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## **A contractor empire : public-private partnerships and overseas expansion in Habsburg Portugal (1580-1640)**

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## Conclusion

This dissertation has studied the Portuguese pluri-continental ‘Contractor State’ from the perspective of the state and its contractors. Its main purpose was to x-ray the core features of this ‘contractor empire’, unpack to what extent public-private partnerships were utilized and describe its inner-workings. To do so, I combined three often disconnected strands of scholarship. The first deals with the multi-secular path towards of state formation, and considers its fiscal and military/naval undercurrents. The second deals with early modern colonial trade, not only as an economic sector and provider of public and private wealth, but as political issue that linked central apparatus and a diverse coalition of social groups in the launching, expansion and up keeping of overseas empire. Finally, the third and last strand concerns the pursuits of merchant-bankers in the overseas arena and in state financing, and looks at their motivations and the organizational forms that allowed them to implement their government contracts.

The case of Portugal and its empire confirms some of the conclusions that historians have recently drawn for other European states during the seventeenth and especially the eighteenth century. These scholars have rightly called into question some of the general and all-encompassing narratives that viewed early-modern states taking first, yet decisive steps towards dismissing financiers, tax-farmers or commanders of mercenary regiments, etc., and to rely exclusively on the employment of professionalized bureaucracies. This dissertation has shown that in the case of Habsburg Portugal, those days were still to come, and subscribes to the views posited by new historiographies, which stress the resilience of brokerage-type solutions and the reliance on government outsourcing.

In the Union of the Crowns, as during the rule of the House of Avis before 1580, and of the Braganzas after 1640, royal contracts were the default solution for allocating up-front capital and all sorts of goods and equipment, as well as to handle the logistics of imperial governance. Although, the chronological limits of this dissertation do not allow for a long-term perspective, it is clear that the situation of the late sixteenth and the first four decades of the 1600s was not substantially different from that of the eighteenth century. All throughout the early modern period, the Portuguese Crown did not pursue any consistent agenda of direct administration in the procurement of resources for its armed forces, nor even when it came to setting ran state manufacturing facilities, as the sites for the making of hemp-fiber in Torre de Moncorvo and the production of artillery and explosives in the royal factory of Barcarena reveal. These tasks of public utility were systematically outsourced to private entrepreneurs, who had the ready-made capital to invest and the known-how to run these facilities, even if it was the Crown that sponsored their creation and put forward the initial investment in these fixed capital assets. The same could be said about the collection of taxes and exploitation of patrimonial economic assets.

This dissertation studies the Portuguese contracting system in a time of duress. As the military competition against the Dutch chartered companies ramped up in the Indian Ocean and in the South Atlantic, the Crown responded by commissioning new ships, at times entire fleets, which were built and fitted-out by private shipwrights. The king also drew the on wholesale deliveries of food-stuffs of purveyors under contract and the provision of naval stores and military equipment by military entrepreneurs. Several chapters of this dissertation made clear how the Crown relied extensively and almost exclusively on the mercantile elite and, to a lesser extent, on middle-scale-regional traders, to supply the needs of its arsenals, shipyards and warehouses.

The historiography on the ‘Contractor state’ has focused primarily on how the revenues raised by the ‘fiscal-military state’ were spent, and how that expenditure was primarily devoted to servicing contracts made with private entrepreneurs to keep armies and

naval forces well-staffed, fed and equipped. This thesis, in turn, has broadened the scope to include in the cannon of government contracts, tax-farming, and the exploitation of revenue yielding assets, such as commercial monopolies. These too were exploited by means of contractual concession, which provided the legal framing for the 'public-private partnerships' studied in this dissertation.

As a series of monographs showed, there was wide range of government contracts being underwritten, covering very different purposes and geographic locations. Although some of these colonial contracts have been covered in the past, they were first and foremost studied in isolation from the rest of the empire, considering only the immediate surroundings and the economic activities that were most directly related to them. Instead, through a series of disparate, but inter-related case studies, each pertaining to a different corner of the empire, this dissertation has showcased the pervasiveness of this financial-logistical solution across various regions and continents. Next to supplying and victualing garrisons, shipbuilding and outfitting of fleets, contractual concessions encompassed a broad scope of royal exclusive prerogatives over natural resources or valuable tropical commodities. Next to the procurement of goods for the military apparatus and distant trading factories, they also involved the licensing-out of colonial trade to third-parties, the management of customs and fiscal agencies in Europe and overseas. They were in that regard inter-oceanic and inter-continental, since they covered fiscal-incomes, revenue yielding assets and expenditures in Portugal, the Atlantic islands, the coastal dwellings in West and East Africa, the routes linking the kingdom to India and (since the 1630s) Brazil.

Aside from the geographical location, contracts were also diverse in so far as the range of executive tasks they covered could be very different. Some simply required contractors to tap-into regional networks, contacting suppliers and ensuring transportation for goods acquired in nearby hinterland, as the case of wood for the assembly of the *Indiamen's* hull showed (notwithstanding the growing scarcity of fine quality wood for that task in the kingdom). In turn, other contracts required their recipients to reach out to distant markets and penetrate into more complex and further reaching commodity chains, such as the exchange of Baltic grain for salt, for the victualing of the Moroccan garrisons. In some cases, procurement abroad was rendered more difficult because either the raw materials or the technology were only available in enemy states, which made the contracts political and diplomatically touchy. This was the case with the international arms trade, which at the time was thriving in the Dutch Republic, the sworn enemy of the Hispanic Monarchy. In such cases, contractors not only made use of their networks of contacts abroad and the experience they had in dealing with those markets through to their private import-export trade, they used the fact they were private individuals, and not representatives of a foreign state, to complete those purchases.

The scope and scale of a state contract could also vary significantly. Some required the handling of the logistics for a whole naval squadron for several years, holding the contractor responsible for both ship-building, equipping and repairing, whereas others involved simply the repairing of one individual ship on a one-time basis.

Certain government concessions addressed in this dissertation might come across as non-military, at least at first glance, (the 'civil contracts' in the words of Knight and Wilcox). And yet, these trade exclusives and tax-farms were in fact intertwined with the contracts for the supply of the armed forces. Although I proposed in the introduction a dichotomy between contracts of 'expenditure'/provisioning, i.e. those primarily linked to the military defense of the empire, and contracts of 'revenue', i.e. those that involved private leaseholders in the collection of taxes and in the exploitation of monopolies and licensing of regulated trades, the distinction is more theoretical than practical. The reasons why this is an ideal dichotomy, useful to conceptualize public-private partnerships in abstract terms, but not always accurate to describe the actual practicalities of their functioning, are twofold.

Firstly, by looking at the business portfolio of a representative merchant-banker like Pedro de Baeça da Silveira, whose career as a royal contractor was covered in some detail, it is clear that these men pursued both types of contracts indistinctively, and even in tandem. The Crown, well aware that these men were eager to diversify their investments, responded favourably to this desire. It had good reasons to do so. On the one hand, the monarch encouraged long contracting careers, since they allowed for a stable working-relation with reliable and predictable partners. This was achieved by encouraging contractors to bid for a different concession once their previous one was over. In some cases, contractors could request a contract prorogation (for instance, in exchange for an advancement of funds), but this practice was much less common than in the eighteenth century. On the other hand, the two types of contracts could be bundled up and managed at the same time. This practice of using a tax-farm as implicit; and at times explicit, collateral to a large military provision concession was a salient feature of the Portuguese contractor state, although it was also replicated elsewhere in Europe. A good example of this expedient is the joint lease of the Tangier provisioning contract with the tax-farm Portugal's of the salt duties during the Twelve Years' Truce. The same could be said about the granting of the *consulado* duty farm and the brazilwood contract to Pedro de Baeça and Jorge Gomes de Aleme when they secured the comprehensive contract for the purveying of the war effort against the WIC in Brazil. These cases also remind us of the employment of hard currencies, such as pepper and brazilwood, in the service of provisioning contracts, rather than paying the recipients in cash through earmarked revenue streams.

Secondly, again from the stand-point of the concessionaires, both types of contracts shared some of the same drawbacks. Both were capital intensive investments, which required the recipients to be solvent for long periods of time and to have easy access to credit, and both were exposed to the natural pitfalls of long distance and maritime trade. The import-export of monopolized goods, the collection of taxes on maritime trade and the import of foodstuffs and manufactured goods were hampered by the slow communications, the risks of bad weather, piracy and the outbreak of wars.<sup>827</sup> Moreover, the operating of these contracts required the contractors to face the so called 'principal-agent' problem,<sup>828</sup> since the recipients of royal farms or provisioning exclusives had to rely on agents and correspondents to handle the contracts' affairs in distant places. Since the contractors lacked adequate information about these markets, they needed to delegate responsibilities on individuals who knew which suppliers to approach, who could find buyers for the goods the contractor was trying to sell, and underwriting insurances. These agents or factors were also responsible for charter maritime transportation, remit the proceeds of the transactions once these were concluded and even settle disputes on behalf of the contractor in local courts. Considering how unevenly distributed information was in early modern intercontinental trade, it was difficult to ascertain if these agents acted to the best of their ability or if they took advantage of the contractors. Moreover, the absence of an international legal framework enabling opportunists to be brought to court in faraway jurisdictions, meant that businessmen lacked the institutional incentives to discourage distant partners or agents from cheating.<sup>829</sup>

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<sup>827</sup> Peter Mathias, 'Risk, Credit and Kinship in Early Modern Enterprise', in *The Early Modern Atlantic Economy*, ed. John J. McCusker and Kenneth Morgan (Cambridge: Cambridge University Press, 2000), 15–35.

<sup>828</sup> Ann M. Carlos, 'Principal-Agent Problems in Early Trading Companies: A Tale of Two Firms', *The American Economic Review* 82, no. 2 (1992): 140–145.

<sup>829</sup> When litigation in court was not possible, informal sanctions could be used to punish opportunists and dissuade people from cheating. One of these alternatives, boycott on doing business with the opportunist, was especially prevalent in what Avner Greif described as non-anonymous trade organizations. These business forms include communities and extended families, and, therefore, partially applies to the merchant-houses and family firms under which government contractors operated. At the same time, it leaves outside all *assento* or *contrato* related transactions with people with a different religion and different geographical origins as the

Although, as discussed in the introduction, these contracts had very bad press, both at the time and in the present day, there were logical reasons why the Portuguese Crown resorted to these partnerships with private syndicates. The dissertation has outlined them and I will now recapitulate some of the most compelling factors behind government contracting.

By farming-out monopolies, taxation rights and executive tasks to private enterprises, the Crown's finances were relieved from the direct and immediate costs of paying for bureaucratic personnel and maintaining infra-structures in different holdings scattered across the empire. This did not mean that by leasing contracts, the Crown did not have its own tax and judicial officials in place in the overseas offshoots, nor that sites for public works were not maintained. Contracting was not, per se, a deterrent to the creation of an administrative body. It simply meant that while contracts were in effect, different functions were assigned to these officials, and that the immediate costs of paying their salaries were borne out by private-contractors. For instance, when tax-farming contracts were leased, the task of the local tax-collector shifted from actual collection, to monitor the conduct and performance of the agents of the tax-farmer, and ensure that abuses to tax-payers, or swindles to the Crown were not committed.<sup>830</sup>

As far as tax and monopolies were concerned, given the problems of assessing collectable revenue in the empire, especially when it came to indirect taxes (over assets that showed great variations over time and across space), the auctions, through which the contracts were normally (but not always) advertised and negotiated, allowed the Crown to measure the pulse of the overseas economy. In possession of reliable information, the authorities were in a better position to decide whether or not direct management was not preferable to farming-out and vice-versa. The fact that the concessions were temporary, and reversible, allowed the Crown to reconsider what was the most suitable approach to carry out a certain task. In the particular case of ship-building and the fitting-out of naval expeditions, allowed the state to turn down the final product in case quality requirements were not met, which they could not do when royal officials were entrusted with that task.

Another advantage that tax-farming offered the state, was its relative predictability, as it offered a solution to the uncertainty surrounding the output of collection, especially since the income streams involved in the tax-farms were raised from the always unpredictable overseas trade. The lump sums, normally paid in several shares in predetermined periods, provided a more or less stable income, regardless of the year's economic climate and collection performance. At the same time, and this applied to tax-farming only, public-private partnerships allowed the Crown, if not to solve, at least to temporarily dodge the challenges of monitoring tax-evasion, bribery or dishonest conduct by the state officials. While state officials could be paid off to turn a blind eye on tax-evasion, it was in the best interest of tax-farmers to ensure that taxes evasion was controlled. However, as the case of the brazilwood contract showed, the idea of getting contractors involved in the fight against illegal trade and tax-evasion could backfire, for if they were not properly supervised, contractors could become major perpetrators of illegality.

There was yet another rationale for relying upon government contracts. By virtue of the revenues raised by tax-farms being ex ante allocated to service royal debt, both funded debt contracted with government bondholders and the short-term, floating loans of merchant-bankers, the revenue-farmer worked in practice as financial intermediary for the Crown. This was not so much because contractors anticipated their lease payments (which

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contractor. Avner Greif, 'Contract Enforceability and Economic Institutions in Early Trade: The Maghribi Traders' Coalition', *The American Economic Review* 83, no. 3 (1993): 525–48.

<sup>830</sup> Costa, 'State Monopoly or Corporate Business'; Cohen, 'Subsídios Para a História Geral de Cabo Verde: Os Contratos de Arrendamento Para a Cobrança de Rendas e Direitos Reais Das Ilhas de Cabo Verde (1501-1560)'.

was tantamount to a cash advance),<sup>831</sup> but because they relieved the Crown from the task of appropriating revenues from the peripheries of the tax system (in the case of tropical commodities and colonial taxes) and ensure they were disbursed hundreds and thousands of kilometres away from where these incomes were raised. Tax-farms and the earmarking of the lump-sums to military entrepreneurs and financiers meant that the distribution of royal funds across the empire was in the hands private-semi informal organizations, i.e. not wage paid treasury officials.

I have argued in this dissertation that the input of private contractors was important to keep the Crown in race against its main competitors for overseas trade and settlement. During the period under study, contractors seemed ready to provide the logistics and supplies and pay up the lump-sums of their contracts (even if the outcomes were not always successful). Part of the problem, was that the state was financially overwhelmed and struggled to allocate stable revenue streams to service the contracts it intended to underwrite. As its financial position worsened with the military setbacks in the Indian Ocean and especially in Brazil and the South Atlantic, the king was forced to prioritize certain military/naval operations over others, or resort to more modest expeditions, therefore settling for less costly partnerships that did not allow for a vigorous military response. This position of weakness could not be reversed through the leasing of contracts, simply put. However, in the cases that were prioritized, and partially due to a shift in the merchant-banking community, new solutions to align the interests and contingencies of the business elite with the monarch were devised. The comprehensive contract for the dispatch or reinforcements and military aid to Brazil is a demonstrative example of these chances.

Speaking of the community of merchant-bankers, in the second part of this dissertation, the perspective of the individuals who underwrote the contracts and invested in business deals with the state was highlighted. By looking at Pedro de Baeça, I stressed that contracts were the prime means of capital accumulation for merchant-bankers and the distinguishing feature that set them apart from colonial traders and import-exporters, two activities in which the merchant-banking elite also dabbled. Just as with their commercial investments and banking deals, they spread risks by diversifying their public-private partnerships. Not only did they take turns managing contracts pertaining to very different geographical contexts, but they alternated between revenue-farms and bulk provisions. Further, as the case of the joint-lease of the salt tax-farm and the garrisoning contracts in Northern Africa shows, diversification could be neatly combined.

Despite Baeça's career as a state contractor, his case serves as a cautionary tale against narratives that glorify the self-made businessman and the dynamic entrepreneur. Not only did he draw on the capital and business infrastructure set up by his father and his relatives, but his ambitions to settle at the Habsburg court, and a banker in Madrid were not fulfilled. His misfortune was further compounded by his arrest by the Inquisition. Although he was able to return as a prominent contract in Lisbon, his fate was sealed when he put the full weight of his economic resources to bear the pro-Habsburg coup. This last political initiative would end up-costing his life.

By looking at an individual contracting career, the other rationales behind the investment in public-private partnerships became clear. Although contractors entertained the possibility of reaping handsome profits from these enterprises, it was by no means a foregone conclusion they would. But even enterprises that lead to disappointing financial returns, still paved the way for social capital and symbolic distinctions, and in that sense it can be said they paid off.

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<sup>831</sup> The anticipation of the lease payments is not often mentioned in the primary sources I consulted, but this financial expedient is well documented for Eighteenth century Portugal. Fernando Dores Costa, 'Crise Financeira, Dívida Pública e Capitalistas: 1796-1807' (Unpublished MA Dissertation, Lisbon, Universidade Nova de Lisboa-Faculdade de Ciências Sociais e Humanas, 1992).

Finally, as a last statement, it can be concluded that the interplay between the Crown and contractors was a powerful glue that held a geographically discontinuous empire together. Although the jury on the long term impacts of government contracting and public private partnerships is not out yet, it is clear that, at least in the Portuguese case, it provided compelling short to middle term gains, allowing for the Crown to share the spoils of the empire with the merchant elite and co-opt their financial resources, their network of contacts and their proficiency in matters of accountancy and trade. Otherwise, how can the longevity and recurrence of this administrative and financial tool be explained.