

Determinants of Portuguese Iberian Capitalism

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Abstract— *The purpose of this work is to explore varieties of capitalism (Hall & Soskice, 2009) by considering the existence of an Iberian capitalism in which the State plays a preponderant role in the economic activities of society. Our analysis aims at understanding the elements that shaped capitalism in Brazil. To meet this objective, it is necessary to understand the working logic of the economic system, in this case, capitalism, that built the institutional relationships in the country. The studied time period is the fifteenth century to the early nineteenth century. For this study, we utilized the capitalism variety (Hall & Soskice, 2009) and historical institutionalism approaches (Hamilton, 2018; Commons, 2018; North, 2018). The findings reveal the central role of the State as a catalyst for economic dynamics, characterizing what Oliveira (2015; 2018) called “State-centered” dynamics, as opposed to the “firm-centered” approach existing in western economies, especially those of Anglo-Saxon origin.*

Keywords— *capitalism, institutions, Brazil.*

I. VARIETIES OF CAPITALISM AND INSTITUTIONALISM

The discussion around varieties of capitalism gained important momentum from the works of Hall and Soskice (2009). The authors observed, in their analysis, that capitalism varieties follow distinct paths from their institutional framework. Clearly, the concept is very close to works developed by authors with an institutionalist approach, especially North (2018). Moreover, from the intersection of the works of Hall and Soskice (2009) and North (2018), the historical institutionalist approach becomes more pertinent to our analysis.

It becomes evident that countries' socioeconomic logic is determined by their institution building. Meanwhile, this institution building takes place throughout the history of countries and involves the institutional instruments created by countries during this period. Obviously, the path dependency concept must be considered. Thus, the resulting institutionalism is a summation (to some extent, selective) of the preceding institutions.

In this sense, it is assumed that countries and, of course, the institutions that shape them are distinct. From a historical perspective, these differences can become quite significant, leading to distinct capitalist constructions among countries and regions. In this work, we examine the institutional dynamics that shaped what we call Iberian Capitalism, in its Portuguese variety, and its influence on Latin American economies, especially Brazil.

II. THE IBERIAN PENINSULA AND THE CAPITALIST EXPANSION

A characteristic of the Iberian States, since their establishment, is the relative distinction between the powers of the central State (denoted in the figure of the king) and the other institutional players comprising the Iberian societies (Yun-Casalilla, 2019).

This characterization, in which royal power had a central role, was important for establishing a favorable environment for the maritime expansion process¹. Among the actions enabling this process, in the Portuguese case, we must highlight the School of Sagres, established in 1443, and the synergy of Portuguese commercial capitalism, especially the city of Lisbon and Genoese financial capitalism, both under the coordination of royal power.

This arrangement between bourgeois capital (commercial and State), financial capital, and State power is the basis for the first major institutional pact that created favorable conditions for overseas expansion of the Portuguese domain.

As stated by Yun-Casalilla (2019) and Garcia and De Sousa (2015), this expansion significantly modified the reality of the Iberian and, in general, Western societies. The new routes allowed a gradual change in Mediterranean trade flows toward routes through the Indian Ocean, along the African Coast, and, later, across the South Atlantic. A

¹ The financing of navigations began in the fourteenth century by D. Afonso IV, and an important landmark of this maritime expansion process was the incorporation of the Canary Islands in 1341.

continuous rise in Western consumption patterns is observed from this overseas expansion; patterns already existing in the fourteenth and fifteenth centuries became more dynamic from the sixteenth century onward, which promoted a new institutional arrangement linked to modernity.

The economic growth and development model and the institutional design of the Iberian countries, built over the centuries, prevented them from taking advantage

of the first manufacturing wave preceding the First Industrial Revolution. The early sixteenth century was economically weak in Portugal. The country only experienced vigorous economic growth from 1550 onward, driven by the economic results of its overseas expansion and accompanied by demographic growth until the mid-eighteenth century (see Figure 1). This process started to decline from 1755 onward (Palma, Rosés & Santiago-Caballero, 2016).

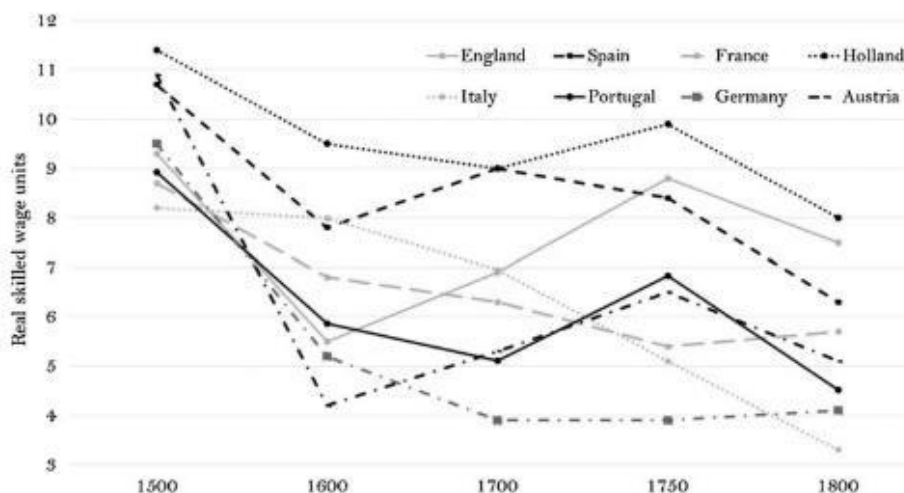


Fig.1 – Real skilled wage in Europe, 1500-1800

Source: Costa, Palma & Reis (2015)

Traditionally, there are several explanations for Portugal's relative backwardness, which began as early as the sixteenth century. This is initially attributed to its semi-peripheral role in the international division of labor after 1500, with implications arising from the overdependence on foreign capital and trade services, maritime transport, manufacturing imports, and the technically stagnant archaic agricultural sector (Wallerstein, 1974, 1980; Mauro, 1983, 1990; Rau, 1954; Sideri, 1970; Justino, 1981; Magalhães, 2010; Oliveira, 1980).

However, new interpretations, based on another data set, lead us to four different factors that may partly explain the Portuguese case: 1) limitation of entrepreneurship and internal diversification; 2) loss of agriculture's participation in the economy due to the attraction of opportunities in the empire and in port cities; 3) progressive accessibility of foreign foods, eliminating domestic production; and 4) a tertiary sector swelling due to colonial wealth, discouraging the national bourgeoisie from development (Costa, Palma & Reis, 2015).

According to Costa, Palma, and Reis (2015), Portugal slowly became a leader among the colonial powers of the modern age, which can be seen in the per capita value of trade with its colonies (see Figure 2). It is noteworthy that the growth of the Portuguese economy

was even more robust when considering the richness derived from mineral extraction.

Figure 2 also shows that the turning point was the commencement of the First Industrial Revolution, when the English and Dutch economic expansions surpass the Portuguese economy. This overcoming arose from the advent of economic expansion structured from industrialization, which becomes the technical-productive paradigm of industrial capitalism from the Anglo-Saxon perspective.

Overseas expansion also brought implications for socioeconomic factors related to the issue between capital and labor. Here, the Portuguese and Iberian institutional dynamics had a very different design from what developed later in most western countries, especially England. This forces consideration of an autochthonous interpretation of the institutional dynamics shaping the Iberian Capitalism, which were very different from the dynamics that shaped English industrial capitalism as described by Polanyi (2000). These differences between countries must be clear. After all, as stated by Wood (1991), the English capitalist system displays unique internal features, comprising variables related to agrarian, urban, and industrial issues and their respective consequences for the consolidation of an internal consumer market.

Ordinances and Portuguese institutionalism

Another important point in the construction of Iberian Capitalism institutionalism in its Portuguese variety, concerns the creation of Ordinances; norms that start to organize Portuguese society, which by the early sixteenth century had a global reach. The basic idea was to standardize and regulate the socioeconomic relations within a continuously expanding kingdom, which had been growing since the fourteenth century. The first of these rules was the 1446 Afonsine Ordinances; later, in 1521, the Manueline Ordinances were created; and finally, in 1603, the Philippine Ordinances were enacted.

As a whole, the Ordinances institutionalized a *modus operandi* of what characterized the Iberian Portuguese Capitalism, whose State-centric characteristic (Oliveira, 2015) is strongly present. Thus, we see the presence of the State in varied social and economic relations, from the rule of what is acceptable in the relations between Portuguese and native, both in the metropolis and in the new areas of the empire, to the monitoring of agriculture production, extractivism, and commercialization of economic activities.

The most complex and influential Ordinances are the Manueline Ordinances. Initially divided into five books, these Ordinances aim at standardizing the socioeconomic relationships from the centrality of royal power. According to Azevedo (2000), “the first book takes care of the regiments, positions and responsibilities...or of the whole administrative and bureaucratic machine of the State” while the second book “deals with the privileges of the Church and ecclesiastical persons, rights and goods of the Crown, as well as their fundraising methods.” The

third book encompasses civil procedure, including the economic relationships between individuals and the State. The fourth book primarily covers civil law and succession law. Last, the fifth book deals with criminal law.

The fact that the first book deals with the regiments, and the positions and responsibilities of the administrative machine cannot go unnoticed. Here, the importance of the public machine and State centrality is emphasized in the operation of the Portuguese capitalist enterprise and, consequently, in the Brazilian capitalist enterprise.

Although several authors, especially Faoro (1984), have emphasized the importance of the strata for the functioning of the Brazilian State, our argument considers this State, and of course this stratum, an integral part of the accumulation and replication logic of the Portuguese capitalist enterprise, to the point of being the main characteristic of what we call Iberian Capitalism, in its Portuguese version (Oliveira, 2018). Therefore, the State is not neutral in capitalist action and induction; on the contrary, it is the main inducing agent, as pointed out by Yun-Casalilla (2019).

In fact, if advanced capitalism economies are characterized by a State that regulates market competition, then early modern ones were shaped by political ‘competition’ among social agents for the control and expansion of their economic, political, military, and (even) religious resources....the king was not an impartial referee but rather an agent who had to defend his interests and present himself as a third party at the same time. (p. 146)

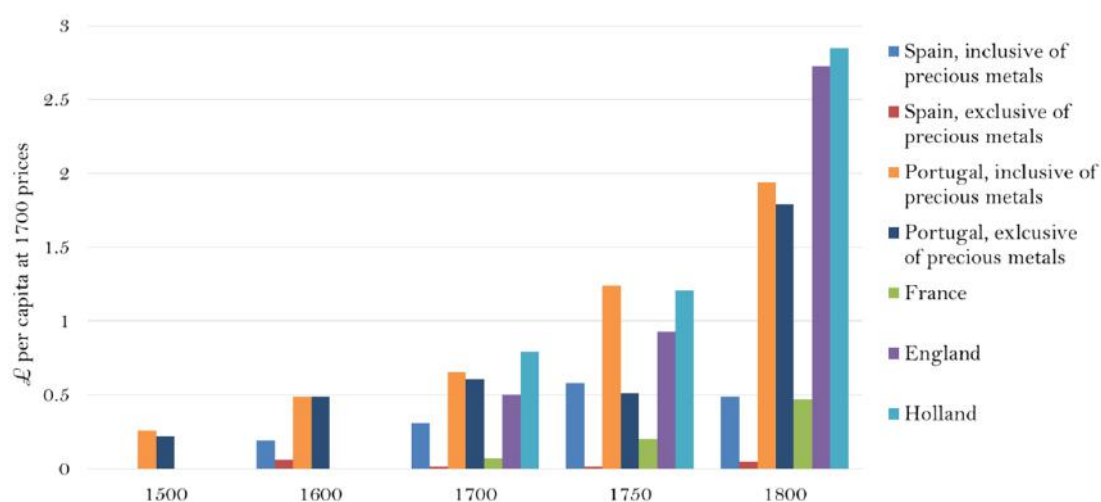


Fig.2 – Per capita Intercontinental Trade²

Source: Costa, Palma & Reis (2015)

² France 1800 commercial values correspond to 1788 and the values of Holland to 1780 (COSTA, PALMA & REIS, 2015).

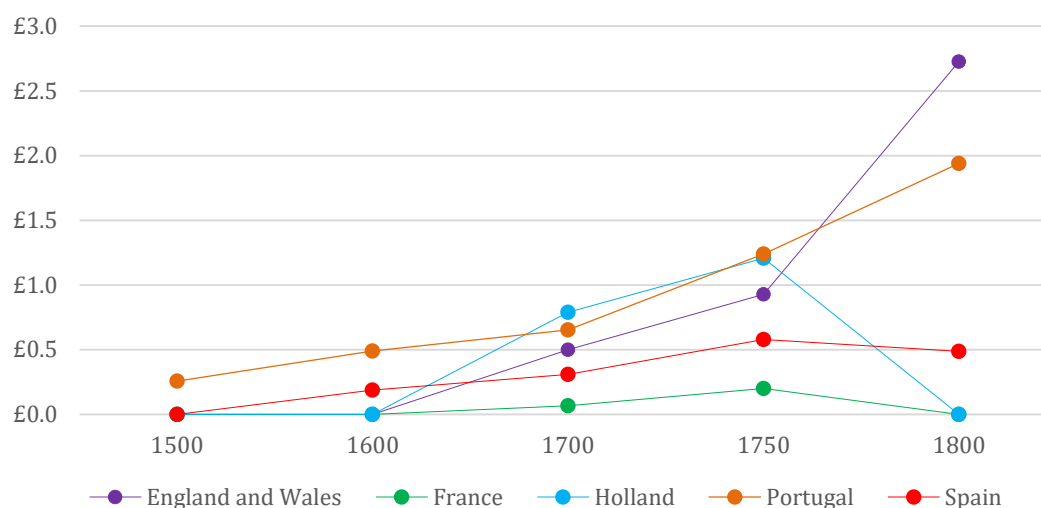


Fig.3 - Intercontinental trade, in pounds per capita, at constant 1700 prices, selected countries

Source: Costa, Palma & Reis (2015)

It is important to highlight the efficiency of this model, which is consolidated throughout the fifteenth and sixteenth centuries, and remained a paradigm until the early eighteenth century. This Iberian Capitalism, characterized by State-centered trade, expanded rapidly during the fifteenth century toward the Far East, taking advantage of existing trade channels between Africa, India, and China, through the Indian Ocean (Garcia & De Sousa, 2017). Conversely, in the early sixteenth century, this Iberian Capitalism (of Portuguese origin) expanded beyond purely commercial relations and became responsible for the means of production when sugarcane plantation in Brazil began (Junior, 1942) as a spin-off of sugar production in the African islands.

The elements that made this process viable are known: land elasticity, abundance of labor (made possible by the exploitation model of African slave labor, already developed in the African islands), and a large consumer market. Added to this is the large financing capacity of Genoese financial capitalism, combined with a guarantor of last instance, the Portuguese State. Regarding the spatial occupation, we noticed a change in enterprise that replaced extractivism with large-scale agriculture. This agriculture, in turn, plays a central role in the Portuguese capitalist dynamics (see Figure 3, 1500-1800). The commerce was

submitted exclusively to the metropolitan trade, which is essentially controlled by the State. This is the institutional arrangement that made possible the production model of Iberian Capitalism (of Portuguese origin).

Figure 3 displays the strong expansion trend of Portugal exports compared to other European countries, even when considering Spain. This growth remains consistent and high until the beginning of the nineteenth century, being surpassed by England only in the mid-eighteenth century, which resulted from the change in the capitalist paradigm that occurred in England with the advent of the First Industrial Revolution, as noted earlier.

To renounce or resume industrialization and its induction by the State

The successful effort of Portuguese Iberian Capitalist growth led the State to choose trade and territorial expansion. Since Portugal, in the European context, is a country of small territory and population, the option for expansion brought an economic component to the Portuguese reality. The demographic data presented in Table 1 demonstrate the increase in Portuguese and Spanish population growth throughout the sixteenth century.

Table 1 - Demographic growth, in the sixteenth century, in Europe, expressed in million inhabitants, selected countries

	(Million Inhabitants)					% annual growth
	1500	1530	1550	1590	1600	
Scandinavia	1.5		1.7		2	0.28
England	2.3		3.1		4.2	0.86
Scotland	0.8		0.9		1	0.22
Ireland	0.8		0.9		1	0.22
Holland	0.95		1.25		1.5	0.45
Belgium	1.25		1.65		1.3	0.04
Germany	12		14		16	0.28
France	16.4		19		20	0.19
Switzerland	0.6		0.75		0.9	0.4
Italy	10.5		11.4		13.1	0.22
Spain		4.69		6.63		0.7
Portugal		1.2		1.5		0.6
Austria-Bohemia	3.5		3.6		4.3	0.2
Poland	2.5		3		3.4	0.3

Source: Yun-Casalilla (2019)

Note that the Portuguese population's expansion was significantly higher than the population expansion in other European countries during the same period. Notably, this demographic expansion occurred primarily in the Portuguese colonies (particularly Brazil). This expansion illustrates a new variable in the Portuguese circumstantial reality during this period. Portugal now has, like other European countries, an important consumer market, demanding increasingly sophisticated and transformed products.

On the contrary, during the seventeenth and eighteenth centuries, a process of industrialization, similar to that which had occurred in the rest of the western world, begins. Regions like Lisbon (in Portugal) and Segovia (in Spain) had a strong textile industry. However, in the case of Lisbon, some factors led to the decline of these activities; among them was an institutional resistance related to the lock in of the process of colonial exploitation, highlighting Brazil and the Treaty of Methuen in 1703³ between Portugal and England.

Several economists of the seventeenth and eighteenth centuries questioned the Portuguese State system, choosing to maintain the working logic of its capitalist process based on the model of colonial exploitation. Among them, the works of Duarte Ribeiro de

Macedo in 1675 and Joze Joaquim da Cunha de Azevedo Coutinho in 1794 must be highlighted.

Duarte Ribeiro de Macedo, in his "*Discurso sobre a Introdução das Artes no Reino*" - *Speech on the Introduction of Arts in the Kingdom* in 1675, highlights the importance, and necessity, of Portugal paying more attention to the industrialization process that was already occurring in other western countries, including in the Segovia region of Spain. In his work, the author highlights the aspects of industrialization regarding the balance of trade between countries. For him, the balance of trade between industrialized products, imported by Portugal, and agricultural products, exported by the country, is quite uneven and detrimental to the crown's accounts. The author also addresses the issue of maintaining the worker in the land and in the city, a problem that industrialization and urbanization could alleviate. Undoubtedly, it is curious that, in his speech, Duarte de Macedo already anticipated, by several centuries, important topics appearing in the discussion of Latin American Economic Structuralism.

Nevertheless, in the context of industrialization, Duarte de Macedo argues that the Portuguese colonies played an important role as a market for an eventual industrialization in the metropolis. It was a responsibility of the Portuguese State to coordinate this process, which, at that time, was a common practice.

Later, in 1794, José Joaquim da Cunha de Azevedo Coutinho published his "*Ensaio Econômico sobre o Comércio de Portugal e suas Colônias*" - *Economic Essay on Portugal Trade with its Colonies*. In his work, Coutinho takes up arguments raised by Duarte de

³ Novais (1981) describes some conditioning factors, emphasizing the European geopolitical aspects, which made the que Methuen Treaty possible, in 1703.

Macedo, presenting chronic problems such as the high consumption pattern of Portuguese society and its lack of dynamism in the arts of manufacturing and highlighting the importance of the colonies, especially Brazil, as a large and captive consumer market for an eventual Portuguese industrialization.

It is interesting to note the period when these papers were published, 1675 and 1794. During this time interval, in 1703, the Methuen Treaty⁴ is signed, significantly inhibiting any industrialization effort in Portugal as well as the colonies.

Nevertheless, there are important points between the two authors. Both Duarte de Macedo and José Azevedo Coutinho highlight the importance of diversifying production with a focus on the industrialization process. In both cases, the process is induced by the State.

It is surprising that the appeals of both economists sensitized neither the State nor the Portuguese commercial or State bourgeoisie. On the contrary, the exclusivity of the metropolis strongly inhibited any industrializing effort that may occur in the colonies. Such consideration becomes evident from works such as Cantarino's (2012). The author details the metropolis point of view regarding a possible industrialization process in Brazil. From there on, Cantarino highlights the statement of Rodrigo Sousa Coutinho:

which arts can Brazil desire for many centuries, when its gold and diamonds mines, etc., its woods and groves for building timber, cocoa, coffee, indigo, rice, hemp, salted meats, etc., and the new cultures of cinnamon, cloves, nutmeg, bread tree, together with the extent of its navigation, promise a much higher income than it could ever expect from manufactures and arts, that could be taken from the metropolis at lower costs, based on a well-defined policy? In this way, the interests of the Empire are usefully and wisely combined, and what at first glance would look like a sacrifice becomes a reciprocal advantage and the one that seems to gain less is the one that benefits the most.”⁵

Other Portuguese economists of this period, like Joaquim José Rodrigues de Brito (1803), also sought to defend the presence of the State, claiming that its actuation is justified from the moment the local bourgeoisie does not meet society's needs.

Nevertheless, a common aspect materializes: the presence, or search for justification, of State action as inducer and controller of the production means. This weight of the State ends up permeating the socioeconomic relations of the Portuguese Empire.

III. CONCLUSIONS

The expansion of the Iberian economy, from the late fifteenth century and early sixteenth century, introduces a new reality of capital expansion, here called Iberian Capitalism. From the Iberian States, Spain and Portugal, this capitalism occurs by means of a tacit pact between the international capital (of Italian origin, especially Genoese), the commercial bourgeoisie, and, in the Portuguese case, the central power of the State (in the figure of the king).

Considering the case of Iberian Capitalism, in its Portuguese aspect, the governance of this capitalist expansion process, which occurs through overseas expansion and imparts a strongly internationalized character, materializes within the Portuguese Ordinances. These Ordinances create a pattern of behavior and operating logic for the economy, with State centrality being the primary characteristic. Here appears the State-centered concept, that is, the idea that the capitalist process necessarily goes through the State.

This Iberian Capitalism proves successful in its ambition and economic performance, placing the Portuguese State at the forefront of Western capitalism to establish a way of thinking and to influence other European States.

While proving successful in its application throughout the sixteenth, seventeenth, and eighteenth centuries, the insistence, or lock-in, that prevails in this model eventually leads it to lose the window of opportunity of the First Industrial Revolution by insisting on a model based on agriculture for exportation, mineral extraction, and utilization of slave labor. Notably, this insistence on remaining in a historically successful model is justified due to the institutional relations agreed upon in the Ordinances since the rules that regulate the market materialize in the institutions created from them (Ordinances).

The consequences of this variety of capitalism for the Brazilian economy are remarkable since the creation of Brazilian economic relations is based on the submission of the colonial economy to the metropolitan economy. Thus, a possible industrializing drive, led by an eventual entrepreneur, is incompatible with the model structured from the rules imposed by the Portuguese Ordinances. The

⁴ Authors, such as Reinert (2008), developed an interesting reflection on the Treaty of Methuen (1703) and the Ricardian Advantages introduced by David Ricardo in 1817, asserting that the Ricardian logic was already present in the construction of the treaty between Portugal and England formulated by the English Ambassador in Lisbon, John Methuen.

⁵ Apud Cantarino 2012, page 201.

venture, when it happens, is due to a public action coordinated by the State.

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