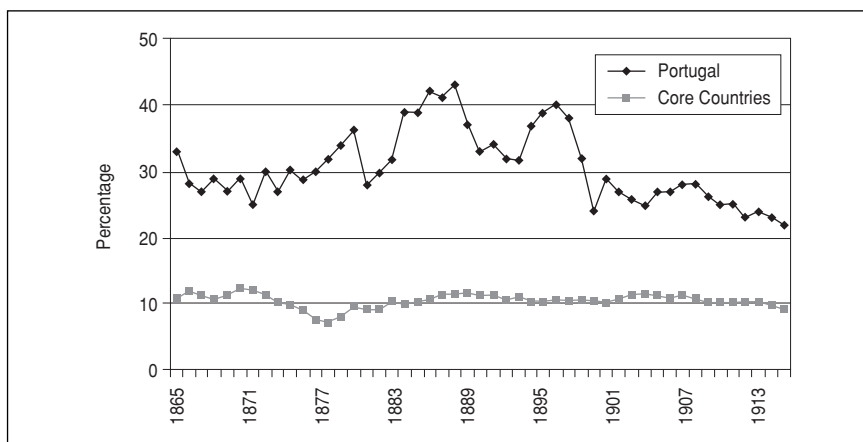
<sup>36</sup> Valério (2006).

<sup>37</sup> Mata (1988a). Esteves (2003).

These new social functions of the central state required more revenue<sup>38</sup>. New functions included support for transportation and communications facilities, as well as health and more education. The project consisted of a sustained compliance with a massive upswing in taxation and loans being allocated overwhelmingly to the funding of a successful strategy for domestic order, stability and long run economic growth to overcome underdevelopment. The escape was protection as high tariffs could compensate for the difficulties in fiscal collection and provide revenues for the budget<sup>39</sup>. Figure 1 shows the average tariff rate for Portugal and the core countries<sup>40</sup>. It is measured as import duties as a share of total import values and was extremely high in Portugal throughout the second half of the nineteenth century.

The fiscal roots of the Portuguese central state were not strong enough in its mainland territory to support the government's financial schemes of indebtedness to perform those policies. In a global perspective, only Latin American countries experienced such high average tariff rates<sup>41</sup>. It is time to conclude that, in a long run perspective the transition to an ordinary fiscal state was quite inefficient in Portugal and ran

**FIGURE 1**  
AVERAGE TARIFF RATES



Sources: Mata (1993b) for Portugal; Clemens; Williamson (2002) for the core

<sup>38</sup> Sylla; Tilly; Tortella (1999).

<sup>39</sup> Lains (1987).

<sup>40</sup> France, Germany, UK and the USA.

<sup>41</sup> Clemens; Williamson. (2002), p. 38.

the country into a financial debacle at the end of the nineteenth century<sup>42</sup>. According to Foreman-Peck (1994) and Rodrick (1997), globalisation brought an increased need for a stronger central state role in providing public goods that might act as compensations for the increased mutability and vicissitudes of global markets.

## 6. CONCLUSION

This paper argues that Portugal adapted poorly to the change from mercantile to fiscal state. The country's fiscal and imperial past can help to understand the financial and the institutional adjustments of the nineteenth century. They led to a Constitutional framework for the Portuguese monarchy that was hard to establish and implement in Portugal. Moreover, from a geopolitical perspective, the early sixteenth century leader of Discoveries had become an underdeveloped and indebted country in the nineteenth century.

Fiscal collection is constrained by the Constitutional framework and social wealth, but consented fiscal collection may not coincide with these constraints. It was possible to design a beautiful and profitable fiscal system in the context of the institutional adjustments under the constitutional regime but social turmoil and fiscal evasion cancelled out those effects. In Portugal it is quite clear that the Constitutional Monarchy always faced practical difficulties convincing its citizens to support its political blueprint on the provision of collective public goods in order to foster economic growth and development.

The mercantile empire models have been evoked to explain how difficult it was to implement a domestic fiscal system that would suffice for a country with a strong central state supported by direct taxation of domestic activities. Tariffs and fiscal evasion were permanent features of Portuguese social history and reactions against taxes even translated into social turmoil in some periods, an inefficiency that was an imperial heritage.

## SOURCES

Arquivo da Assembleia da República, Diário das Sessões da Câmara dos Deputados, DSD 114, p. 2087.

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<sup>42</sup> On the partial bankruptcy of 1892 see Mata (1993b).

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