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**CONTINUITIES AND DISCONTINUITIES IN THE FISCAL AND  
MONETARY INSTITUTIONS OF NEW GRANADA, 1783-1850**

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# **CONTINUITIES AND DISCONTINUITIES IN THE FISCAL AND MONETARY INSTITUTIONS OF NEW GRANADA 1783-1850**

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## **I. INTRODUCTION**

In this paper we study the structure of the fiscal system of the Viceroyalty of New Granada towards the end of the colonial period. Then we discuss how the tax system inherited from the Spanish Empire evolved over the period 1821-1850.

The conclusion that emerges from the review of the evidence is that the new republic was successful in improving the tax regime it had received from Spain. By 1850, the Republic of New Granada possessed a fiscal system that was much more fair, efficient, and neutral, than was the case in 1810.

## **II. STRUCTURE OF ROYAL FINANCE IN THE VICEROYALTY OF NEW GRANADA**

### **A. The economy of the viceroyalty of New Granada in the eighteenth century**

Throughout the colonial period New Granada was among the less dynamic domains of Spain in the New World. The basis of its economy and foreign trade was gold, but on a scale which was not comparable to silver in Mexico or Peru. Thus, during the three centuries of Spanish rule New Granada remained a backwater, with regions that were clearly differentiated and had limited economic interactions among themselves, due to the very rugged topography of the country.

In the census of 1778, the only countrywide census of the colonial period, New Granada had a population of 739.759 inhabitants<sup>1</sup>. The largest group was comprised by people of mixed races (mestizos, mulatos, and zambos) and the free blacks, which together represented 49% of the population. The next group in size was the white population, which participated with 25.4% of the total. The Indian population participated with 19% of the total, while the black slaves were 6.2%.

The main cities were Santa Fe de Bogota, the capital of the viceroyalty, with a population of 20.000 inhabitants, and Cartagena, a fortified port in the Caribbean, with a population of 13.000<sup>2</sup>.

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<sup>1</sup> Miguel Urrutia y Mario Arrubla (editores), Compendio de Estadísticas Históricas de Colombia, Universidad Nacional, Bogotá, 1970, p. 19.

<sup>2</sup> Anthony McFarlane, Colombia Before Independence, Economy, Society, and Politics Under Bourbon Rule, Cambridge University Press, Great Britain, 1993, p. 32.

New Granada experienced two cycles of gold production during the colonial period. The first cycle extended from 1550 to about 1620, and the second one went from 1680 to 1820<sup>3</sup>. The period from 1620 to 1680 was characterized by a deep crisis in the mining sector of the viceroyalty, with a severe reduction in gold production.

The first gold cycle (1550-1620) was concentrated in central Colombia (Santa Fe de Bogota, Tunja, Velez, and Pamplona), Popayan, and Antioquia. Both in central Colombia and in Popayan the main source of labor for the exploitation of gold was the Indian population.

The second gold cycle (1680-1820) was centered initially in Choco and later in the Antioqueño region. In Choco the main source of labor were black slaves. In contrast, in Antioquia mining was primarily an activity of small independent miners<sup>4</sup>.

New Granada was always a colony of second rank within the Spanish-American empire, and throughout the eighteenth century its economy was almost stagnant. Although gold production, as calculated from the fiscal records of the royal treasury, increased throughout the century, on a per-capita basis there was very little growth. The production statistics presented in Table 1 were calculated from the revenues of the quinto tax, which was a tax of 5% on the value of gold produced<sup>5</sup>. As the production statistics of Table 1 show, except for a drop in total production from 1739 to 1759, output increased steadily. The average annual rate of growth from 1700-1704 to 1795-1799 was 2.3%, which was probably close to rate of population expansion<sup>6</sup>.

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<sup>3</sup> German Colmenares, "La Economía y la Sociedad Coloniales, 1550-1800", in Jaime Jaramillo Uribe (editor), Manual de Historia de Colombia, Biblioteca Colombiana de Cultura, Tomo I, Bogota, 1978, pp. 239-240.

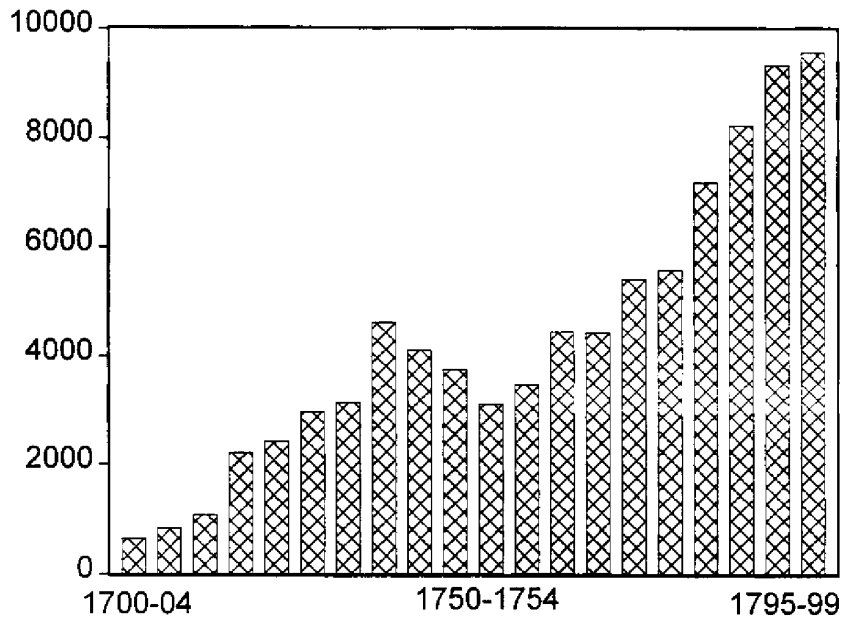
<sup>4</sup> Ann Twinam, Mineros, Comerciantes y Labradores: Las Raíces del Espíritu Empresarial en Antioquia, 1763-1810, FAES, Medellín, 1985, p. 80.

<sup>5</sup> Jorge Orlando Melo, Sobre Historia y Política, La Carreta, Bogota, 1979, p. 66. Since 1777 the quinto tax was consolidated with other taxes on gold mining and a global tax of 3% was established.

<sup>6</sup> Since there was only one complete population census in the colonial period, it is not possible to estimate the rate of growth of the population of New Granada in the eighteenth century. However, we know that from 1825 to 1851, the rate of population growth was 2.3%. Thus, and as a first

GRAPH 1  
GOLD PRODUCTION IN THE VICEROYALTY  
OF NEW GRANADA  
(1700-1799)

THOUSANDS  
OF PESOS



SOURCE: TABLE 1.

**TABLE 1**  
**GOLD PRODUCTION IN PRINCIPAL MINING REGIONS OF NEW GRANADA**  
*(Thousands of pesos)*

<i>PERIOD</i>	<i>POPAYAN</i>	<i>BARBACOAS</i>	<i>NOVITA</i>	<i>CITARA</i>	<i>ANTIOQUIA</i>	<i>TOTAL</i>
1700-1704	638					638
1705-1709	821					821
1710-1714	1.069					1.069
1715-1719	1.039	275		716	176	2.206
1720-1724	1.308	163		943		2.414
1725-1729	1.452		1.134	367		2.953
1730-1734	1.270		992	863		3.125
1735-1739	1.391	613	1.293	1.073	256	4.626
1740-1741	1.124	317	1.466	857	348	4.112
1745-1749	792	326	1.460	852	316	3.746
1750-1754	564	243	1.159	588	544	3.098
1755-1759	944	461	854	644	559	3.462
1760-1764	1.020	921	966	721	820	4.448
1765-1769	1.055	952	884	794	751	4.436
1770-1774	1.483	995	1.189	619	1.125	5.411
1775-1779	1.360	893	1.051	588	1.684	5.576
1780-1784	1.908	1.361	1.323	617	1.987	7.196
1785-1789	1.731	1.688	1.253	905	2.655	8.232
1790-1794	1.616	1.767	1.450	1.217	3.281	9.331
1795-1799	1.541	1.783	1.391	1.190	3.662	9.567

Source : Jorge Orlando Melo, *Sobre Historia y Política*, La Carreta, Bogotá, 1979, p. 68

The lack of dynamism of the gold mining sector, which up to 1780 was practically the only export product of the viceroyalty and in the final decades of the century represented no less than 90% of total exports, resulted in an overall stagnation of the economy of New Granada. Based on unpublished research Jaime Jaramillo Uribe argues that :”The general evolution of the economy of New Granada throughout the eighteenth century reveals a remarkably static development. The graph of total fiscal revenues of the royal treasury shows an almost horizontal curve up to 1780. After that date there were some increases in export trade and in incomes such as tobacco, liquor, and alcabalas. The rest, some twenty items, have only very slight variations”<sup>7</sup>.

### **B. Structure of royal incomes : 1783 and 1808-1809**

In 1783, the treasury of the Viceroyalty of New Granada had net incomes that amounted to \$ 2.233.127 silver pesos. The major cajas by incomes corresponded to Cartagena (29.19%), Santa Fe de Bogota (19.65%), Popayan (9.32%), Panama (9.24%), and Honda (6.54%). Together this five cajas received 73.94% of total incomes paid to the royal treasury in New Granada (see Table 2).

Cartagena had the highest fiscal revenues as a result of its importance as the main port of New Granada in the Caribbean. The most important tax in this city in 1783 was the almojarifazgo, a tax on foreign trade. The other two important revenues were the royal monopolies on liquor (“aguardiente”) and tobacco. Together these three accounts represented 89% of all revenues received by the caja of Cartagena in 1783<sup>8</sup>.

The population of New Granada in 1783 was close to 800.000. Thus, in that year the per-capita revenues of the royal treasury in this viceroyalty were

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approximation, this last rate is indicative of what was probably happening with the population in the late eighteenth century.

<sup>7</sup> Jaime Jaramillo Uribe , De la Sociología a la Historia , Ediciones Uniandes , Bogota, 1993. Bogota, 1993, p. 92.

<sup>8</sup> Gilma Mora de Tovar, “Las Cuentas De La Real Hacienda y La Política Fiscal En El Nuevo Reino De Granada”, Anuario de Historia Social y de la Cultura, No. 11, 1983, p. 313.

**TABLE 2**  
**REVENUES OF THE CAJAS REALES**  
**OF THE VICEROYALTY OF NEW GRANADA**  
**1783**

<b>CAJA</b>	<b>REVENUES (Pesos)</b>	<b>%</b>
Cartagena	651.742	29,32
Santa Fe	438.899	19,75
Popayán	208.082	9,36
Panamá	206.233	9,28
Honda	146.060	6,57
Antioquia	121.929	5,49
Mompox	112.178	5,05
Cartago	67.106	3,02
Santa Marta	58.563	2,63
Portobelo	53.039	2,39
Novita	33.913	1,53
Riohacha	32.371	1,46
Citara	23.793	1,07
Ocaña	21.467	0,97
Pamplona	18.503	0,83
Remedios	16.208	0,73
Neiva	12.431	0,56
Girón	10.610	0,48
<b>Total</b>	<b>2.222.517</b>	<b>100,00</b>

**Note** : The cajas of Quito, Cuenca, and Guayaquil have been excluded.

**Source** : Gilma Mora de Tovar, "Las cuentas de la Real Hacienda y la política fiscal en el Nuevo Reino de Granada", Anuario de historia social y de la cultura, N° 11, 1983, pp. 305-315.



slightly less than three silver pesos<sup>9</sup>. In contrast , in the 1790's the taxes per-capita paid by the inhabitants of New Spain were approximately 8 pesos a year<sup>10</sup>. This sharp difference in the level of per-capita tax revenues highlights what we had discussed previously, that throughout the colonial period New Granada remained a relatively poor backwater with scant economic dynamism.

It should also be mentioned that in contrast with the almost 3 silver pesos per-capita in taxes paid in New Granada, in the 1790's in the Iberian peninsula the Spanish Crown collected around 4.8 silver pesos per person<sup>11</sup>.

As we shall see, the economic weakness of New Granada was reflected not only in the level of per-capita revenues, but also in the structure of those revenues. In the more dynamic colonies, such as New Spain and Buenos Aires, taxes on mining, together with taxes on trade, represented the main source of income. For example, in 1790 in the Viceroyalty of Buenos Aires mining taxes represented 32.1% of all revenues, and trade and production taxes another 21.8%<sup>12</sup>. The other important tax was the head tax on the Indian population, which in Buenos Aires in 1790 amounted to 16.4% of all revenues. The sum of the taxes on mining, trade, and tribute on Indians represented 70.3% of the total.

In contrast with the predominance in the Viceroyalty of Buenos Aires of the taxes on mining, commerce and production, and tribute on Indians , in 1783 in New Granada the sum of these three types of taxes was 36.3% of total revenues (see Table 3). For example, taxes on mining were only 9.8% of total revenues. A quite different situation to Mexico, where throughout most of the eighteenth century taxes on mining fluctuated between 20% and 27% of total tax collection.

The distinctive feature of the structure of royal income in the Viceroyalty of New Granada in the final decades of the colonial period was the enormous

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<sup>9</sup> If we assume that between 1778 and 1783 the rate of population growth was 1.0% per year, per-capita revenues in 1783 were 2.9 silver pesos.

<sup>10</sup> Herbert Klein, "The Great Shift: The Rise of Mexico and the Decline of Peru in the Spanish American Colonial Empire, 1680-1809", Revista de Historia Económica, Año XIII, No. 1, 1995.

<sup>11</sup> Ibid.

<sup>12</sup> Herbert Klein, "Structure and Profitability of the Royal Finance in the Viceroyalty of the Rio de la Plata in 1790", Hispanic American Historical Review, Vol. 53, No. 3, August, 1973, p. 445.

**TABLE 3**  
**REVENUES OF THE CAJAS REALES OF NEW GRANADA**  
**1783**

CATEGORY AND TYPE OF TAX	VALUE (Pesos)	( % )
<b>I. MINING:</b>	219.050	9,83
Quintos de oro y plata	44.933	
Fundición y ensaye	3.950	
Rescates y amonedado	170.167	
<b>II. TAXES ON COMMERCE AND PRODUCTION:</b>	199.895	8,97
Alcabala	153.550	
Reales novenos	31.168	
Sisa	15.177	
<b>III. INDIAN TRIBUTE :</b>	63.333	2,84
<b>IV. TAXES ON ROYAL BURECRATIC SALARIES AND SALES OF OFFICES:</b>	39.827	1,79
A. Civil		
Media anatas	15.219	
Oficios vendibles	9.076	
Subtotal	24.295	
B. Ecclesiastical		
Espolios	4.973	
Vacantes menores	7.500	
Media anatas eclesiásticas	1.122	
Mesadas eclesiásticas	1.937	
Subtotal	15.532	
<b>V. MONOPOLIES OF THE STATE:</b>	1.323.034	59,37
Tabaco	597.000	
Aguardiente	596.023	
Salinas	62.618	
Papel sellado	16.795	
Cruzada	41.495	
Pólvora	4.370	
Naipes	4.733	
<b>VI. MISCELLANEOUS INCOME:</b>	54.788	2,46
Fletes y pisos	2.110	
Salarios de ministros	710	
Vacantes de novenos	619	
Oficios vendibles	9.076	
Tierras de escobilla	799	
Registros de minas	4	
Esmeraldas	1.600	
Bienes monstrencos	12	
Composición de tierras	4.181	
Reales bodegas	3.699	
Juegos de gallos	136	
Azogues	133	
Penas de cámara	2.712	
Aprovechamientos	28.997	
<b>VII. TAXES ON FOREIGN TRADE:</b>	328.496	14,74
Almotarifazgo	300.948	
Avería	27.548	
<b>TOTAL</b>	<b>2.228.423</b>	<b>100,00</b>

**Note :** The accounts have been classified following Herbert Klein in his article "Structure and Profitability of Royal Finance in the Viceroyalty of the Rio de Plata in 1790". *Hispanic American Historical Review*, 53, Nº 3, August, 1973.

**Source :** Gilma Mora de Tovar, "Las cuentas de la Real Hacienda y la política fiscal en el Nuevo Reino de Granada", *Anuario de historia social y de la cultura*, Nº 11, 1983, 305-315.

importance of state monopolies, specially liquor and tobacco. In 1783 state monopolies accounted for 59.3% of the total revenues of the Cajas Reales of New Granada. This situation was a sharp contrast with most other Spanish-American colonies where state monopolies (excluding the mercury monopoly which was closely linked to mining production) rarely achieved such prominence and generally accounted for 5% to 10% of total revenues<sup>13</sup>.

Why such a centrality of royal monopolies in the fiscal incomes of the Viceroyalty of New Granada ? One reason could be that to the extent that it was a very static economy with exports per-capita which were much lower than those of Cuba, Mexico, Peru, or Buenos Aires, the participation of the gold producing mining sector in the economy of New Granada was smaller than was the case with the export sector in the above mentioned colonies<sup>14</sup>. Thus, taxes on the mining and commerce sector could not be increased very easily.

An additional circumstance that must be taken into consideration in order to find out why mining taxes were such a small proportion of total revenues in New Granada, was the very significant presence of contraband trade, since at least the beginning of the eighteenth century. As has been amply documented, smuggling was very intense in the Caribbean provinces of New Granada (Cartagena, Santa Marta, and Riohacha). According to the historian Lance R. Grahn in New Granada contraband developed more than in any other Spanish American colony<sup>15</sup>. In 1737 the Lieutenant General of Cartagena, Blas de Lezo, calculated that three-fourths of

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<sup>13</sup> Herbert Klein and Jacques A. Barbier, "Recent Trends in the Study of Spanish American Colonial Public Finance", Latin American Research Review, Vol. XXIII, No. 1, 1988, p. 46.

<sup>14</sup> In 1792 the exports of New Granada represented only 4.5% of total exports from Spanish America. From 1782 to 1796 exports of New Granada to Spain were only 3.2% of the total of Spanish America ; see, Marco Palacios , "Las Consecuencias Economicas de la Independencia en Colombia : sobre los Origenes del Subdesarrollo", in Leandro Prados de la Escosura y Samuel Amaral (editors), La Independencia Americana, Consecuencias Economicas , Alianza Editorial, Madrid, 1993, p.120 and John Fisher, "The Effects of Comercio Libre on the Economies of Colombia and Peru : A Comparison", in John R. Fisher, Allan J. Kuethe, and Anthony McFarlane, Reforms and Insurrection in Bourbon New Granada and Peru, Louisiana State University Press, Baton Rouge, 1990, p. 153.

<sup>15</sup> Lance R. Grahn, "Contraband, Commerce, and Society in New Granada, 1713-1763", Ph.D. Dissertation, Duke University, 1985, p. 125.

the viceroyalty's gold production, about 1.250.000 silver pesos per year, were illegally exported through Cartagena<sup>16</sup>.

At the end of the colonial period Jose Ignacio de Pombo calculated the annual value of contraband trade in 3.000.000 pesos of foreign products imported and a similar value of gold exported illegally to pay for those imports<sup>17</sup>.

The combined effect of a very small and not very dynamic export sector and the widespread evasion of taxes on mining and foreign trade through contraband, was that New Granada had a peculiar structure of royal revenues, in which incomes from state monopolies amounted to 59.3% of total revenues in 1783.

The most productive state monopolies were tobacco, liquor, and salt. To the extent that these three monopolies taxed articles of popular consumption their effect on income distribution must have been very regressive. Thus, it seems understandable that the fiscal reforms of 1781, which were destined to raise revenues, particularly from the tobacco and liquor monopolies, led to one of the two major uprisings that occurred in Spanish America in the eighteenth century : the Revolt of the Comuneros<sup>18</sup>.

The overhaul of the fiscal system of New Granada was initiated in 1778 with the Visita General of Juan Francisco Gutierrez de Piñeres. The Visitador General was assigned as a priority the task of augmenting royal revenues in New Granada. Among the reforms he undertook, Piñeres reorganized the tobacco monopoly. Five regional administrations were set up, under the central direction of Bogota. Detailed instructions were set forth, and a special force to eradicate illegal cultivation was established<sup>19</sup>. Numerous towns and regions were excluded from

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<sup>16</sup> *Ibid.*, p. 138. The illegal export of gold was facilitated by the fact that in New Granada gold was not produced in large mines but mainly by small independent miners. Additionally, the available technology permitted the conversion of the mined gold into small nuggets of large value and which were easy to transport, an ideal product for smugglers.

<sup>17</sup> Jose Ignacio de Pombo, *Comercio y Contrabando en Cartagena de Indias*, Nueva Biblioteca Colombiana de Cultura, Bogota, 1986, p.62.

<sup>18</sup> The other major revolt was the Tupac Amaru Indian revolt in Peru, John Leddy Phelan, *El Pueblo y el Rey, la Revolucion Comunera en Colombia, 1781*, Carlos Valencia Editores, Bogota, 1980.

<sup>19</sup> McFarlane, *Op.Cit.*, p. 212.

the cultivation of tobacco, as a result of Piñeres's reforms. The result was a rise in the price of tobacco and increasing resentment, which resulted in the Comunero Revolt of 1781. The revolt initiated in the towns of Socorro and San Gil, located in Santander, a region particularly affected by the new fiscal measures since it was a tobacco producing center. It soon spread to other towns, where the offices of the tobacco and liquor monopolies were sacked and the stocks of liquor and tobacco sold among the population. By May of 1781 the rebels had assembled a force of 20.000 persons in the town of Zipaquira, ready to march on the capital. With only a small force in Santa Fe de Bogota to resist, the colonial authorities accepted all the demands of the rebels for a dismantling of the fiscal reforms. After this negotiations the rebels dispersed. In 1782 the colonial authorities renounced to the fiscal concessions they had agreed upon with the Comuneros and the main leaders were arrested and executed<sup>20</sup>. Although it ended in final defeat, this open challenge to the reforms intended to raise tax revenues in the viceroyalty helps to understand how the tensions generated by the imperial fiscal regime provided one the principal motivations for the independence movement.

The critique of the fiscal system was an important element in the anti-colonial discourse of the leaders of the struggle against the Spanish Empire. In 1804 the main economic commentator of the Viceroyalty of New Granada in the years immediately preceding independence, the merchant Jose Ignacio de Pombo, called for : "...a moderation in the fiscal laws : the end of the tobacco and liquor monopoly, particularly in the maritime provinces of Riohacha, Santa Marta, Cartagena, Panama, Barbacoas, Choco, and the tribute on the Indian population, that maintains it in a state of primitive barbarism..."<sup>21</sup>.

Antonio Nariño, one of the principal leaders of the independence movement, argued that the colonial fiscal system distorted to such extent the economic incentives that the result was an overall reduction in output : "There are some taxes that are more negative because of the obstacles they create for the

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<sup>20</sup> For a detailed account on the Comunero revolt see : John Leddy Phelan, El Pueblo y el Rey, la Revolucion Comunera en Colombia, 1781, Carlos Valencia Editores , Bogota, 1980.

contributors, than because of the amounts collected by the Royal Treasury"<sup>22</sup>. Among the taxes that Nariño considered to have this characteristics were the alcabala, and the monopolies on tobacco and liquor. Undoubtedly, the stifling consequences on economic activity of the imperial tax system was one of the main antecedents of the anti-colonialism of the criollo elite in New Granada in the opening years of the nineteenth century.

In Table 4 we present the structure of the tax revenues of the Viceroyalty of New Granada for the years 1808 and 1809. It has to be highlighted that between 1783 and 1808-1809 no major changes occurred in the structure of tax receipts, with one exception: the enormous increase between those dates in the participation of the head tax on the Indian population. In effect, the tribute on Indians heads of households increased from 2.8% of total revenues in 1783 to 18% in 1808-1809. As a result, in 1808-1809 it was the second most important tax revenue after the tobacco monopoly, which participated in the total with 22.4%<sup>23</sup>.

The increase in the collection of the Indian tribute was a situation observed in the eighteenth century throughout Spanish America. By the 1790's, the Indian tribute was the largest single source of revenue for the royal treasury in both Peru and Alto Peru<sup>24</sup>. To a large extent this increase in the collection of the Indian tribute was the result of the expansion in the eighteenth century of the Indian population, a situation that was similar in most of the viceroyalties .

### **III. EVOLUTION OF THE FISCAL SYSTEM IN THE REPUBLIC OF NEW GRANADA 1831-1850**

#### **A. Initial Reforms and Counter-Reforms,1821-1830**

Because of the chaos which occurred during the bloody war against Spain, there is an almost complete absence of fiscal records for the decades of 1810 and

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<sup>21</sup> Jose Ignacio de Pombo, *Op. Cit.*, p.57.

<sup>22</sup> Abel Cruz Santos, *Economía y Hacienda Publica*, Ediciones Lerner, Bogota, 1965, Tomo I, p. 231.

<sup>23</sup> This dramatic increase in the revenues from the Indian tribute between 1783 and 1808-1809 is somewhat surprising and could reflect problems in the data.

<sup>24</sup> Herbert Klein, "The Great Shift: The Rise of Mexico and the Decline of Peru in the Spanish American Colonial Empire, 1680-1809", *Revista de Historia Economica*, Año XIII, No. 1, 1995.

**TABLE 4**  
**REVENUES OF THE CAJAS REALES OF NEW GRANADA**  
**( 1808 and 1809 )**

CATEGORY AND TYPE OF TAX	VALUE (Pesos)	( % )
<b>I. MINING:</b>	<b>283.213</b>	<b>6,64</b>
Quintos de oro y plata	149.277	
Fundición	2.386	
Amonedación	131.550	
<b>II. TAXES ON COMMERCE AND PRODUCTION:</b>	<b>584.270</b>	<b>13,71</b>
Alcabala	447.516	
Reales novenos	114.510	
Sisa	22.244	
<b>III. INDIAN TRIBUTE :</b>	<b>766.716</b>	<b>17,99</b>
<b>IV. TAXES ON ROYAL BURECRATIC SALARIES AND SALES OF OFFICES:</b>	<b>42.092</b>	<b>0,99</b>
Media anatas	21.176	
Oficios vendibles	20.916	
<b>V. MONOPOLIES OF THE STATE:</b>	<b>1.797.857</b>	<b>42,18</b>
Tabaco	953.043	
Aguardiente	371.114	
Salinas	242.949	
Papel sellado	110.965	
Pólvora	119.786	
<b>VI. MISCELLANEOUS INCOME:</b>	<b>390.660</b>	<b>9,16</b>
Pasos de ríos	13.191	
Herencias trasversales	3.823	
Composición de tierras	6.656	
Composición de pulperías	11.325	
Protectoría	1.558	
Temporalidades	95.017	
Subsidio eclesiástico	42.613	
Diversos	216.477	
<b>VII. TAXES ON FOREIGN TRADE:</b>	<b>398.034</b>	<b>9,34</b>
<b>TOTAL</b>	<b>4.262.842</b>	<b>100,00</b>

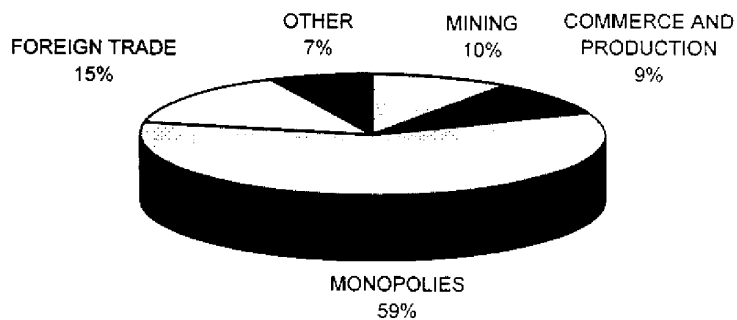
**Note :** The accounts have been classified following Herbert Klein (1973) and subtracting "Hacienda en Comun".

**Source :** Anibal Galindo, Estudios económicos y fiscales, Colcultura, Bogotá, 1978, p .225.

**ILLUSTRATION 1**  
**STRUCTURE OF THE REVENUES OF THE CAJAS REALES**  
**OF THE VICEROYALTY OF NEW GRANADA**

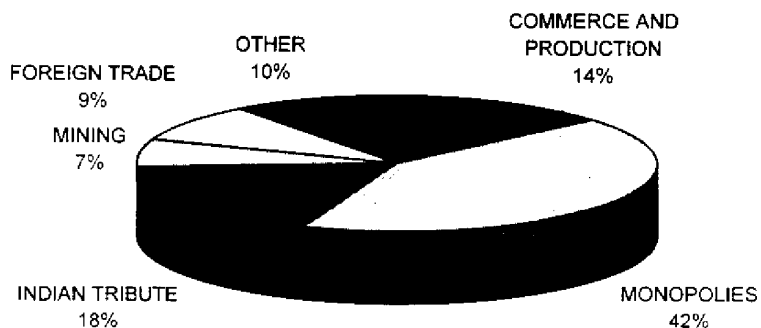
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1783



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1808-1809





1820. Anibal Galindo, a prominent economic commentator of the nineteenth century, expressed this situation very clearly :”The period from 1810 to 1821, when the Republic of Colombia was created, has no fiscal history”<sup>25</sup>.

With the creation of the Republic of Colombia in 1821, which comprised the territory of present Ecuador, Colombia, Panama, and Venezuela, a period of reforms to the fiscal system began. This is hardly surprising since the tax system was one of the aspects of the Spanish colonial empire which the patriots resented most. The Congress of 1821 abolished the following taxes <sup>26</sup>:

- 1) The tribute on the Indians heads of households.
- 2) Alcabalas on all sales of domestic production.
- 3) The liquor monopoly.
- 4) The exports of coffee, cotton,sugar , liquor,and woods for construction, were exempted from export taxes for ten years. In addition, exports of hides,cocoa,and indigo, had to pay only 10% ad-valorem ; mules and horses fifteen pesos per head ;and cattle twelve and a half pesos per head.

In the following years more taxes were abolished <sup>27</sup> :

- 5) A law of March 13, 1826, exempted from export taxes, quinine, rice , and corn
- 6) A law of May 19, 1824 exempted from diezmos all new plantations of several crops.
- 7) A law of May 28,1825 eliminated the media anata tax.

The initial impulse to eliminate the taxes inherited from the colonial system, lost momentum and even suffered some setbacks in the early 1830’s. Why ? The marxist economic historian Luis Eduardo Nieto Arteta argued that this setbacks

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<sup>25</sup> Anibal Galindo, Estudios Economicos y Fiscales, Colcultura, Bogota, 1978, p.136.

<sup>26</sup> Secretario de Hacienda, Memoria al Congreso, Bogota, 1823.

<sup>27</sup> Luis Eduardo Nieto Arteta, Economía y Cultura en la Historia de Colombia, El Ancora Editores, Bogota, 1983, p. 60-61.

were the result of a reactionary class alliance that became dominant after 1830. Furthermore, he sustains that : "...the colonialist reaction was integrated by the landlords, the clergy, and some members of the army that had a caste mentality, because they had been formed as such within a colonial economy"<sup>28</sup>.

Undoubtedly, after 1828 many of the taxes that had been abolished after independence were reestablished. For example, in 1828 the liquor monopoly and the media anata were reintroduced. This setbacks led the historian Luis Eduardo Nieto Arteta to argue in his very influential economic history of nineteenth century Colombia that : "The Revolution of Independence did not modify the colonial tax system, nor the organization that Spain created in New Granada"<sup>29</sup>.

Nieto's interpretation coincides with the views of the principal exponents of economic liberalism in Colombia in the nineteenth century, and who were very influential in the 1840's and 1850's : Salvador Camacho Roldan, Miguel Samper, Manuel Murillo Toro, and Florentino Gonzalez. For example, Salvador Camacho wrote in 1850 : "The great Revolution of 1810 that transformed immediatly our political system, almost in nothing touched our fiscal system, leaving among a people living in democracy the monopolies, the abuses, and the inequities of the (colonial) tax system..."<sup>30</sup>.

Most contemporary Colombian historians accept the idea that the tax system of the colonial period survived almost intact until the liberal economic reforms initiated in 1848 by the Secretary of Finance, Florentino Gonzalez. For example, in an article included in the most influential textbook on Colombian economic history, Jorge Orlando Melo refering to the economic reforms of the 1850's sustains that : "Until that moment the (tax) system continued to be essentially the same one that had existed during the colony"<sup>31</sup>.

In the next section we will demonstrate that the traditional interpretation that claims that the tax system of the Spanish Crown survived almost without changes

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<sup>28</sup> Op. Cit., p. 58.

<sup>29</sup> Ibid., p. 91.

<sup>30</sup> Salvador Camacho Roldan, Escritos sobre Economia y Politica, Colcultura, Bogota, 1976, p. 19.

until 1850 is completely at odds with the facts. As we shall see, ideological factors help to explain why this false interpretation has become so deeply entrenched in Colombian historiography.

## **B. The structure of fiscal incomes in 1831-1832 and the accomplishments of the tax reforms by 1836**

In Table 5 we present the structure of tax revenues for the recently created Republic of New Granada during the fiscal year from July 1, 1831 to June 30, 1832<sup>32</sup>. It constitutes the first report of the incomes of the new nation, twenty-one years after it declared its independence from Spain.

Several things have to be highlighted about the structure of tax revenues in 1831-1832, which show that there were already significant differences with the tax system which existed during the period of Spanish domination. In the first place, the revenues from the head tax on the Indian population, which in 1808-1809 had contributed with 18% of all tax revenues, amounted to only 0.4% of total revenues. The drop was the result of the final abolition of this tax in March of 1832. When it was eliminated the Secretary of Finance expressed his satisfaction: "This was a horrible tax that marked the slavery of the Indian population. I will like to express the wish that at no time, nor by any type of authority or person it be reestablished in the territory of New Granada"<sup>33</sup>.

A second element to highlight is that, in contrast with the situation in the final decades of the colonial period, taxes on foreign trade were now the main source of income, after the state monopolies. For example, in 1808-1809 taxes on foreign trade represented only 9.3% of all revenues. In contrast by 1831-1832 they had increased to 33.1%. As we shall see in more detail in the next section, the fundamental characteristic of the tax system that emerged with the republic was its dependence on foreign trade taxes.

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<sup>31</sup> Jorge Orlando Melo, "Las Vicisitudes del Modelo Liberal, 1850-1899", in Jose Antonio Ocampo (editor), *Historia Economica de Colombia*, Siglo Veintiuno Editores, Bogota, 1987, p. 147.

<sup>32</sup> The Republic of New Granada comprised the territories of what are currently Colombia and Panama.

**TABLE 5**  
**TAX REVENUES OF THE REPUBLIC OF NEW GRANADA**  
*(July 1, 1831 - June 30, 1832)*

CATEGORY AND TYPE OF TAX	VALUE (Pesos)	( % )
<b>I. MINING:</b>	149.923	6,44
Quintos y fundición de oro y plata	24.819	
Casa de moneda	125.304	
<b>II. TAXES ON COMMERCE AND PRODUCTION:</b>	294.345	12,65
Alcabala	247.789	
Novenos del Estado	43.788	
Alcabalas de finca raíz	2.768	
<b>III. INDIAN TRIBUTE :</b>	10.208	0,44
<b>IV. TAXES ON ROYAL BURECRATIC SALARIES AND SALES OF OFFICES:</b>	35.057	1,51
A. Civil		
Monte Pio Ministerio	12	
B. Ecclesiastical		
Espolios	27.154	
Vacantes menores y mayores	6.159	
Mesadas eclesiásticas	1.732	
<b>V. MONOPOLIES OF THE STATE:</b>	875.975	37,65
Tabaco	488.771	
Aguardiente	115.968	
Salinas	265.789	
Papel sellado	5.447	
<b>VI. MISCELLANEOUS INCOME:</b>	190.255	8,18
Correos	73.080	
Productos de imprenta	16	
Hospital de San Lázaro	463	
Aprovechamientos	8.417	
Hospitales sin destinos	2.077	
Seminario de nobles de Madrid	2.076	
Caja indígena de Enemocon	401	
Temporalidades	26	
Arrendamiento de tierras	103	
Crédito público	50.459	
Multas	7.796	
Conventos suprimidos	66	
Efectos y fincas del Estado	2.671	
Noveno de consolidación	23.568	
Derecho de hipoteca y registro	1.187	
Hacienda en común	9.232	
Bodegas del Estado	97	
Diez por ciento de rentas municipales	1.332	
Comisos	1.230	
Secuestros	3.449	
Derechos de cargas sobre efectos extranjeros que transitan el río Magdalena	1.907	
Mandas forzosas	132	
Bienes de difuntos	470	
<b>VII. TAXES ON FOREIGN TRADE:</b>	770.958	33,13
Importación	497.643	
Exportación	24.885	
Extracción presunta	95.940	
Consulado	107.499	
Alcabala	16.395	
Otros	28.596	
<b>TOTAL</b>	<b>2.326.721</b>	<b>100,00</b>

Note : The accounts have been classified following Herbert Klein (1973).  
Source : Secretario de Hacienda. *Informe al Congreso*, Bogotá, 1832.

A third characteristic of the emerging republican tax structure was that most of the revenues collected from foreign trade corresponded to taxes on imports. In effect, in 1831-1832 of the total fiscal revenues from foreign trade, only 3.2% resulted from export taxes.

The rapid increase in the share of taxes on foreign imports and the reduction in taxes on exports, formed part of the explicit objectives of the first Secretary of Finance of the Republic of Colombia, Jose Maria del Castillo y Rada. In his report to the Congress in 1823, Del Castillo set out the orientation of the fiscal authorities with respect to foreign trade taxes: "Customs are the source of one of the most productive taxes; and forgetting about its intrinsic advantages or disadvantages, the legislators should seek to increase its revenues, for the benefit of national wealth. Moderate import duties; extreme supervision in the ports; well selected employees, benefits for those that detect fraud; liberty to export domestic products without duties;...such should be the policies that are set in place, and that before could not be established, so that this tax be of great help for the necessities of the nation"<sup>34</sup>.

Thus, already in 1831-1832 significant changes could be observed in the structure of tax revenues as a result of the reforms which had been introduced under the very difficult circumstances created by a costly and prolonged war<sup>35</sup>.

In Table 6 we calculate the revenues produced in 1801 by the taxes that had already been abolished by the republican governments by 1836. The sum in 1801 of the fifteen taxes abolished by 1836 was 25.4% of all revenues. An enormous achievement, specially if we take into consideration that in the period 1810-1850 there was a drop in exports and real income per-capita in New Granada.

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<sup>33</sup> Secretario de Hacienda, Informe al Congreso, Bogota, 1833, p. 28.

<sup>34</sup> Secretario de Hacienda, Informe al Congreso, 1823, p. 8.

<sup>35</sup> In 1841 there was a drop in total revenues per-capita to only .47 pesos of 1840, as a result of the civil war known as the "War of the Supremes", which lasted from 1839 to 1842. but was most intense in 1841. In that year the war affected the Caribbean Coast provinces. The rebel forces took hold of the main ports in the Caribbean Coast to have access to the custom revenues. As a result the government suffered a drop in its tax collections, Secretario de Hacienda, Memoria al Congreso, Bogota, 1842, p. 4.

**TABLE 6**  
**TAXES WHICH EXISTED IN NEW GRANADA**  
**IN 1801 AND HAD BEEN ABOLISHED BY 1836**

<b>CATEGORY</b>	<b>VALUE OF REVENUE IN 1801 ( Pesos)</b>	<b>PARTICIPATION IN TOTAL REVENUES IN 1801 ( %)</b>
Alcabala	97.762	14,65
Tributo indígena	14.424	2,16
Protecturía	904	0,14
Inválidos	3.223	0,48
Medias Anatas	4.394	0,66
Tierras	7.974	1,20
Pólvora	1.381	0,21
Arriendo de gallos	370	0,06
Imposiciones a censo	24.155	3,62
Oficios vendibles	2.196	0,33
Real subsidio	245	0,04
Bulas de cruzadas	5.863	0,88
Bulas de carnes	777	0,12
Naipes	440	0,07
Camellón	5.248	0,79
<b>TOTAL</b>	<b>169.356</b>	<b>25,39</b>

**Note :** The participation is with respect to total revenues which were classified by type of tax.

**Source :** Memorias de Hacienda , 1826-1836.

### C. Overall evolution of the fiscal revenues, 1831-1850

In the period 1831-1850, fiscal revenues in the Republic of New Granada went through two clearly identifiable sub-periods. The first one extends from 1831 to 1842, when there was a tendency for total revenues per-capita to fall (see Graph 2 and Table 7). In fact, total revenues per-capita dropped from 1.44 pesos of 1840 in 1832 to 0.87 pesos of 1840 in 1842, a drop of 38% .

After 1843 total revenues per-capita tended to increase and by 1850 they had already increased by 17%<sup>36</sup>. We have been able to construct a series from 1831 to 1850 of the nine principal tax revenues. Together these nine taxes represented around 90% or more of total revenues. For example, in 1842-1843 these nine taxes amounted to 89.3% of total revenues in that fiscal year<sup>37</sup>. The sum of these nine taxes is what we use as total taxes collected in Graph 2 and Table 7.

It has to be highlighted that the overall evolution of the nine taxes presented in Graph 2 and Table 7 is dominated by the behavior of only three of them : the tobacco, salt, and foreign trade taxes. In effect, the correlation coefficient between the sum of these last three taxes and the sum of the nine taxes we are discussing is .98.

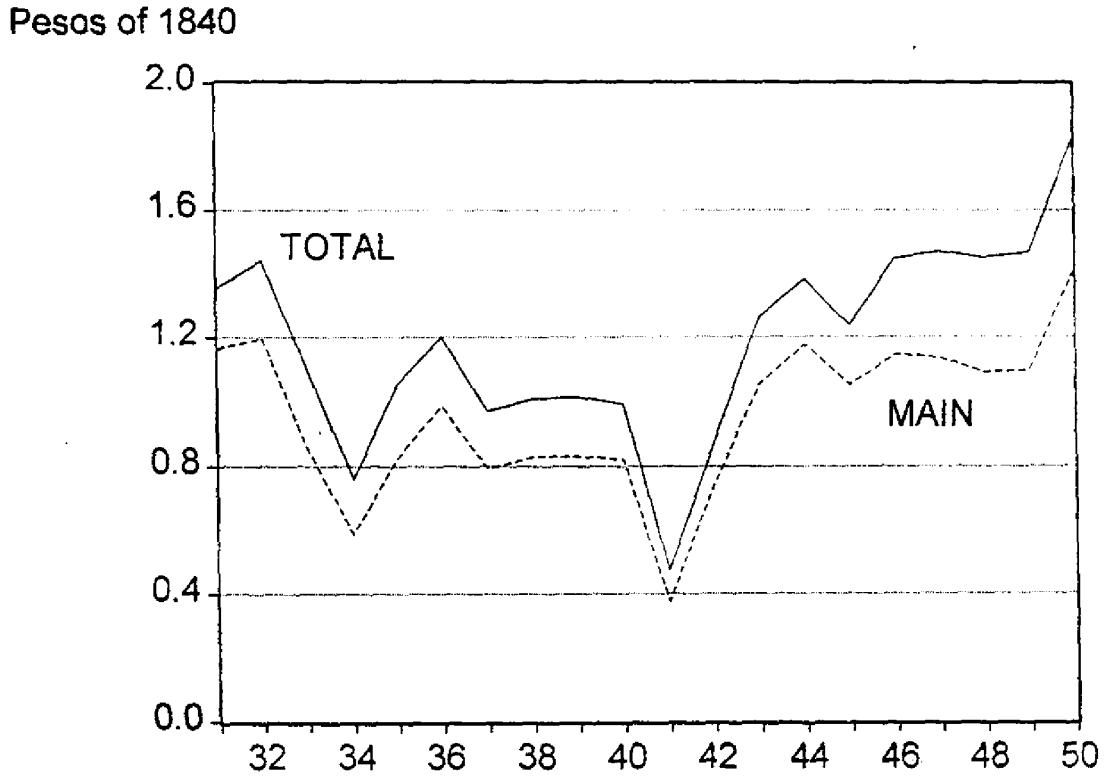
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<sup>36</sup> The quality of the only price index available for Colombia in the nineteenth century has been , at least for this particular period , put into question. Although his methodology is not very explicit, it seems that Alberto Pardo used in some years as a price index the level of expenditures from a convent in Bogota and did not construct a price index since he did not have individual prices. Alberto Pardo, Geografía Económica y Humana de Colombia, Ediciones Tercer Mundo, Bogota, 1972, p. 229. In account of this difficulty and because of the absence of other price index we have decided to deflate the nominal figures by a five year moving average of the Rousseaux Price Index for Great Britain, B.R. Mitchell, Abstract of British Historical Statistics, Cambridge University Press, Great Britain, 1962, p. 471. Although the use of the British price index might seem a completely inadequate solution, further analysis shows that the results are robust to different alternatives. For example, the results are almost equivalent if the US wholesale price index is used. This is hardly surprising since the parallelism of price levels of countries under the gold standard has been widely discussed, for example by Donald McCloskey and Richard Zecher, "How the Gold Standard Worked, 1880-1913" , in H.Frenkel and H.Johnson (editors), The Monetary Approach to the Balance of Payments, George Allen and Unwin, Great Britain, 1980.

It is perhaps more surprising that Alberto Pardo's highly questioned price index leads to results that are almost exact to those obtained with the British price index. In fact the correlation coefficient of the real revenues per-capita constructed with the British price index and the one calculated with Pardo's index is .86, and they have exactly the same overall pattern.

<sup>37</sup> Secretario de Hacienda, Informe al Congreso, Imprenta de J.A. Cualla, Bogota, 1844.

GRAPH 2  
EVOLUTION OF REAL REVENUES PER-CAPITA  
(1831-1850)



Note: Total refers to the total tax revenues per-capita in real terms of Table 7. Main refers to the sum of the real revenues per-capita of the tobacco, salt, and custom taxes.

Source: Table 7.



**TABLE 7**  
**REVENUES PER-CAPITA IN NINE TAX CATEGORIES**  
**(Pesos of 1840)**

	CUSTOMS	LIQUOR	DIEZMO	MORTAGES	PAPER
1831	0,64	0,08	0,04	0,00	0,01
1832	0,67	0,10	0,04	0,00	0,01
1833	0,37	0,10	0,05	0,00	0,02
1834	0,23	0,06	0,03	0,00	0,02
1835	0,34	0,07	0,04	0,00	0,02
1836	0,48	0,07	0,04	0,00	0,02
1837	0,34	0,06	0,01	0,01	0,03
1838	0,37	0,06	0,02	0,00	0,02
1839	0,35	0,06	0,02	0,00	0,02
1840	0,34	0,06	0,03	0,00	0,02
1841	0,05	0,02	0,01	0,00	0,01
1842	0,32	0,04	0,01	0,01	0,03
1843	0,54	0,08	0,02	0,01	0,04
1844	0,53	0,09	0,02	0,01	0,04
1845	0,39	0,08	0,01	0,01	0,03
1846	0,44	0,09	0,12	0,01	NA
1847	0,39	0,09	0,10	0,01	0,04
1848	0,32	0,09	0,13	0,01	0,05
1849	0,31	0,10	0,12	0,01	0,04
1850	0,41	0,10	0,14	0,01	0,05
	MINING	SALT	TOBACCO	MAIL	TOTAL
1831	0,02	0,15	0,38	0,04	1,36
1832	0,02	0,22	0,30	0,06	1,44
1833	0,02	0,15	0,33	0,06	1,10
1834	0,02	0,11	0,25	0,04	0,76
1835	0,04	0,14	0,34	0,05	1,05
1836	0,03	0,12	0,39	0,05	1,20
1837	0,03	0,12	0,33	0,04	0,97
1838	0,03	0,12	0,33	0,04	1,01
1839	0,03	0,13	0,34	0,04	1,01
1840	0,02	0,13	0,35	0,04	0,99
1841	0,02	0,11	0,21	0,04	0,47
1842	0,03	0,13	0,29	0,02	0,87
1843	0,02	0,14	0,37	0,04	1,26
1844	0,02	0,26	0,39	0,04	1,38
1845	0,02	0,25	0,41	0,03	1,24
1846	0,08	0,26	0,44	NA	1,45
1847	0,06	0,27	0,48	0,03	1,47
1848	0,06	0,27	0,51	0,04	1,45
1849	0,05	0,28	0,51	0,04	1,47
1850	0,04	0,28	0,72	0,07	1,82

**Note :** The total refers to the sum of the nine tax categories presented. For a discussion of the price index used see footnote 34.

**Source :** Anibal Galindo, *Historia económica y estadística de la Hacienda Nacional*, Imprenta de Nicolas Ponton, Bogotá, 1874, tables 1-12

Undoubtedly, the main source of revenues throughout the period were the taxes on foreign trade, which were mostly collected on imports. Although after 1847 the gross revenues of the tobacco monopoly were higher than the gross revenues from foreign trade, in net revenues the later were larger<sup>38</sup>. In effect, custom taxes were highly efficient since the expenditures to collect them amounted to only a small proportion of gross revenues. For example, in 1849 expenditures required to collect custom taxes were only 5.1% of gross revenues (see Table 9); in the case of the salt monopoly expenditures were 27.9% of gross revenues, and for the tobacco monopoly this proportion increased to 64.2%. Thus, although the tobacco monopoly contributed the most to gross revenues, in net revenues it was behind the custom and salt taxes.

Several things contributed to make possible the consolidation of the taxes on foreign trade, which fell basically on imports, as the most important republican tax. In the first place, with the elimination of the virtual monopoly on foreign trade which the Spanish products and merchants had in the colonial era, the main source of imports became Great Britain. Imports of textiles represented more than 80% of total imports by the Republic of New Granada. The drastic fall in real terms in the prices of British exports of cotton textiles, permitted an enormous increase in the quantum of imports of this product. Between 1822 and 1850 the annual rate of growth of the meters of cotton textiles imported into New Granada from England was 6.9% (see Graph 6)<sup>39</sup>. This rapid increase in the quantum of cotton imports was the result of the drop in real terms of the price of this product as a result of the Industrial Revolution. The possibilities created by the Independence for fully exploiting the benefits of freer trade are very tangible in this specific case.

What domestic consumers in New Granada were observing was that year after year they were paying lower prices (in 1850 the price of one meter of British cotton imported in New Granada was just 55% of what it had been, in real terms,

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<sup>38</sup> The drop in foreign trade taxes after 1847 was the result of a law of June 14, 1847, which reformed the custom taxes, Secretario de Hacienda, Memoria al Congreso, Bogota, 1850, p. 70.

**TABLE 8**  
**TAX REVENUES OF THE REPUBLIC OF NEW GRANADA**  
**(September 1, 1842- August 31, 1843)**

CATEGORY AND TYPE OF TAX	VALUE (Pesos)	( % )
<b>I. MINING:</b>	<b>226.351</b>	<b>7,61</b>
Quintos y fundición	59.509	
Amonedación	166.842	
<b>II. TAXES ON COMMERCE AND PRODUCTION:</b>	<b>41.185</b>	<b>1,39</b>
Diezmos		
<b>III. MONOPOLIES OF THE STATE:</b>	<b>1.339.712</b>	<b>45,07</b>
Tabaco	784.695	
Aguardiente	172.840	
Salinas	288.562	
Papel sellado	79.539	
Hipotecas y registros	14.076	
<b>IV. MISCELLANEOUS INCOME:</b>	<b>231.194</b>	<b>7,78</b>
Exportación de mineral concentrado	579	
Derecho de internación	5.599	
Derecho de sello de títulos y patentes	312	
Correos	80.681	
Multas	6.789	
Empréstitos	25.679	
Donativos	928	
Venta de cal	888	
Ramos diversos	109.739	
<b>V. TAXES FOREIGN TRADE:</b>	<b>1.134.107</b>	<b>38,15</b>
<b>TOTAL</b>	<b>2.972.549</b>	<b>100,00</b>

**Note :** The accounts have been classified following Herbert Klein (1973).

**Source :** Secretario de Hacienda, Informe al Congreso, Imprenta de J.A. Cualla, 1844.

**TABLE 9**  
**GROSS AND NET TAX REVENUES IN THE REPUBLIC OF NEW GRANADA**  
**1849**

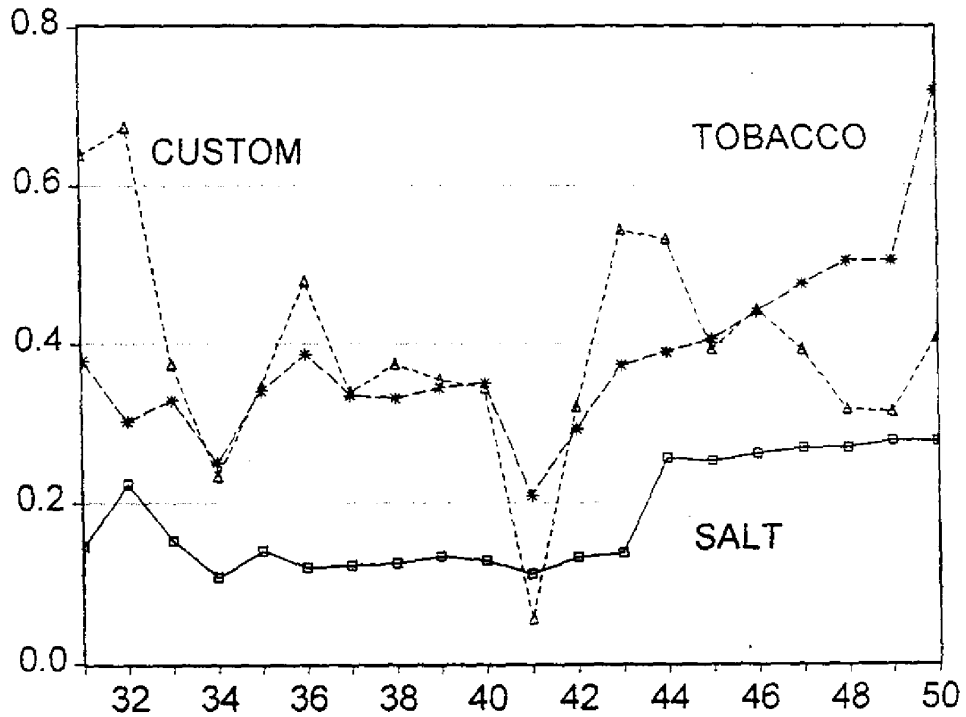
<b>TAX</b>	<b>GROSS REVENUES (Pesos)</b>	<b>EXPENDITURES (Pesos)</b>	<b>NET REVENUES (Pesos)</b>	<b>EXPENDITURES A PROPORTION OF GROSS REVENUES</b>
Customs	540.239	27.466	512.773	5,1
Tobacco	873.705	560.694	313.011	64,2
Salt	479.064	133.419	345.645	27,8

**Source :** Anibal Galindo, *Historia económica y estadística de la Hacienda Nacional*, Imprenta de Nicolás Ponton, Bogotá, 1874, and calculations of the authors.

GRAPH 3

EVOLUTION OF THE REAL REVENUES PER-CAPITA  
OF THE CUSTOM, SALT, AND TOBACCO TAXES  
(1831-1850)

PESOS OF 1840



SOURCE: TABLE 7

in 1831). Thus, the increase in the level of custom taxes was not perceived by the consumers<sup>40</sup>.

After the late 1830's undoubtedly the most controversial tax was the tobacco monopoly. In terms of gross revenues it was the main tax. But perhaps even more important than this merely quantitative aspect is the fact that since the 1830's there were several relatively successful, although limited, attempts at exporting tobacco to European markets<sup>41</sup>. Thus there was increasing pressure on the government for the abolition of the monopoly. However, it had not been eliminated for purely pragmatic considerations: it played a central role in the finances of the government and there were no good alternatives for recuperating the income that would be lost if it were eliminated. Even William Wills, an influential British merchant established in Colombia since 1826, and who generally defended free markets, expressed in 1831: "...even though the general application of the principles of political economy should be put into practice whenever possible, the end of the tobacco monopoly should not be precipitated, because under the present circumstances instead of obtaining positive results, this measure could produce a disaster"<sup>42</sup>.

An additional reason why the government was reluctant to eliminate the tobacco monopoly was that it considered that depending almost exclusively on the custom taxes made it very vulnerable. In 1837 due to an incident with Great Britain the ports of New Granada were blockaded by the Royal Navy. As a result of these

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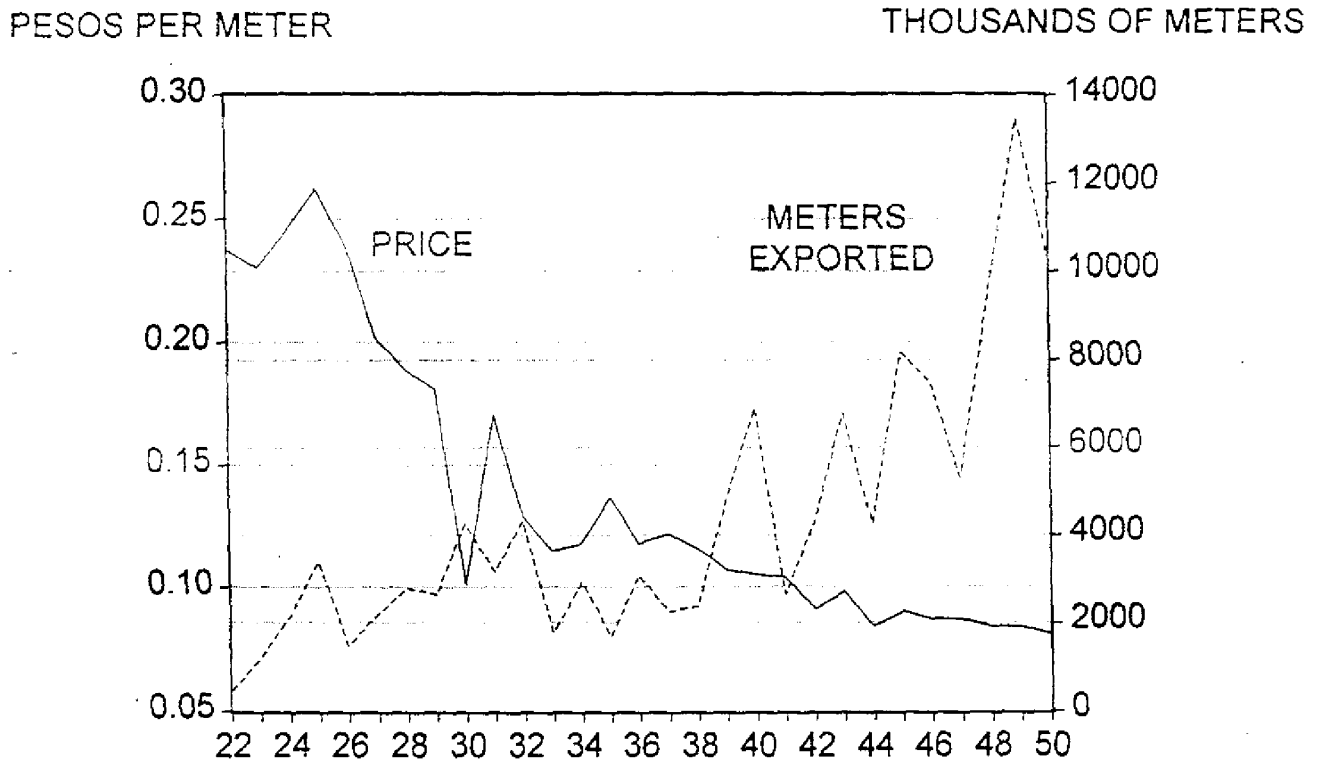
<sup>39</sup> Marco Palacios, "Las consecuencias economicas de la Independencia en Colombia: sobre los origenes del subdesarrollo", in Leandro Prados de la Escosura y Samuel Amaral (editores), La Independencia Americana: Consecuencias Economicas, Alianza Editorial, Madrid, 1993, p. 114.

<sup>40</sup> Ibid., p. 114 and calculations of the authors. The proportion between custom taxes and the value of imports increased from 15.2% in 1835 to 21.9% in 1844.

<sup>41</sup> John Parker Harrison, "The Colombian Tobacco Industry, From Government Monopoly to Free Trade, 1778-1876", Ph.D. Dissertation, University of California, 1951, p. 177.

<sup>42</sup> Malcom Deas, Vida y Opiniones de Mr. William Wills, Banco de la Republica, Bogota, 1996, p.25.

GRAPH 4  
EXPORTS OF COTTON TEXTILES FROM  
GREAT BRITAIN TO COLOMBIA  
(1822-1850)



SOURCE: MARCO PALACIOS, OP. CIT., P. 114.

events, President Santander concluded that the government would be at great risk in case of losing the revenues, such as the tobacco monopoly<sup>43</sup>.

The salt monopoly was in net revenues the second most productive tax. However, it was seen as very inconvenient because of equity considerations. The Secretary of Finance Manuel Murillo Toro was specially forceful in his critique of the salt monopoly. In his report to the Congress in 1850 he argued that : “ This tax is, without doubt, one of the most productive and well administered that the national treasury has, but it has the defect that it taxes considerably an article of absolute necessity, and it does it with much inequality. The inhabitants of the provinces of Panama, Cartagena, Santa Marta, Riohacha, Mompox, Antioquia, Choco, and Barbacoas, do not pay for this contribution ; other provinces pay very little ; and even those where there are salt mines pay different amounts. In Popayan the quintal of salt is sold for 74 reales, while in Mompox it can be bought for 8, in Santa Marta for 4 ; in Mariquita for 48 and in Bogota for 32”<sup>44</sup>.

The other principal taxes were not comparable with the revenues generated by the salt and tobacco monopolies and the custom tax. All the rest of the taxes produced in per-capita terms revenues that were generally below 10 cents of 1840 (see Graph 5 and Graph 6). The diezmo revenue increased drastically after 1846 because up to 1845 only the portion corresponding to the state had been reported. Thus the revenues before and after 1846 are not directly comparable.

In 1850 the structure of tax revenues in existence was the result of three decades of republican reforms ( see Table 10). Some of the most unpopular taxes of the colonial period had been abolished ( such as the head tax on Indians and the alcabala). However, other “colonial” taxes remained : diezmos, quintos, the tobacco monopoly, the salt monopoly, and the liquor monopoly. The first three

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<sup>43</sup> Gustavo Bell, “Regional Politics and the Formation of the National State: The Caribbean Coast of Colombia in the First Years of Independence, 1810-1860”, D.Phil. Thesis in Modern History, Oxford University, 1997, p.115.

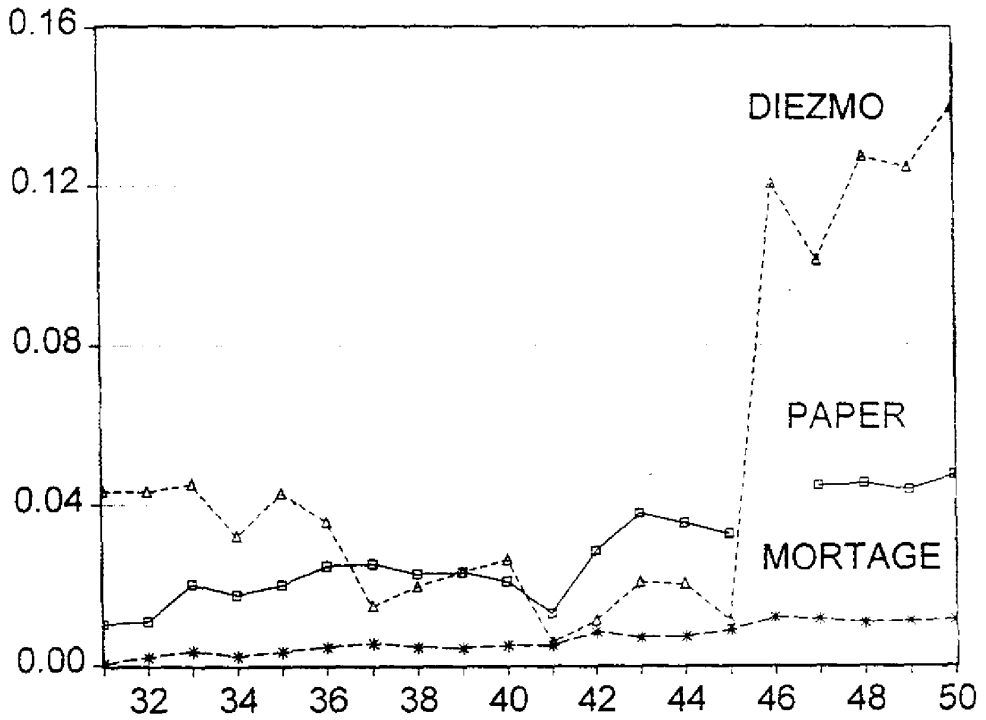
<sup>44</sup> Secretario de Hacienda, Informe al Congreso , Bogota, 1850, p.8.



GRAPH 5

EVOLUTION OF THE REAL REVENUES PER-CAPITA  
OF THE PAPER, DIEZMO, AND MORTGAGE TAXES  
(1831-1850)

PESOS OF 1840



SOURCE: TABLE 7

**TABLE 10**  
**TAX REVENUES OF THE REPUBLIC OF NEW GRANADA**  
**1850**

CATEGORY AND TYPE OF TAX	VALUE (Pesos)	( % )
<b>I. MINING:</b>	<b>103.210</b>	<b>3,52</b>
Monedas	27.831	
Quintos y fundición	<u>75.379</u>	
<b>II. TAXES ON COMMERCE AND PRODUCTION:</b>	<b>236.427</b>	<b>8,07</b>
Diezmos		
<b>III. MONOPOLIES OF THE STATE:</b>	<b>1.545.495</b>	<b>52,73</b>
Tabaco	826.644	
Aguardiente	170.141	
Salinas	468.458	
Papel sellado	<u>80.252</u>	
<b>IV. MISCELLANEOUS INCOME:</b>	<b>358.093</b>	<b>12,22</b>
Correos	124.082	
Bienes nacionales	56.370	
Peajes y pontazgos	22.367	
Censos, alquileres y premios	18.868	
Internación de sales y mercancías	4.200	
Impuestos de rentas varias	<u>132.206</u>	
<b>V. TAXES FOREIGN TRADE:</b>	<b>687.950</b>	<b>23,47</b>
<b>TOTAL</b>	<b>2.931.175</b>	<b>100,00</b>

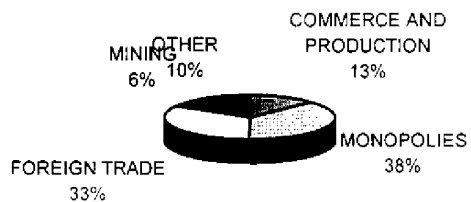
**Note :** The accounts have been classified following Herbert Klein (1973).

**Source :** Salvador Camacho Roldan, Memorias , Editorial Bedout, s.f., p. 151.

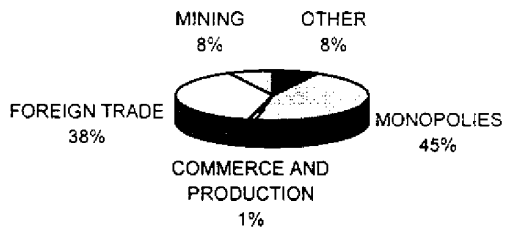
**ILLUSTRATION 2**  
**STRUCTURE OF THE REVENUES OF THE CAJAS REALES**  
**OF THE VICEROYALTY OF NEW GRANADA**

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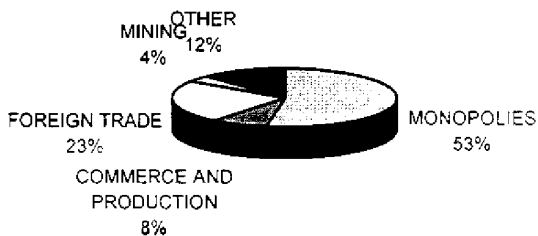
**1831-1832**



**1842-1843**



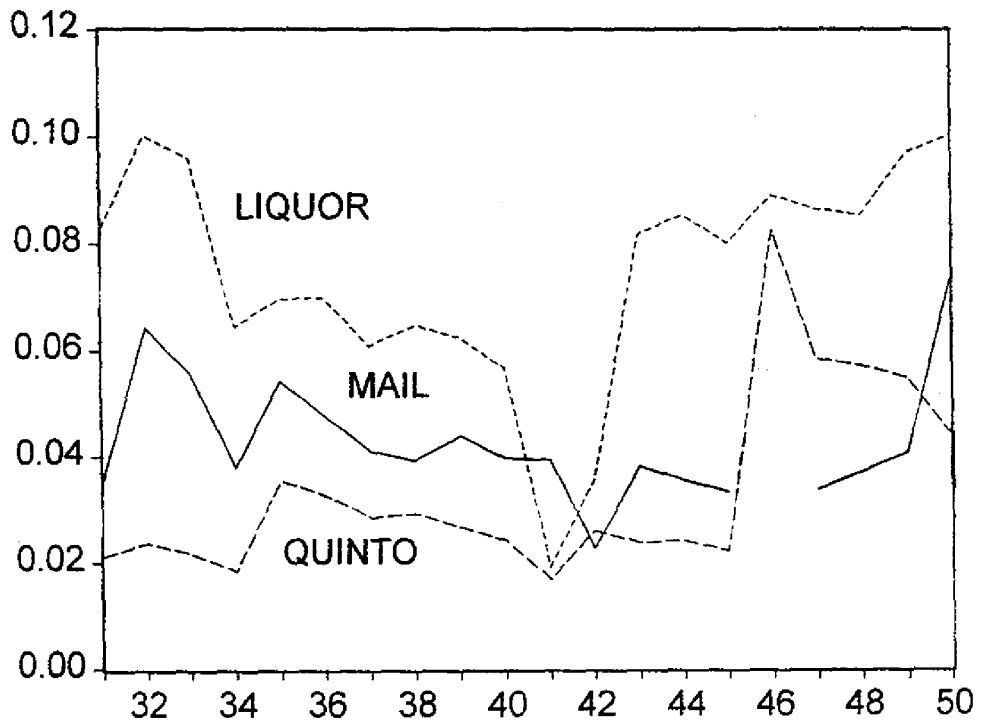
**1850**



GRAPH 6

EVOLUTION OF THE REAL REVENUES PER-CAPITA  
OF THE LIQUOR, MAIL, AND QUINTO TAXES  
(1831-1850)

PESOS OF 1840



SOURCE : TABLE 7

were eliminated in the reforms of the 1850's. However, the salt and liquor monopolies survived well into the twentieth century as an essential feature of the Colombian tax system.

#### **D. The structure of fiscal expenditures in the 1830's**

In 1838 Carl August Gosselman, a Swedish citizen who traveled extensively in South America, observed that:

“In New Granada public finances are in a better situation and in a more orderly state than in any of the republics I have visited, as a result of the relatively long period of internal peace, which has permitted the government not only to determine which are the revenues and expenditures, but also to obtain that in these last years the latter be less than the former, which constitutes a very rare case in South America”<sup>45</sup>.

Information on the expenditures of the central government of New Granada is available only for the eight years from 1832 to 1840 and for a few years in the 1840's. All the evidence shows that except for 1841 - 1842, when revenues dropped drastically as a result of the Civil War known as the “War of the Supremes”, fiscal deficit were small or non-existent, as Carl August Gosselman had commented. For example, from December 1, 1832 to August 31, 1840, the central government had revenues that amounted to \$18.973.983, while in the same period expenditures amounted to a total of \$17.955.320, that is revenues were 5.7% above expenditures<sup>45</sup>.

For the 1840's data on government expenditures is not as complete as what is available for the 1830's. However, for the four years between 1847 and 1850 we know that in two of them (1847 and 1848) there was a surplus and in two of them a deficit (1849 and 1850). Thus, it seems that overall there was a relative balance in the budget of the government in New Granada in this period. The main

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<sup>45</sup> Carl August Gosselman , Informe sobre los Estados Sud-americanos en los Años de 1837 y 1838, Biblioteca e Instituto de Estudios Ibero-Americanos, Estocolmo, 1962, p. 120.

factor behind this situation seems to have been that there was only one civil war in the period 1831 - 1850. Also, New Granada did not engage in any foreign war throughout the nineteenth century. This was certainly not the case in many other Latin American countries. For example, Argentina in 1826 - 1830 was engaged in an external war with Brazil and was affected by internal conflicts. The result was a period of fiscal disorder which led to an episode of inflationary finance<sup>47</sup>.

In Table 11 we present the structure of the expenditures of the central government from 1832 to 1840. It is evident that salaries represented the main obligation of the government, especially the salaries of the navy and army, which together amounted to 41.4% of all expenditures. The other important outlay was comprised by the tobacco monopoly, which represented 15.1% of the total (see Table 11).

## **V. THE MONETARY SYSTEM: FROM THE CHAOS CREATED BY THE WAR OF INDEPENDENCE TO THE REFORMS OF MID-CENTURY**

### **A. The monetary chaos produced by the war of independence**

During the colonial period there were two minting houses in New Granada, one in Santa Fe de Bogota and one in Popayan. The monetary unit of the Spanish colonies was the silver peso of eight reales and a law of .902  $\frac{2}{3}$ <sup>46</sup>. However, during the eighteenth century in New Granada coins of different laws were minted : gold coins of .916  $\frac{1}{2}$  , .901, and .875, and silver coins of .902 and .901. And towards the end of the colonial period there was also circulation of the macuquina, which was a silver coin of irregular shape and whose law fluctuated between .908 and .916. It had been minted in Mexico and Peru during the

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<sup>46</sup> Secretario de Hacienda, Memoria al Congreso, Imprenta J.A.Cualla, Bogota, 1843, Cuadro 11.

<sup>47</sup> Roberto Cortes Conde and George McCandless, "Argentina: from Colony to Nation: Eighteenth and Nineteenth Centuries, Fiscal and Monetary Experience", Universidad de San Andres, Buenos Aires, 1997 (mimeo).

<sup>48</sup> Guillermo Torres Garcia, Historia de la Moneda en Colombia, FAES, Medellin, 1980, p.20. The law of a coin was the percent of higher quality metal it contained. For example, a gold coin of law .900 had 90% gold and 10% of metals of lesser value.

**TABLE 11**  
**EXPENDITURES OF THE GOVERNMENT**  
**OF THE REPUBLIC OF THE NEW GRANADA**  
**( December 1, 1832 - August 31, 1840 )**

<b>EXPENDITURES</b>	<b>VALUE (Pesos)</b>	<b>(%)</b>
<b>I. SALARIES AND EXPENDITURES:</b>	<b>12.331.339</b>	<b>68,67</b>
Civiles	2.649.122	
Hacienda	2.196.227	
Guerra	6.823.698	
Marina	616.033	
Legación Romana	46.259	
<b>II. EXPENDITURES:</b>	<b>4.392.160</b>	<b>24,46</b>
De plaza	41.156	
De fortificación	56.900	
De hospitales	288.604	
De tabaco	2.709.200	
De correos	255.894	
Generales	1.040.406	
<b>III. PAYMENTS OF PUBLIC DEBT:</b>	<b>893.836</b>	<b>4,98</b>
Payment of interest on the consolidated debt	149.955	
Amortization of consolidated debt	9.984	
Floating debt	371.147	
Debt assigned to the treasury by law of abril 30,1835	156.842	
Sent to England	205.908	
<b>IV. PENSIONS :</b>	<b>72.186</b>	<b>0,40</b>
<b>V. MISCELLANEOUS EXPENDITURES:</b>	<b>266.785</b>	<b>1,49</b>
Devolutions from import taxes	70.129	
Devolutions from alcabala	33.867	
Devolutions from liquor	24.185	
Devolutions from salaries and pensions	16	
Devolutions from fines	301	
Suplements to the Casa de Moneda	10.000	
Remitted for coinage	23.667	
Mermas de fundición	6.607	
Premios de Exportación	73.185	
Payments for registration rights	8	
Payments for comisos	32	
Payments for bienes embargados	1.982	
Returns from censos	7.991	
Exchange of coins	11.023	
Freights and insurance	3.792	
<b>TOTAL</b>	<b>17.956.306</b>	<b>100,00</b>

**Note :** The sum of the different items does not coincide exactly with the total since we have eliminated the reales.

**Source :** Secretario de Hacienda, Memoria al Congreso , Imprenta J.A. Cualla, Bogotá, 1843, Cuadro II.

Habsburg era and had arrived in New Granada through the situados that were sent from the cajas reales of the viceroyalties of Mexico and Peru to cover the local deficit<sup>49</sup>. The macuquina had the characteristic that its shape was irregular, which made it relatively easy to falsify or cut in the edges.

The years of the struggle for independence from Spain (1810-1819) left the newly created nations with a chaotic situation with respect to the circulating coins. In the first place, there was a proliferation of coins of low quality, which were used to finance the expenditures of the war. The first minting of this low quality coins was the one ordered in 1811 by the Patriotic Junta of Cartagena<sup>50</sup>. These coins were made of copper and had a nominal value of half a real and of two reales and were minted in 1815. In the Casa de la Moneda of Santa Fe de Bogota the patriots minted a coin known as provincial or "china", and of which three types were issued.

The Constitutional Congress of 1821 decreed that all the coins of gold and silver minted after that date had to conform to the same specification that had been used under the Spanish Empire. However, as the historian Jose Manuel Restrepo commented about this law : "It was impossible to follow it in the state of disarray and misery which characterized fiscal revenues. The law was eluded by minting coins of poor quality and stamping them with a date previous to the prohibition. This was done following reserved orders of the President, while General Santander was in charge"<sup>51</sup>.

During the years of the war of Independence the Spaniards also contributed to the monetary chaos. When they briefly reestablished control of New Granada, Viceroy Montalvo ordered the minting of coins in Santa Marta and Cartagena. These silver coins did not have a fixed weight or fixed specifications. As a result, it

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<sup>49</sup> Frank Safford, "Commerce and Enterprise in Central Colombia, 1821-1870", Ph.D. Dissertation, Columbia University, 1965, p. 115.

<sup>50</sup> A. M. Barriga Villalba, Historia de la Casa de Moneda, Bogota, Tomo II, 1969, p. 127.

<sup>51</sup> Jose Manuel Restrepo, Memoria sobre la Amonedacion de Oro y Plata en la Nueva Granada, Imprenta de la Nacion, Bogota, 1860, p. 14.



was very easy to falsify them<sup>52</sup>. The army of Morillo also introduced wherever it went a coin of very poor quality known as “caraqueña”.

## **B. First attempts at reestablishing monetary stability**

As we have seen, when the war of Independence concluded in New Granada there were in circulation a wide array of coins of gold, silver, and copper, of different weights, qualities, and specifications. This monetary chaos created difficulties for internal trade and increased transaction costs. To put an end to this situation the Constitutional Congress of 1821 decided that the solution was to return to the monetary system (weights and specifications) that had existed under the Spanish domination, and to retire from circulation all the coins of poor quality and inferior specifications. For this reason the copper coins of Santa Marta and Cartagena, the caraqueña, the macuquina, and all the coins with low content of silver were to be eradicated. Although this was the intention of the government, the above mentioned coins were not retired from circulation due to lack of funds. In fact, and as has been mentioned, the government continued to issue coins of law .538, violating the prohibition of the Constitutional Congress of 1821.

After 1821 an effort was made to unify the qualities and specifications of the coins in circulation. This was, however, a very slow and partial process. A law of March 13, 1826, established the specifications for the new gold and silver coins. Additionally, in 1826 the recollection of macuquinas was ordered and it was to be re-minted as a silver coin of law  $.666 \frac{1}{2}$ . However, according to the historians Henao and Arrubla: “This operation could not be carried out rapidly because the machines of the Casa de la Moneda in Bogota and Popayan were already deteriorated, and the great quantity of older coins in circulation were gradually displacing the new ones, which emigrated to Venezuela and Ecuador; thus, in 1846 the re-minted coins had almost disappeared and in the province of Bogota

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<sup>52</sup> Ibid., p.13.

the macuquina was circulating widely"<sup>53</sup>. Even worst, apparently the circulation of macuquina increased, because it was profitable to import them from the Antilles. For example, in 1838, macuquina imported from Jamaica produced a gain of 25% in the operation<sup>54</sup>.

Additionally, there seems to have been extensive falsification of the macuquina. In 1831 the counterfeiters benefited from a decree that ordered temporarily that the macuquina coins be accepted : "Even though it were clipped and without specifications clearly legible...for its nominal value..."<sup>55</sup>. This type of legislation that makes obligatory the acceptance of some type of money considered of inferior quality, leads to the operation of Gresham's Law : bad money displaces good money. It is convenient to make it clear that in this context it is understood that good money is the one that has a higher intrinsic value (in gold, for example), than other types of money which have the same nominal value.

The law of May 31, 1838, authorized the government to retire the macuquina and clipped coins from circulation. That year in his report to the Congress the Secretary of Finance commented : "The law of May 14, 1826, ordered the amortization of the macuquina and clipped coins. The past turmoils and the situation of the Treasury have not permitted the realization of that law and in the meantime the problem grows. The evil every day increases in intensity and it is necessary to proceed with firmness and determination to the operation of the amortization"<sup>56</sup>. However, and as had occurred with previous attempts for the amortization of the macuquina and clipped coins, the one ordered by the government in 1838 was not carried through.

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<sup>53</sup> Henao y Arrubla, Historia de Colombia, Escuela Tipografica Salesiana, Bogota, 1912, Tomo II, p. 514.

<sup>54</sup> Safford, Op.Cit., p. 116.

<sup>55</sup> Barriga, Op. Cit., Tomo III, p.27.

<sup>56</sup> Torres, Op.Cit., p. 26.

### C. The monetary reform of Tomas Cipriano de Mosquera

Towards the mid 1840's the monetary situation of New Granada was chaotic. All attempts at monetary reform had failed and in some cases even made the situation worst.

The existing legislation contributed to the monetary chaos because it made equivalent, in nominal terms, coins with different intrinsic value (that is, in metallic content). A contemporary economic commentator summarized the situation found by the government of General Tomas Cipriano de Mosquera as follows : "The monetary laws persisted in trying to force the owners of gold ounces to exchange an ounce of gold for 16 pesos that contain 245 grams of silver, as they exchanged it for 16 Spanish pesos, which contained 382 grams of silver..."<sup>57</sup>. As a result of this situation by the middle of the 1840's many observers spoke of what they considered was a "scarcity of money", and which in reality was the operation of Gresham's Law, and the disappearance of "good" money<sup>58</sup>. If money had been scarce prices should have been falling, but instead price stability was observed. Thus, there was no shortage in the total amount of money, but in the amount of money of good quality<sup>59</sup>.

As a result of the above mentioned difficulties the government of General Mosquera carried through in 1846 and 1847 an extensive monetary reform, led by the influential Secretaries of Finance Lino de Pombo and Florentino Gonzalez. The reform established that all coins should have 90% of pure metal and 10% of lower grade metals ( a law of .900). As a result no more coins of low quality would be minted and those already in circulation, such as the macuquina, were to be collected and re-minted.

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<sup>57</sup> Anibal Galindo, Estudios Economicos y Fiscales, Colcultura, Bogota, 1978, p. 161.

<sup>58</sup> For a discussion about the alleged scarcity of money see : Adolfo Meisel R., "El patron metalico, 1821-79", in El Banco de la Republica, Antecedentes, Evolucion y Estructura, Banco de la Republica, Bogota, 1990.

<sup>59</sup> In a study for colonial Canada, Angela Redish concluded that although most of the contemporary observers spoke about a supposed scarcity of money, the problem was one of poor quality of the specie in circulation as a result of Gresham's Law, Angela Redish "Why was Specie Scarce in Colonial Economies? An Analysis of the Canadian Currency, 1796-1830", Journal of Economic History Vol. XII, No.3, September, 1984.

The efforts of the Mosquera administration to retire from circulation the macuquina were succesful. At the end of 1848 almost all of these coins had been collected. By the beggining of 1849, 380.620 pesos of macuquina coins had been retired with a total cost to the government of 53.000 pesos<sup>60</sup>.

Why was the Mosquera administration succesful in its attempt to reform the monetary regime and retire the macuquina when all previous governments had failed ? Undoubtedly, the government of General Mosquera faced a much better fiscal situation than its predecessors. As we saw in the previous section, after 1843 began a relatively sustained increase in the revenues per-capita , in constant pesos, of the government. This improvement in the fiscal conditions permitted the monetary reform of 1846-1847, and the tax reforms of 1848-1850.

## V. CONCLUSIONS

In this paper we have discussed the basic structure of the tax revenues of the cajas reales in the Viceroyalty of New Granada towards the end of the colonial rule (1783 and 1808-1809). In that structure several of the main features of the economy of New Granada in the eighteenth century can be observed : (1) it is clear that even in the context of the Spanish American empire it was a poor economy, (2) the mining, and therefore the export sector, was relatively small, (3) it was not a very dynamic economy.

In the anti-colonial reaction that finally led to the declaration of independence from Spain, the tax system was one of the principal catalysts. For the ideologues of the movement for national liberation the fiscal regime that Spain imposed upon its colonies was characterized by its inequity, inefficiency, and the negative effects it had on the growth of output. To rapidly put an end to such a system was the main objective of the first finance secretaries of the new republic, beggining with Jose Maria del Castillo y Rada in the 1820's. However, the overall

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<sup>60</sup> J. Leon Helguera, "The First Mosquera Administration in New Granada, 1845-1849", Ph.D : Dissertation, University of North Carolina, 1958, p. 348. The expenditures for retiring the macuquina amounted to about 10% of the revenues from custom taxes and to less than 5 % of total revenues.

economic contraction that affected New Granada after Independence, made the task of transforming the fiscal system extremely difficult, and some taxes that had been abolished had to be reestablished, at least temporarily, like the Indian tribute. Other taxes, like the tobacco monopoly, could only be abolished in the late 1840's.

The difficulties encountered by the finance secretaries in the 1830's and 1840's, led the liberal ideologues of the 1850's to minimize the achievements at transforming the tax system of the period 1821-1850. This negative assesment has been shared by most Colombian historians, for whom "the colonial fiscal regime survived until 1850."

As we have seen in this paper, it is not true at all that in the Republic of New Granada the colonial tax system was intact by the middle of the nineteenth century. In fact, by that date the young republic had a much better fiscal system than the one it had inherited from Spain. In the first place, it was a much more fair system. The extreme cases of inequity, such as the head tax on Indians and the taxes on public employees, had already been eliminated. Also, it was a much more more efficient regime since the most important source of revenues had become the taxes on foreign imports and its collection was very efficient since the expenditures required were only about 5% of gross revenues. Finally, it should be mentioned that many of the colonial taxes that distorted the efficient allocation of resources had been abolished by 1850. Such was the case with the alcabala and with the export taxes. These achievements were obtained in the face of an economic contraction and a reduction in exports per-capita. By 1850 New Granada was one of the poorest countries of Latin America, with exports per-capita of 1.9 US dollars, well below the Latin American average of 5.2 US dollars<sup>61</sup>.

Since the administration of Tomas Cipriano de Mosquera (1845-1849), a movement towards liberal economic reforms gained influence. In 1848 the end of

the tobacco monopoly was approved by the Congress ( however, an export tax on this product was established). By 1850 the production and export of tobacco was completely liberated and under a cycle of increasing international prices, exports grew rapidly during the 1850's and 1860's, and became the country's leading export product.

In 1850 the other important reform to the tax system was the decentralization of incomes and expenditures, by which the finances of the regional states were strengthened. The principal taxes transferred to the regional governments were the diezmo, the quinto, and the liquor monopoly. The diezmo tax was rapidly abolished in the 1850's by the provincial governments. Almost half of the provinces eliminated the liquor monopoly, and Antioquia, the main producer of gold, abolished the quinto<sup>62</sup>.

To replace the revenues lost from the taxes eliminated most provinces tried to establish a direct tax of 10% of total income. However, the revenues collected were never very high and there were always many difficulties, specially to obtain reliable information on personal incomes. Even with these difficulties in 1873 the revenues from the income tax represented 16.9% of the total revenues of the nine provincial governments<sup>63</sup>.

However revolutionary the fiscal reforms of the 1850's may sound, seen from a long run perspective the changes introduced were not so dramatic. For example, if we compare the structure of the tax revenues in 1850 with what existed in the early part of the twentieth century, it can be seen that in many respects they were quite similar. For example, in 1906 three taxes which in 1850 amounted to 43.7% of all revenues (customs, salt monopoly, and mail), represented 60.7% of total revenues<sup>64</sup>. Even more, these three taxes continued to be the basis of the

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<sup>61</sup> Victor Bulmer-Thomas, The Economic History of Latin America Since Independence. Cambridge University Press, Great Britain, 1994, p. 38. In 1850 the only Latin American countries with less exports per-capita were Paraguay and Guatemala.

<sup>62</sup> Jorge Orlando Melo, "Vicisitudes del modelo liberal (1850-1899)", in Jose Antonio Ocampo, Historia Economica de Colombia. Siglo Ventiuno Editores, Bogota, p. 148.

<sup>63</sup> Malcom Deas, Del poder y la Gramatica, Tercer Mundo Editores, Bogota, 1993, p.82.

<sup>64</sup> Silvia Diaz, "Finanzas publicas del gobierno central en Colombia, 1905-1925", Trabajo de Grado, Facultad de Economia, Universidad de los Andes, 1996, Tabla 2.

tax system until the late 1930's, when the income tax started to play an important role<sup>65</sup>.

If in the period 1831-1850 the advances at reforming the tax system inherited from Spain were so significant, and the reforms of the 1850's were not as profound as it is generally accepted, why has the "consensus view" among Colombian economic historian been that the Spanish fiscal regime survived until 1850? We think that this is an example of intellectual history where Albert O. Hirschman's notion of "fracasomania" is specially helpful. Hirschman coined the term "fracasomania" to refer to a trait often found among Latin American policy-making elites, and consisting in: "...the insistence on part of each new set of policy-makers to decry as utter failure everything that has been done before..."<sup>66</sup>.

Hirschman attributes this trait to the consequences of a protected intellectual dependence. Intellectual dependence leads policy-makers and intellectuals to look abroad for solutions and orientations rather than to carefully evaluate domestic experiences. The way to justify the lack of attention at what has been done by previous generations is to declare that everything that has been done before is a complete failure.

Florentino Gonzalez, the main ideologue of the liberal reforms of the late 1840' and early 1850's, had lived in France and England from 1841 to 1845, before he became Secretary of Finance in 1846. Not surprisingly he was one of the persons that contributed most to the thesis of the complete failure of the fiscal reforms in the period 1821-1850. However, when all the evidence is carefully analyzed, it is clear that there was no "fracaso".

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<sup>65</sup> Joaquin Bernal, "Las Finanzas del Sector Publico Central en los años Veinte y Treinta", *Coyuntura Economica*, Vol. 14, No. 2, Junio, 1984, p. 131.

<sup>66</sup> Albert O. Hirschman, Essays in Trespassing, Economics to Politics and Beyond, Cambridge University Press, USA, 1981.

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