In the late sixteenth century, Spain was the preeminent world power, and its wealthy overseas empire was the envy of the emerging European states (G. Williams 1966, 9). In 1580, Madrid’s claims became even more all-encompassing when King Philip II of Spain secured the Crown of Portugal and its overseas empire in Brazil, Africa, and the East Indies, adding them to Spain’s global empire. Spain found itself in an unrivaled position, dominating the world’s trade routes, markets, resources, and strategic lines of communication. The Spanish Crown became the largest handler of bullion and accounted for nearly all of the world’s deposits of good quality marine salt, provided the bulk of Europe’s sugar, and became Europe’s leading emporium of pepper. This great wealth allowed Spain to extract resources and borrow money at short notice and in large amounts to finance extensive fortifications and fortresses, a large standing army, and a big navy for the defense of its Continental and overseas empire.

Spain’s imperial wealth and its scattered empire also attracted challengers for regional hegemony. As early as the 1570s, emerging states began to encroach upon Spain’s global interests at uneven rates, in disparate regions, and without the expense of imperial defense.¹ On the Continent, Spain confronted England, France, and the United Provinces (Dutch), as well as periodic challenges from the Ottoman Sultan.² In the East and West Indies (Asia and America), and in Africa, Spain’s empire was challenged by English and Dutch assaults. Attacks by the Barbary pirates and from the Ottoman Empire harassed Spanish shipping and trade in the Mediterranean and North Africa. During the Thirty Years’ War, in Germany, Spain supported the Catholics against the Protestants, in France, the Catholic League against the Huguenots, and its Austrian
cousins against the Turks. As Paul Kennedy notes, “[Spain’s] price of possessing so many territories was the existence of numerous foes” (1987, 48).

Within Spain, opposing economic nationalist and liberal factions competed for control over the declining state’s grand strategy. Their preferred grand strategies clashed on important issues such as taxation, vellón coinage (Madrid resorted to the coinage of copper to save silver), army and navy construction, royal absolutism, international peace settlements and truces, and Empire Unity. The constituents of the economic nationalists coalition included the military, King Philip IV (1621–65) and his Count-Duke of Olivares, Gaspar de Guzmán (1622–43), the Council of States, the Council of the Indies, the Council of Portugal, and the supporting administrators. The economic nationalists’ desired grand strategy called for restoring Spain’s power by punishing France, England, and the United Provinces through (1) greater military preparedness and engaging in offensive military operations, (2) creating new exclusive trading companies, and (3) increasing societal resource extraction by expanding the king’s fiscal powers and absolutist claims (over the Cortes of Castile) and unifying the kingdoms of the monarchy. In 1621, Olivares and his advisers called for the renewal of the Dutch war because the humiliating Twelve Years’ Truce of 1609 had undermined Spain’s international reputation (Elliott 1989, 121). Even the president of the Council of Finance argued that the truce was “worse than if the war had gone on,” while the cost of maintaining a standing army in peacetime was not much more than in wartime (Elliott 1963, 321). Economic nationalists argued that the failure to extract additional resources to augment the nation’s military capability would undermine Spain’s national security, leaving it weak and vulnerable to attack by France, England, and the United Provinces. Cooperation was resisted because it risked strengthening the war-making capacity of these challengers, eroding Spain’s reputation for predation, undermining Madrid’s exclusive trading companies, and, most importantly, strengthening the contending liberal faction who would push for a more accommodative grand strategy.

In opposition, the members of the liberal coalition included the ministers in Philip IV’s Council of State, the deputies of the Cortes of Castile (the Cortes existed to vote taxes through the millones, a sales tax on basic foodstuffs, that were granted to the Crown), Ambrogio Spínola (commander of the Flanders army and chief proponent for the original 1609 truce with the Dutch), Spain’s archduke in Brussels, Seville’s business community and merchants, Castile’s aristocracy, and industry (textiles, metallurgy, and shipbuilding). Concerned with lowering the cost of hegemony,
the liberals’ grand strategy called for cooperation by (1) military retrenchment, (2) fiscal restraint in government spending and taxation, and (3) renewal of the Twelve Years’ Truce with the United Provinces and diplomatic approaches to France and England. Liberals argued that prolonged and steep resource extraction through velón coinage and the debasement of coinage, attempts to squeeze additional revenue from Castile, government borrowing, confiscated private remittances, and suspension of debt payments would create an unfavorable investment climate and thereby erode the home market, the underpinning for future military spending.

The commercial nature of the rising states swayed Spain’s grand strategy toward punishment. Spain only confronted imperial contenders for hegemony; the Dutch, French, and English sought to replace Spain’s exclusive spheres with their own mercantilistic order. Their commercial nature pushed the Crown, the governors of the main fortresses in Flanders, different councils, and the military to advance a grand strategy of punishment, often on several fronts simultaneously. Spain punished these states by building and creating new armies, armadas, and fortifications, and launching offensive land and sea operations; subsidizing Catholic allies; and creating exclusive trading companies. Punishment required extracting additional men and revenue at home and in the empire. Members of the liberal coalition supported facets of the economic nationalists’ policy package, recognizing that the loss of wealthy locales risked strengthening the war-making capacity of these imperial challengers, who would block Spain’s exclusive access to its empire. However, liberals lobbied to restrain the economic nationalists’ extreme fiscal, political, and military programs for reason of economy and for fear of further strengthening the opposing coalition, who would press for a more belligerent grand strategy.

The domestic distributional consequences of punishment ratcheted-up the economic and political clout of the economic nationalists, while further weakening the liberal coalition. Empowered economic nationalists translated their gains into Royal Absolutism at home and in the monarchy. The two main barriers to the economic nationalists’ hard-line grand strategy were the Cortes of Castile (Spain’s parliament) and the independence of the provinces outside of Castile. Since the 1590s, the Cortes had experienced a revival in their autonomy over finances. Through a strategy of punishment, the economic nationalists intentionally rolled back the liberal coalition. Total warfare on several fronts pressured the Cortes to approve new and larger millones, thereby granting the Crown complete control over public revenue.

The economic nationalists also used the punishment of contenders to
unify the empire and to share the burden of war through a program known as the Union of Arms. Much of Spain’s empire was a collection of inherited lands that were ruled under different constitutions. The economic nationalists capitalized on the fiscal necessity from the war with France (especially after the French invasion of the Iberian peninsula in 1638) to compel autonomous republics to contribute to the war effort. As discussed in chapter 6, the danger of punishing everywhere is that this strategy undermined Spain’s economic capacity for future military security and contributed to revolts throughout the kingdom.

This chapter examines how Spain responded to these multiple challengers. The first section examines the emerging contenders that Spain confronted in disparate parts of its empire. The second section examines the conflicting agendas of the economic nationalist and the liberal coalitions. The last sections discuss the distributional impact of punishment on the domestic balance of political power and on Madrid’s grand strategy.

THE EMERGING CONTENDERS FOR REGIONAL LEADERSHIP

The major challenges to Spain’s empire came from the French army and the English and Dutch navies. The conventional view that Spain lost its global hegemony to France in 1659 with the signing of the Peace of Pyrenees oversimplifies the dilemma that Spain confronted during this period. Had Spain encountered only an emerging France on the Continent, Madrid could have concentrated its extensive military and naval resources from its global empire, overwhelming France’s military capability. Instead, Spain’s hegemony was challenged by several protagonists, who rose at uneven rates and threatened Spain’s leadership in disparate theaters and corridors of communication.

First, rather than confronting a single emerging contender for global hegemony, Spain confronted the United Provinces, France, and England, as well as other challengers such as the Ottoman Empire and Sweden under Gustavus Adolphus. Beginning in the 1570s, the Dutch challenged Spain’s position in the Low Countries (Flanders). By 1600, an emerging United Provinces challenged Madrid’s leadership in the Spice Islands in Asia. Two decades later, with the creation of the Dutch West India Company (1621), the United Provinces concentrated on capturing Spain’s (Portugal’s) sugar plantations in Brazil. Following on the heels of the Dutch assault, England was repelled by both Spain and the Dutch, failing in its initial attempt to gain a foothold in the Far East. Subsequently, the
English concentrated their assault on the Portuguese empire in the Indian subcontinent and Indian Ocean, while financially and militarily supporting the Dutch revolt on the Continent against Spain. Finally, beginning in the late 1620s, no longer preoccupied by religious wars, France under King Louis VIII and his foreign minister, Cardinal Richelieu, challenged Spain’s European empire. This challenge occurred in Italy, Germany, and even Flanders. In the 1650s, France assaulted Spain’s overseas empire.

Second, rather than being challenged in a single instance, uneven rates of industrialization meant contenders for regional hegemony encroached on and in some instances surpassed Spain’s industrial lead, with some challengers rising earlier and faster than others. The major sectors of industrialization in the seventeenth century included textiles, metallurgy, and shipbuilding (Lynch 1992, 219). The Dutch were the first to surpass Spain in a number of key industrial sectors such as shipbuilding. In addition, as the leading commercial power, the Dutch were able to convert their financial and industrial strength into military power, building and maintaining the largest navy in the world, in addition to a powerful army. England was the second power to encroach on Spain’s lead, especially in central industries such as textiles and metallurgy. With the end of the religious wars in France, Paris began to encroach on Spain in metallurgy, which was an essential component for creating a modern military.

**NETHERLANDS: UNITED PROVINCES, ENGLAND, FRANCE**

The Dutch republic was a loose confederation of seven provinces (known as the United Provinces) that had successfully rebelled against Spain beginning in the 1570s (the ten southern provinces remained loyal to Spain, or were suppressed by Spain, and were called the Spanish Netherlands). This rebellion (the Eighty Years’ War) lasted until Spain formally recognized the Dutch Republic in the Treaty of Munster in 1648.

In 1609, after years of fighting, Spain and the United Provinces agreed to the Twelve Years’ Truce (Truce of Antwerp). In this humiliating truce, the Crown unofficially recognized Dutch sovereignty. In 1621, upon the expiration of the truce and with the renewal of its war on the Spanish Netherlands (including the North Sea and the Atlantic approaches), the United Provinces was the first contender to challenge Spain. Since the Low Countries were characterized by a dense network of forts, strongholds, fortified towns, and dikes, the war quickly became a costly land war of attrition for both sides. Beginning in 1626 (and lasting for the next eight
years), the Dutch launched a series of offensives against the Spanish Netherlands. In 1628, the Dutch position in Europe was strengthened by three events that occurred in disparate parts of Spain’s empire: (1) the onset of the Mantuan Succession crisis in Italy between France and Spain, opening another front, (2) the loss of the annual Spanish treasure fleet to the Dutch off the coast of Cuba (New Spain silver fleet), and (3) the fall of the Huguenot stronghold at La Rochelle to Louis XIII’s army, freeing the French army for war against Spain.

Preparing for the Dutch assault on the Spanish Netherlands, the Dutch army ballooned to 128,000 men, including West India Company troops, nearly four times the size of the Spanish army of Flanders (Israel 1982, 176–77). In 1632, the Dutch forces continued to pressure Spain in the Netherlands, threatening Antwerp and capturing Maastricht, one of the most serious defeats suffered by Spain during the war. In 1635, opening a second front in the Netherlands, France declared war on Madrid, threatening Spain’s strategic lines of communication and military highway, known as the Spanish Road, which connected the wealthy and strategic areas of northern Italy (Milan) and the Spanish Netherlands. Control over the Spanish Road allowed Spain to shift resources between the fronts in Italy and the Netherlands. Advancing north with 30,000 troops through Luxemburg and meeting up with 30,000 Dutch troops, France penetrated the Spanish Netherlands south to Antwerp, before being repelled by Spain’s army of Flanders.

**ITALY: FRANCE, OTTOMANS**

In Italy, Spain controlled almost half of the peninsula, including the states of Lombardy, Naples, Sicily, and Sardinia. The initial threat to Spain’s leadership in Italy came from the Ottoman Empire. By the mid-1570s, the Ottoman threat had receded because Istanbul was preoccupied with Persia, only to be replaced by the French onslaught on Spain’s European hegemony. During 1625, the French invaded the strategic Valtelline Pass in North Italy and blockaded Genoa, threatening to cut the Spanish Road (in the same year, the English fleet launched a raid on Cadiz; now Spain was at war with France, the United Provinces, and England simultaneously). In 1629, opening another front and further stretching Spain’s resources, Cardinal Richelieu led the French invasion of Spanish Italy (resulting in the War of Mantua) in an attempt to assert France’s preeminence in Europe and to capture the wealth of northern Italy (it was widely recognized that the Netherlands and Italy were the
foundations of Spain’s domination over the world at large). In the aftermath of the War of Mantua, France continued to harass Spain’s empire in Italy.

**Germany: Sweden, Germany, France**

In 1618, the Protestant estates in Bohemia revolted against their new Catholic ruler, Archduke Ferdinand II, initiating the Thirty Years’ War. Spain’s concern was that a successful revolt by Bohemia would be followed by the spread of subversion throughout the empire. In the early 1630s, the Swedish king, Gustavus Adolphus, moved into Germany, inflicting one defeat after another on the Habsburg forces. During 1632, France entered the fray against Spain, taking Lorraine and in 1633 blocking the Spanish Road. From 1632 through 1634, the French also subsidized the anti-Habsburg states.

**East and West Indies: Holland, England, France**

Europe was only one of several theaters to which Spain had to devote its economic, military, and political resources. In 1580, Spain acquired Portugal and its extensive empire in Brazil and the East Indies. In the Far East, the rising sea power of the United Provinces, and later England, challenged Spain’s hegemony from the Cape of Good Hope to the Spice Islands. Dutch encroachment on Spain’s Far Eastern empire began in earnest in 1602, with the creation of the mercantilist long-distance trading company, the Dutch East India Company (the Vereenigde Oost-Indische Compagnie, or VOC). By 1619, the VOC had made substantial inroads in the Indies, establishing its principal Far Eastern base at Batavia (Jakarta).

After the Dutch-Spanish Twelve Years’ Truce (1621), VOC forces launched a new wave of offensives against Spain’s eastern empire (the VOC was aided by a temporary truce in its conflict with the English East India Company, lasting until 1624). The Dutch target was Spain’s empire in Malaysia and the Spice Islands. The VOC sought to capture Spain’s profitable traffic in pepper and spices (clove, nutmeg, cinnamon, mace) and replace it with the VOC’s own spice monopoly. The Dutch also challenged Spain’s possession of Manila (which linked China, Japan, and the New World), China’s foreign trade, and Taiwan. By 1623, the Dutch had ninety ships, four large garrisons, and twenty forts in the region (Israel 1982, 117).
Following in Dutch footsteps, England sought to carve out its own exclusive sphere in Spain’s East Indies. However, the English East India Company (EIC, established in 1600) was repelled from the region by both Spanish and VOC counterpressure in the 1620s. While the English did make some headway in the region (in Indonesia), the EIC concentrated its assault on Portugal’s empire in the Indian Ocean, particularly in India. Beginning with Surat (India), and extending to Basra and Hormuz (Oman) in the Persian Gulf, to the Red Sea, and even to the coast of East Africa, England’s expansion forced Spain to divert resources from the other fronts to the Indian subcontinent.12

A similar pattern of encroachment unfolded in Spain’s empire in the West Indies. During the Twelve Years’ Truce, the Dutch were the first to challenge Spain’s hegemony in the West Indies. In 1621, with the expiration of the truce, the Dutch created the West India Company (WIC), based on the successful VOC, with the goal of predatory territorial acquisition in the Americas (Appleby 1987). The WIC’s first major assault was a large-scale attack on the sugar-producing province of Pernambuco (Brazil) and Puerto Rico. In 1628, ships from the Dutch WIC captured Spain’s entire Mexican silver fleet at Matanzas Bay in Cuba (10 million ducats, or equal to two-thirds of the annual cost of the Dutch army), dealing a blow to Madrid in the midst of its costly confrontation with France over Mantua. By 1630, the Dutch had secured a foothold in Brazil (in the province of Pernambuco), and by 1632–33, the Dutch were on the verge of capturing the region’s wealthy sugar plantations.

Elsewhere in the Americas, operating from sparsely populated islands, the French and English used small ships to harass Spanish trade in the Caribbean (the English force was centered in Jamaica and the French in St. Dominique). French and English buccaneers crossed the Isthmus, attacking the Spanish Pacific trade as well. Farther north, Dutch, French, and English expansion centered on North America, well out of Spanish reach. The English established colonies in Virginia (1607), Plymouth (1620), and Massachusetts (1630).

Spain’s rate of decline was far from simultaneous, rapid, or uniform in nature across its vast empire. While Madrid had the revenue, armies, and resources to defeat any single rising challenger, Spain confronted an emerging France, England, and the United Provinces, as well as the Ottoman Empire and Sweden. Oversimplifying this onslaught makes it difficult to understand the hurdle that Madrid confronted in restoring the
balance between its material resources and global commitments while protecting its productive strength and its national security.

**IMPERIAL SPAIN**

Spain acquired an empire with the primary goal of achieving economic self-sufficiency. Mercantilism was a system designed to increase the economic wealth and the military power of the state (G. Williams 1966, 9, 11). It was widely believed that a favorable balance of trade would bring in gold and silver, thereby increasing the nation’s wealth and ultimately its military power. For Spain, overseas colonies guaranteed the use of metropolitan shipping and exclusive access to markets and raw materials, while shutting out foreign commercial competition. In addition, colonies were a source of direct revenue for the Crown not subject to domestic constraints. In the case of Spain, the revenue was outside of the control of Castile’s Cortes.

Beginning in 1503, to protect its monopoly on its overseas trade from foreign penetration and domestic competition, Madrid created exclusive trading companies. In the Americas, participation in colonial trade was limited to a single Spanish trading company, the Casa de la Contratación, based in Seville, with a branch in Cádiz (Parry 1966, 66; G. Williams 1966, 10). The Casa de la Contratación checked, taxed, and regulated the entire commerce between Spain and the Americas. As specified by the Casa de la Contratación, each year two large convoys under heavily armed escort sailed from Spain, one to Portobelo and the other to Veracruz. No ships were allowed to sail except in the convoys, no ports could be used for transatlantic trade except the designated few, and no foreigners were allowed to engage in the trade.

Based on the Casa de la Contratación, Madrid established additional monopoly trading companies, including in 1624 the Seville Admiralty Board or Almirantazgo de los paises septentrionales, assigning it jurisdiction and control over all trade with northern Europe and later extending exclusive rights to the whole of the Iberian Peninsula (Israel 1986, 524, 1990, 17–18, 213–45; Lynch 1992, 223–24). The purposes of this mercantilist trading company were to replace the Dutch as the main trading partners of the Hansa towns of north Germany and to check Flemish, German, Danish-Norwegian, French, and English commerce in the region (Israel 1986, 517). By weakening the mercantilist system of the competing states, and especially undermining Dutch economic power, Madrid hoped that
Amsterdam would return to the bargaining table and sue for a truce on Spanish terms.

The Almirantazgo had two roles: (1) organize an armed convoy system (like the Americas’ transatlantic convoy system) between Flanders and Spain (stationed on Germany’s Baltic coast) and (2) head a system of customs to control trade between all Andalusian ports and northern Europe with the ultimate goal of interlocking the Almirantazgo with a global network of monopoly trading companies in the Levant and India. While the Almirantazgo failed in creating a convoy system, it succeeded in injuring the Dutch by excluding their goods from ports in Flanders, the Iberian Peninsula, Italy, and Spain’s overseas empire. Madrid also had the right to check and certify that cargoes for the Iberian and Italian Peninsulas were non-Dutch (cargoes lacking certificates were confiscated). The Almirantazgo halted Dutch shipping, denied the Dutch access to the salt pans in Spain, blocked Dutch goods from entry into Spain, and excluded spices from the Dutch East Indies (Israel 1990, 19). The success of the Almirantazgo forced the Dutch to seek commodities at their source, in the Spanish Indies.

THE IMPERIAL CONTENDERS

The commercial policies of imperial France, England, and the United Provinces were directed at carving out their own exclusive economic spheres and barring foreign access to the region. Each state sought to replace Spain’s preferential monopoly with their own mercantilist order, blocking Spain’s future access to its markets, investments, and resources in the respective locales. The trading companies of England, the United Provinces, and France tied up much of their resources in military enterprises including armed ships and escorts, troops, fortresses, and fortified settlements. As such, commercial enterprise and armed forces went together (Brightwell 1974, 281–82). Some of these monopoly companies included the Dutch East Indies Company (1602) and the West Indies Company (1621); the English Muscovy Company (1555), the Levant Company (1605), the Massachusetts Bay Company (1628), and the East India Company (1601); the French Compagnie des iles d’Amerique (1627); as well as the Swedish African Company, the Spanish Company (1577), the East India Company (1601), and the Virginia Company (1606). Consequently, Spain viewed all of these emerging contenders for regional hegemony as adversaries and future rivals.
The Dutch used the years of the Spanish-Dutch Truce (1609–21) to consolidate and extend their gains in the East and West Indies at the expense of Spain’s Portuguese empire. Relentless Dutch assaults to carve out its own mercantilist spheres of influence in the Indies undermined Spain’s imperial wealth in two ways. First, in capturing the wealthy sugar plantations in Brazil, the treasure fleets in the Americas, and the spice trade in the east Indies, the Dutch trading companies blocked Spain’s access to its valuable markets, resources, and investments in the region, which Madrid needed to finance the defense of its empire. Second, with fewer resources coming in from Spain’s empire, the Dutch challenge pressured Madrid to increase its internal rate of extraction for the defense of its empire and to divert resources from domestic investment.

In 1602, the States-General of the United Provinces merged the competing trading companies in the East into one great national entity, the United Netherlands Chartered East India Company or VOC (Parry 1966, 110–14). The charter granted the VOC exclusive rights for twenty-one years for the trade between the Cape of Good Hope and the Magellan Straits (Furber 1976, 32–33). With close links to the government, the States-General granted the governing body (or court) of seventeen directors significant autonomy, including the rights to conclude treaties of alliance, wage defensive wars, build fortresses and strongholds in the region, seize foreign ships, establish colonies, and coin money. The VOC could also enlist civilian, naval, and military personnel who would take an oath of loyalty to the Company and to the States-General (Scammell 1989, 101–3). The Dutch state provided the VOC with soldiers and artillery, and even lent the company ships. In exchange, the state claimed the prospective territories, 20 percent of all profits, and payment upon the renewal of the charter. Thus, the VOC was virtually a state within a state, one that was backed, financed, and sustained by the wealth of Holland (Boxer 1965, 23–24).

The aim of the VOC was to capture Portugal’s lucrative spice trade in the East Indies, establish a monopoly on the purchase of spices, expel Spain, and exclude England. Local producers were compelled by armed force to supply their produce only to the Dutch, and infringement brought a violent response by the Dutch. When the English EIC tried to break into the spice trade, the Dutch responded with the same naval and mili-
tary ferocity used against Spain and Portugal. The monopolization of the lucrative spice trade with Europe meant the Dutch could increase their economic strength (and convert it into military power) by determining prices while simultaneously eroding Spain’s fiscal power and military strength.

Following a similar pattern, in the Americas, the Dutch created two state-chartered monopoly companies during the Twelve Year Truce with Spain, the New Netherlands Company and the Northern Company, to challenge the Spanish monopoly in the West Indies. Both companies were designed to exclude Spanish and English traders from the region. In 1621, the New Netherlands Company was absorbed into the West India Company (WIC), modeled after the VOC. Like the VOC, the WIC was given a monopoly on all Dutch trade and navigation with America and West Africa, as well as the authority to make war and peace with the indigenous powers, maintain naval and military forces, and exercise judicial and administrative functions in those regions. The WIC’s role in the war against Spain’s Atlantic empire was emphasized from the start. One author calls the WIC “an offensive weapon for striking against the roots of Iberian power in the New World” (Boxer 1965, 49). According to another, the objective of the WIC was “as much war and piracy as trade” (Howat 1974, 65). As a purchaser of weapons, munitions, foodstuffs, and cloth, the WIC came second only to the state itself.

Spain’s empire was the West India Company’s main target. This included Spain’s lucrative sugar-producing areas in northeast Brazil, the annual Spanish treasure (bullion) fleet, and the salt pans in Punta de Araya (after 1621 the Dutch were excluded from the salt pans in Spain). The WIC’s intention was to dominate Brazil’s sugar production and to monopolize the trade between the Americas and Europe, excluding Spain from its traditional markets in the region.

**Imperial England**

As an imperial contender, in 1600, England’s Queen Elizabeth I issued the charter granting the English East India Company a monopoly on the country’s trade with Asia, primarily with India (Lloyd 1984, 20). Further strengthening the monopoly, in 1609, the Stuart government prohibited the importation of pepper by any trader except the East India Company. By contrast to the Dutch companies, the EIC lacked government support, and its powers were less extensive, being instead a chartered monopoly encouraging private enterprise.
By the late 1620s, driven out of south China and Asia after open war with Spain, and from the Indonesian Archipelago by the VOC, the English EIC struggled to survive before establishing itself in the Portuguese-domi-
nated Indian Ocean, where there was less Dutch activity. Like the Dutch, the EIC’s commerce between Asia and Europe was conducted in Company ships, and the English came to monopolize various ports. The EIC chal-
lenged Portugal in Surat, paving the way for English expansion into Persia and the stronghold of Hormuz (1622), as well as interport trade with South-
east Asia. Laying the foundation of England’s domination over the subcon-
tinent, Surat became England’s center for trade in the northern sphere of India, Persia, Bengal, and Calcutta. Alarmed by English inroads into the Persian Gulf, Portugal attempted to clear the Gulf of foreign ships.

In the West Indies, well out of Spain’s sphere, the English moved into North America. By the time of the death of King James I in 1625, the Eng-
lish had established exclusive colonies in Virginia, New England, and some of the small West Indian islands that the Spaniards had not consid-
ered worth settling. For instance, the New Netherlands Company was given a three-year trading monopoly over the area between New France and Virginia. During the reign of Charles I there was a great flood of emi-
grants to North America and the West Indies. Some of these southern set-
tlements were founded with the intention of establishing bases to attack the Spanish treasure fleets (Scammell 1989, 40).

**Imperial France**

France under Cardinal Richelieu concentrated on conquest in Europe (Spanish Netherlands, Germany, Italy). Following the conclusion of the religious wars between the Catholics and the Huguenots, Richelieu estab-
lished a number of monopoly companies in order to compete with Spain and the ascending European powers with the goal of making France a major maritime and naval power (G. Williams 1966, 22–24). Richelieu treated economics as a weapon to undermine Spanish power. He estab-
lished the Compagnie des iles d’Amerique (1627), or the Company of the American Islands, in the Leeward Islands and extended it to Martinique and Guadeloupe in 1635 (the various French possessions in the West Indies were also turned over to the Company of the American Islands). Richelieu established the Company of New France (1628) to administer the North American (Canada) settlements, granting it a permanent monopoly of the fur trade stretching from Florida to the Arctic Circle and from Newfoundland to the Great Lakes. By formally linking trade with
colonization, the government hoped that the profits from the one would cover the expense of the other.20

Spain viewed all contenders, including France, England, and the United Provinces, as challengers to its national security and commercial interests. Each imperial competitor intended to replace the existing mercantilist order with its own preferential system.

**SPAIN’S GRAND STRATEGY**

Within Spain, the members of the economic nationalist and liberal coalitions competed to advance their desired grand strategy and to capture the associated distributional gains. They differed on the issues of army, navy, and imperial defense spending, taxation, silver confiscation, vellón coinage, international truces and embargoes, the Royal prerogative, and retreat from the empire. Economic nationalists favored restoring Spanish hegemony, which concomitantly would have the domestic effect of enhancing their power. Empowered economic nationalists would push Madrid to expand its offensive military and naval operations, to punish all challengers in both the core and the periphery, and to wrest control over finances from the Cortes of Castile and the autonomous provinces. The liberals’ grand strategy called for lowering the cost of hegemony, which would have the internal consequence of empowering themselves. Enhanced liberals would push Spain to reach an accommodation with the imperial contenders in order to reduce international tensions, and to improve the investment and trade climate within Castile by lowering taxation, ending vellón coinage, and halting the expropriation of the gold and silver remittances.

**MEMBERSHIP OF THE LIBERAL COALITION**

The membership of the liberal faction included the deputies of the Cortes of Castile, the Council of Castile (judicial tribunal), Castile’s aristocracy, Ambrogio Spinola, Archduke Albert (the nominal ruler of the Spanish Netherlands) and his wife Isabella, the productive and outward-oriented sectors of society (shipping, textiles, metallurgy), financial ministers, and Genoese bankers (weary of being fobbed off with juros or bonds, instead of cash).21 Their policy package called for lowering the political and economic costs associated with hegemony through (1) financial discipline by reducing government spending, lowering taxation, and ending abuses such as the confiscation of private remittances, compensation with relative valueless state bonds, and the debasement of coinage; (2) retreat from empire or at least cutting Spain’s losses in the core and the periphery;
and (3) diplomatic approaches to some or all of the contenders. The members of the liberal coalition were hostile to increased taxation and especially to the resumption of the costly war in the Netherlands, because it caused inflation and depression in the living standards. Financial ministers resisted any move that might increase public expenditure, while the member towns of the Cortes of Castile opposed the increase in taxation to pay for the Crown’s costly grand strategy of total warfare. Castile’s aristocracy feared for the financial collapse of Castile due to the Thirty Years’ War. Finally, the merchant class contested the confiscation of private remittances, vellón coinage and the debasement of coinage, and the suspension of debt payments that created recessionary economic conditions and an unfavorable investment climate in the home market (Elliott 1961, 70–72). The liberal coalitions’ solution to Spain’s dilemma was accommodation or diplomatic approaches to the United Provinces, England, and/or France. With the United Provinces, they proposed extending the Twelve Years’ Truce that was due to expire in 1621, ending the costly war in Flanders (Brightwell 1974, 184–87).

Castilian aristocrats favored accommodation because they suffered heavily from the high cost of war. The aristocrats were victims of the forced reduction of interest payments on censos (mortgage rents) and juros. In 1626, they were compelled to make substantial “voluntary” donations to the royal treasury, culminating in their total financial collapse (Jago 1979, 66, 82). These included levying troops at their own expense, guarding the frontiers, and accompanying the king to battle, in addition to lending or donating large sums to the king’s treasury.

One of the primary opponents of the financial practices of the economic nationalist bloc was the Cortes of Castile. The Cortes of Castile, or parliament, existed to vote taxes, which could not be imposed without the consent of the deputies of the Cortes. By granting the Cortes “power of the purse,” the Crown was deprived of fiscal autonomy. Since the beginning of the fourteenth century, the Crown could not impose new taxes without the prior consent of the Cortes. According to one author, the Cortes deprived the Crown of fiscal autonomy by determining “what would be taxed, how, and at what rates” (Thompson 1982, 36). To raise new taxes and to renew existing subsidies, the Crown required the approval of a majority of the eighteen towns represented in the Cortes. The Cortes depended for their assembly on royal summons. While they came with mandates from the cities represented by the Cortes, the Crown pressured for representatives with full powers to commit the cities. The deputies of the Cortes would then agree on an amount to be raised, and they imposed
as a condition of the grant that it be applied to the expenditure for which it was requested.

Until the seventeenth century, the Crown had little reason to request increases in the rate of taxation. During most of the fifteenth and sixteenth centuries, ordinary sources of revenue were sufficient for the king to pay his way without going frequently to the Cortes for additional revenue. These sources of revenue included the alcabala, a 10 percent tax on sales, paid by the localities to the Crown, revenues from ecclesiastical sources, and the “royal fifth” or 20 to 30 percent of the registered bullion that crossed the Atlantic (both gold and silver). These remittances assured the Crown of a regular supply of silver, which was necessary for large-scale borrowing (Elliott 1989, 237). Since the Spanish monarchy operated on credit (or deficit finance), the annual silver receipts were the most negotiable security for its loans (Stradling 1981, 40–41).

Beginning in 1590, with the increasing cost of hegemony due to the Dutch, French, and English assaults, the Crown required increases in the rate of societal resource extraction for military spending. In 1597, rebuffed in his attempts to gain an annual subsidy from the Cortes, King Philip III struck an accord with them. The millones, a new sales tax on basic foodstuffs such as meat, vinegar, wine, and oil, could only be used to meet the expenses for which it had been approved (the Castilian Cortes had granted Philip II the first millones) (Thompson 1982, 33–36). This agreement empowered the Cortes by granting them supervisory powers. The millones took the form of a fixed grant by the Castilian Cortes to the Crown, with each town in Castile responsible for raising a certain levy.

In 1619, with the resurgence in their autonomy, the Cortes encroached further on the royal prerogative, requiring the Crown to apply for the appropriation of funds and to consult with them about the expenditure of the funds (Jago 1981, 310, 316). Viewing taxation as public revenue, the Cortes sought to ensure the proper usage for the public good through administrative control over the new taxes. With the resumption of war in 1621, the deputies opposed the Crown’s request for additional funding because it imposed burdens on the already overtaxed cities (whose returns from the Indies were also sequestered by the Crown).

**MEMBERSHIP OF THE ECONOMIC NATIONALIST COALITION**

In opposition, the constituents of the economic nationalist coalition included King Philip IV and his assistant, Olivares, the Council of the
Indies, the Council of Portugal, the Councils of War, the Council of State, the Council of Finances, and the governors of the main fortresses in Flanders (Israel 1990, 169). Their preferred grand strategy called for reasserting Spanish power through increased defense spending for the army and navy, establishing new *armadas*, the defense and construction of fortresses and fortifications, and offensive military operations on land and at sea; the triumph of royal absolutism in order to control finances; and the unification of the empire by reducing the autonomous rights of the regions through the Union of Arms and reconquest (especially the northern Dutch provinces). Navalists argued that the preservation of an empire as scattered as that of the Spanish Monarchy required the possession of a first-class fleet, supporting the resumption of global war with the Dutch. The Council of State, the Flanders army, various councils, and other administrative agencies called for military offensives to push the United Provinces back to the negotiation table, to invade France and Italy, and to recover losses in the Indies. The Council of Portugal emphasized the harm of Dutch expansion into Castile’s trade in Portugal’s overseas possessions. For the Council of States, “everything should be defended to the last breath” since the successful use of force in one theater would discourage challengers in other locales (Elliott 1989, 130).

Within the Spanish government, the Council of State had jurisdiction over foreign policy (Lynch 1992, 23–32, 91–93). Issues of defense, even in the empire, were the responsibility of the Council of State. The Council of State was supported by a number of subcommittees specializing in various regions, such as the Junta de Italia, Junta de Inglaterra, and the Junta de Alemania. Imperialist supporters dominated the Council of State, advocating a hard-line policy in northern Europe, the Netherlands, Italy, and the Indies. Below the Council of State, a number of administrative agencies would also benefit from the reassertion of Spanish power in its empire. These agencies included the Council of Castile, the Council of the Indies, the Council of Aragon, the Council of Inquisition, the Council of Italy, the Council of Flanders, and the Council of Portugal. Within these agencies were subcommittees specializing in military, naval, and financial affairs.

For economic nationalists, any accommodation of protagonists, especially a repeat of the 1609 Twelve Years’ Truce with the United Provinces, would undermine Spain’s reputation for invincibility. For Philip IV and Olivares, Spain’s reputation was an important weapon for deterring states from challenging its global empire. It was widely believed that Spain’s rep-
utation could only be sustained through the victorious display of military power, since the successful assertion of power in one locale could deter challenges on other fronts. The reverse was also true—military defeat could damage its international standing. In 1635, Olivares warned that “the first and most fundamental dangers threaten Milan, Flanders, and Germany. Any blow against these would be fatal to this monarchy; and if any one of them were to go, the rest of the monarchy would follow, for Germany would be followed by Italy and Flanders, Flanders by the Indies, and Milan by Naples and Sicily” (Elliott 1991, 97). One of the economic nationalists' foreign policy goals after 1621 was to restore Spain’s status by forcing Amsterdam, through a series of quick victories, back to the bargaining table for a better agreement than the truce of 1609 (Stradling 1986, 69–70).

The second goal of the economic nationalists was to impose royal absolutism. The government of Philip IV was contemptuous of the millones and unwilling to accept any encroachment by the Cortes on the royal prerogative (Jago 1981; Lynch 1992, 125). Although the Castilian Cortes attempted to assert their independence, the Crown challenged the administration of the millones and the need for their consent. Philip IV and Olivares set out to seize control over the Cortes, so as to grant the Crown fiscal autonomy.

The final goal of the economic nationalists was to integrate the empire. Castile was directly ruled and taxed by the Crown, making it easier for Philip IV to extract revenue and manpower for Spain’s armies. In the rest of the empire the authority of the Crown was constrained; the Crown had limited authority over territories in the kingdoms that did not belong directly to the king, particularly in Aragon, Catalonia, and Valencia. The privileges of the kingdoms and the strength of their Cortes allowed them to resist previous attempts to introduce a regular system of taxation. Through a scheme known as the Union of Arms, economic nationalists intended to capitalize on the fiscal necessity due to the rising cost of punishment to unify the empire and to share the burden of war.

PUNISHMENT EVERYWHERE

The foreign commercial policy of the rising contenders guided Spain’s grand strategy toward punishment everywhere. In facing imperial Holland, France, and England, economic nationalists pushed for renewing the war with the Dutch, defending the Rhineland, Germany, and Milan, invading France, and recovering Brazil (Elliott 1989, 130). Economic nationalists
were joined by liberals who argued that the loss of Spain’s access to global markets would have a detrimental effect on Castile’s wealth and balance of trade, even though this response strengthened the opposition. Liberals were especially threatened by the expansion of Dutch, French, and English mercantilistic trading companies outside of Europe who were subverting Castile’s trade and economy. Even a financial minister conceded, “The lack of money is serious, but it is more important to preserve reputation” (Elliott 1989, 124). Yet, liberals resisted the extreme punishment policies of the economic nationalists. To fortify their coalition, members of the liberal faction lobbied for a cost-saving defensive military strategy, ending exclusive trading companies and embargoes, renewing the truce with the Netherlands, rapprochement with France, and cutting Madrid’s losses in the periphery.

**PUNISHMENT: NETHERLANDS**

In the Netherlands, Spain punished the emerging Dutch Republic in a war lasting more than eighty years. The Spanish Netherlands were valuable to Spain for a number of reasons. First at stake in the Low Countries was imperial defense. Engaging the Dutch in a war in the Netherlands would reduce the resources Amsterdam could allocate to the conquest of Spain’s empire. Second, Flanders (one of the states in the Spanish Netherlands) was a center of mercantile wealth and capital. Economic nationalists and liberals feared that retrenchment meant either the Dutch or the French would capture the economic means of the region, increasing their potential war-making capacity. The added wealth from Flanders would grant the Dutch East and West India Companies or France additional resources for the war on Spain’s remaining empire. Finally, from the Spanish Netherlands, Spain could protect Italy and Spain from invasion by France. With an entrenched army at its rear, close to Paris, France could not shift the bulk of its forces southward for an all-out attempt on either Spain or Italy without being exposed (Parker 1994, 121).

Many liberals called for Madrid to renew the Truce of 1609, ending the costly war in Flanders. They countered, “The war in the Netherlands has been the total ruin of this monarchy” (Parker 1979b, 200). On average, 8,000 men per year were recruited from Castile for eighty years out of a population of 4.5 million. In 1627, as a consequence of this heavy military spending, Madrid decreed bankruptcy. To further reduce the costs of hegemony, liberals pushed for a rapprochement with France (which ultimately failed).
Through a series of quick victories to repair Spain’s reputation, the economic nationalists intended to renegotiate the peace treaty with the Dutch from a position of strength and to detach the Dutch from their alliance with France. After 1621, Spain’s expenditures on the army of Flanders increased from 1.5 million ducats during the Truce to 3.5 million ducats, while in the best years the treasure fleets were bringing in 1.5 million ducats (Lynch 1969, 83). Another 1 million ducats were allocated to the Atlantic fleet.29 Between 1566 and 1654, Castile sent the Military Treasury in the Netherlands roughly 218 million ducats, while Castile received only 121 million ducats from the Indies (Parker 1979a, 174; Kennedy 1987, 51; Rasler and Thompson 1989, 53, fig. 2.2). The difference in revenue was made up by ever-greater taxation in Castile, the coinage of *vellón*, and heavy government borrowing.

Beginning in 1621, Spain's army of Flanders went on the offensive, reconquering parts of the Netherlands.30 In 1634, the Crown again renewed its effort to restore Spanish prestige (especially after the humiliating setbacks by the Dutch in 1629–33), hoping to inflict enough defeats on the Dutch front to produce terms for a satisfactory truce (Israel 1982, 157). In 1635, in the aftermath of France’s invasion of the Low Countries (opening a new front and jeopardizing imperial communications), Spain’s Cardinal-Infante invaded France, advancing to within eighty miles of Paris before the conflict petered out into a costly war of attrition. During 1637, the Dutch front was once again the center of conflict, while the French were preparing to attack the Basque country of northern Spain. The Spanish land offensives were another attempt to improve Spain's bargaining position with the Dutch. French and Dutch attacks stalled the Spanish offensive, especially with the French closure of the Spanish Road in 1638 (Parker 1972, 80–105).

The final phase of the Dutch-Spanish war was a last Spanish offensive at sea intended to reverse its position in northern Europe and to restore its hegemony in the Atlantic. In 1639, two large *armadas* were dispatched from Spain, one to the English Channel to force military supplies through to Flanders and to challenge the Dutch for supremacy at sea, and the second force to Brazil to recapture Pernambuco and its sugar plantations from the Dutch.31 The construction of the two large *armadas* was possible by increasing the rate of extraction in Castile and Italy. In the English Channel, both Spain and the Dutch deployed about a hundred ships each, with 20,000 Spanish and Italian troops, while the *armada* sent to reconquer Brazil included a powerful fleet of forty-one ships and 5,000 troops (rein-
forcement from the region brought the armada up to eighty-six ships and 10,000 troops). Unfortunately for Spain, its Continental armada was defeated in the Battle of the Downs in the English Channel, and its American armada was defeated by the Dutch and by bad weather off of the coast of Brazil.

In 1640, the Spanish Netherlands were invaded by both the French and the Dutch. Spain’s response was to strike into France from Flanders so as to limit French support for the revolts in Catalonia and Portugal. Yet, in 1643, the army of Flanders was defeated in Rocroi, with the bulk of the high-grade troops captured or killed. Worse, in 1645, the French captured ten major towns in the Spanish Netherlands.32

PUNISHMENT: ITALY

In Italy, Spain punished the Turks and French. Spain’s wealthy empire in Italy was vital for Madrid. First, it was the outer perimeter of Spain’s defense against the Ottoman Empire. As late as 1600, Turkish successes in Croatia brought Ottoman forces within 90 miles of Trieste. Second, Italy was a wealthy region in which the Spanish king extracted additional resources for the defense of his empire, and its loss (especially the loss of wealthy Milan) would have strengthened the war-making capacity of imperial France. For this reason, in 1623 the Council of Italy was informed of the need to exploit the resources of Naples and Sicily. During the 1620s, Naples’s millones was 1.2 million ducats annually; reflecting the increasing cost of imperial defense, by the 1630s, the amount rose to 3.5 million ducats annually (Lynch 1969, 43). Finally, Italy was the gateway of the Spanish Road that connected Italy to the Netherlands. Robert Stradling calls this area the “nerve-centre of communications and of the whole war-machine” (1981, 88). Control over strategic passes such as the Valtelline Pass were key in regulating the flow of armies and commerce in Europe.33

In 1628, to defend Italy from France, Spain initiated the War of Mantua, forcing Madrid to fight simultaneously in Italy and the Netherlands (Lynch 1969, 76). In a war that was supposed to be quick and easy, Spain invaded Mantua to capture the strategic passes around Casale, making its position in northern Italy impregnable, while its loss risked undermining Spain’s reputation. Unfortunately for Spain, the end of the religious wars in France freed the French army to oppose Madrid by aiding the new Duke of Mantua. The ensuing war with France forced Spain to divert valuable resources away from the Netherlands, bringing the campaign to a virtual halt. In 1631, the Peace of Cherasco recognized Nevers’s succession (a vic-
tory for France), further eroding Spain’s reputation and threatening the Spanish Road. In the aftermath of Mantua, the French continued to harass Spanish Italy, launching offensives against Milan (1637–48) and Genoa (1645), and later assaulting Naples (1647).

The war in Mantua placed additional strain on Castile’s aristocracy and merchants (at a time of poor harvests and rising food prices) (Elliott 1989, 128–29). Financing of the wars against France in the Netherlands and Italy were accomplished by augmenting taxes, when at the same time the loss of the treasure fleet was playing havoc with royal finances. In 1629, the Mantua conflict required 1.8 million ducats, and in 1630, above the 1.8 million from the two treasure fleets, the Crown added a half-million loan to cover the cost of the conflict (Lynch 1992, 106).

Punishment: Northern Europe

In addition to Flanders and Italy, Spain punished challengers in northern Europe. Spain supported the king of Bohemia in his attempt to put down the Protestant revolt. Germany was an important link in Madrid’s defense of the Spanish Road. The loss of this locale and its wealth would have undermined Spain’s ability to reinforce its position in the Spanish Netherlands and to move men, money, and troops between the Low Countries and Italy as needed (Brightwell 1979, 420).

In 1619 and 1620, a joint Habsburg force crushed the Bohemian revolt, capturing Alsace, which was vital to Spain’s communications between Lombardy and the Low Countries, and the Lower Palatinate, important for communications between Italy and the Netherlands. By 1632, to counter the gains of Sweden and France, Olivares renewed his collaboration with Austria, signing a treaty of mutual assistance known as the Catholic League that required additional contributions of men and money, including 350,000 ducats a year (Lynch 1969, 78–79).

Punishment: Americas

Outside of Europe, Spain punished the Dutch and the English in the wealthy East and West Indies. Madrid could not afford to retreat from the Americas. First, as a source of extreme wealth (silver, gold, sugar, and salt), the Americas’ remittances contributed to the Crown’s total income. The Spanish Crown received its “royal fifth” of the silver and gold mined in the American empire, while the private returns increased the tax base and wealth that the Crown could extract. By the 1630s, due to the growing burden of empire, the Crown confiscated private shipments of bullion in exchange for vellón.
Second, the wealth of the Americas allowed Madrid to borrow money at short notice and in great amounts (Brightwell 1974, 271–72). Madrid’s creditworthiness was the real strength of Spain’s finances. Spain’s creditworthiness was determined by the size and reliability of its forthcoming revenue. For the Crown, the silver bullion of the Americas provided a large and relatively certain source of revenue that Spain could borrow against. Spain often owed several years of bullion to Italian and Portuguese creditors. Therefore, any decline or loss of this remittance would undermine Spain’s ability to finance its imperial defense.

Third, Spain’s retrenchment from the Americas risked strengthening the war-making capacity of the United Provinces and England. As an imperial challenger, the Dutch would block Spain’s future access to the Americas by creating its own exclusive sphere in the region. By capturing the wealth of this region, the Dutch would have the resources to continue Holland’s assault on Spain’s remaining empire and Flanders. The Dutch already had the world’s largest navy and the only standing army in Europe comparable in strength to Spain’s (Israel 1990, 5–6).

Economic nationalists lobbied the government to build new fortresses, strengthen its garrisons, and station additional troops and ships throughout the region, especially in the silver producing areas of Peru and Mexico. Up until 1621, Spain maintained only a few fixed garrisons in the Americas. After 1621, the Dutch WIC and English penetration could be prevented only if a much more ambitious defense policy was adopted. In 1625, 1630, and 1639, Spain sent large armadas to Brazil to retake territory lost to the Dutch. To recapture lost territories in the Caribbean, Spain implemented a scheme to base a permanent naval task force strong enough to expel Dutch fleets. The Crown also built a cordon of strongholds in forward positions across the Caribbean to provide bases for rapid deployment. New militias were established in Cuba and Mexico, and a standing army in Chile.

To pay for Spain’s forward policy in the Americas, in addition to resources from Castile, the Council of the Indies was directed to find 500,000 pesos yearly in New Spain for the building, arming, and maintaining of fourteen heavy galleons (Israel 1990, 269). In 1624, the viceroy of Peru spent 200,000 ducats on defense, and by 1643, the amount had risen to 948,000 ducats (Parker 1979b, 190). The same pattern held for Mexico. Following the partial success of the Union of Arms in Europe, Olivares expanded it to the New World, forcing an additional 250,000 ducats from New Spain and a further 350,000 from Peru (Lynch 1969, 99; Israel 1990, 268).
DISTRIBUTIONAL CONSEQUENCES

The supporters of the economic nationalists’ bloc captured the distributional gains from punishment, augmenting their balance of political forces. Beneficiaries of this strategy included the Council of States, the Council of the Indies, the Council of Portugal, the Council of Finances, the army of Flanders, and the royal armada. The Council of the Indies tightened its grip on Spanish America and Flanders, so as to extract additional resources from the empire. The Council of Portugal preferred war with the Dutch to an improved truce. The Council of Finances expropriated responsibilities from the dissolved Cortes of Castile. The army of Flanders was vastly expanded. Finally, the royal armada was enlarged in the Indies, the Caribbean, and the Atlantic to defend trade routes and gold shipments, while new armadas were established in Flanders, Galacia, and Gibraltar (Israel 1990, 11). With the death of Archduke Albert, an opponent of renewing the war with the Dutch, the south Netherlands reverted back to the Spanish Crown, further tightening the king’s grip on the empire. Empowered economic nationalists used their distributional gains to annex the financial power of the Cortes and to put forth a plan to unify the various kingdoms of the empire.

The losers from punishment included Castile’s outward-looking merchants, business community, productive sectors, bankers, aristocracy, and the Cortes. The Crown’s fiscal policies and the Crown’s attempt to squeeze additional revenue from Castile proved especially defeating when applied to the Castilian merchant community and the productive sectors of society. The coinage of vellón and the debasement of coinage were intended to increase the Crown’s profits. Between 1621 and 1626, the Crown coined 19.7 million ducats of vellón, from which it made a profit of 13 million ducats, stopping only in 1628 due to domestic opposition from the business community.36 The problem with vellón coinage was that it wreaked havoc with the rate of exchange, confusing the monetary system, and its debasement contributed to inflation. In 1628, the nominal value of the vellón coinage was reduced by 50 percent, bringing instant relief to the royal treasury, but heavy losses to merchants and businessmen holding vellón.37 Meanwhile, merchants were harmed by the Almirantazgo de Sevilla, whose purpose was to defend the embargo against Dutch, English, and French goods from entering the peninsula. For merchants, the Almirantazgo de Sevilla undermined industry in Castile by driving up the price of imports and re-exported goods. Further, merchants in Seville whose
American silver was confiscated were compensated with relatively worthless juros. Finally, the hostile business environment and the diversion of men and resources from industry wrecked the productive sectors of the economy.

**THE ANNEXATION OF THE CORTESES OF CASTILE**

Empowered economic nationalists deprived the Cortes of their fiscal autonomy. In meeting resistance from the embattled members of the liberal faction, political and not financial considerations were the primary determinant of the king’s foreign policy. As the cost of hegemony increased, so did the Crown’s dependence on the Cortes to wage war, relying on them for over 60 percent of its revenue (up from 25 percent in 1573) (Thompson 1982, 31). The Crown engaged in total warfare on several fronts to pressure the Cortes to appropriate increases in the millones, thereby undermining its fiscal, administrative, and distributive powers, while imposing his royal prerogative.

Philip IV turned toward the Cortes on eight occasions for additional revenue for war. While the millones was initially set at 2 million ducats a year, in 1626 it was raised to 4 million ducats a year. From 1635, Castile entered a period of total war on multiple fronts, thereby forcing the cessation of any financial planning. The only response for the deputies was to vote for unparalleled increases in the number and scale of the millones. For this reason, the Cortes granted most of Philip IV’s requests (Lynch 1969, 88–93; 1992, 130; Stradling 1988, 129–50). As one author notes, “with a French invasion and war within the Peninsula, the money just had to be found if Spain were to be defended at all” (Thompson 1982, 36). As royal absolutism triumphed in Castile and the Cortes were subdued, the king snatched the millones from municipal control and in 1658 succeeded in annexing the commission of millones to his Council of Finance, dissolving the Cortes in 1664.

Philip IV also penetrated the Cortes of Castile to undermine their autonomy (Jago 1981, 310). Philip IV first attempted to bypass the Cortes, going directly to the cities. In 1622 and 1624, his approach was rejected by a majority of the cities. With more success, in 1632, when Philip IV convened the Cortes to request an especially large subsidy due to the rising costs of the war in northern Europe, he insisted that the cities grant their delegates full powers. Such power would allow them to settle agreements directly with the Crown, without the prior consent of the cities (Lynch
Preoccupied by the outbreak of war with imperial France and isolated from the immediate control of their cities, the king used financial inducements to the deputies and the appointment of four senior royal officials to share administrative responsibilities to tip the balance in his favor (Jago 1981, 319–22). The weakened Cortes capitulated to the Crown’s demands, granting an extra subsidy in 1632 of 2.5 million ducats every six years.39

Outside of Castile, Olivares enacted a series of reforms to unify the empire by advancing the royal prerogative over regional privileges.40 Through unification, the empire would carry a larger burden of their defense. As the Council of Finance argued, “the greatest benefit from these frontier garrisons accrues to the provinces themselves . . . and Castile should not have to bear the entire burden” (Lynch 1992, 132). The problem for Philip IV was that beyond Castile, Madrid had limited constitutional power to extract revenue and resources. The constitutional structure of the Spanish empire and the diversity of the laws within it prevented the central government from taxing the periphery by executive means; the Spanish monarchy was not a federal system, but a union with independent and partially autonomous provinces. Aragon, Catalonia, and Valencia were governed independently, with their own laws and tax systems, and rejected the Crown’s demand in 1626 of a subsidy to maintain 16,000 men. The Catalan Cortes had legislative powers, unlike the Cortes of Castile. In each case, the king was represented by only a viceroy. In Sicily, Naples, and the duchy of Milan, the king of Spain ruled through governors. In the Low Countries, the king governed by archdukes. Portugal was completely autonomous in fiscal matters. As a consequence, the burden of defense of the empire fell primarily on Castile, with some provinces bearing little or no costs of defense. For Olivares, unification or “Castilianization” of the Spanish monarchy was the solution to the rising cost of hegemony. A unified Spain with shared rights and duties would require that provincial laws and liberties be brought into conformity with Castile’s, which the provinces were likely to resist.

Short of unification of the king’s domains, in 1625, Olivares called for the creation of a burden-sharing arrangement known as the Union of Arms to mobilize resources more effectively for war.41 Under the existing
system, Castile contributed the bulk of revenue for imperial defense, followed by the Italian states, and then the Low Countries, whose defense was subsidized by Castile (Lynch 1992, 132). Navarre, Aragon, and Valencia granted occasional amounts to Castile, while Portugal and Catalonia refused to contribute to imperial defense beyond their frontiers. The Union of Arms (see table 2) scheme assigned each kingdom and province of the monarchy responsibility for the provision of a quota of men for the army. Under the Union of Arms a common reserve of 140,000 men would be supplied and maintained proportionally by all the provinces of the Monarchy, reducing the burden on Castile.

The barrier to Olivares’s plan was the autonomous rights of the kingdoms. The Cortes of Aragon and Valencia objected to raising money and troops for use outside of these provinces. In 1626, under pressure, these Cortes agreed to a subsidy to support troops for fifteen years. Better equipped to resist the Crown, the Catalan’s Cortes and the Portuguese rejected the Union of Arms. Peru and Mexico were also assigned a financial quota to apply to the naval defense on the transatlantic route.

To compel the other regions to comply, economic nationalists capitalized on the punishment of France, England, and the Netherlands to further unify the empire. To force Catalonia into making a contribution, Olivares made the province a theater of operation in the war with France (which had been under siege by France since 1637). When Olivares planned military operations for 1639, he deliberately chose Catalonia as the front to fight France in order to force Catalonia to contribute to the Crown. In a similar fashion, Spain attempted to integrate Portugal into the Union of Arms. Portugal supplied no regular revenue to the central treasury, and its Iberian defenses were subsidized by Castile, which was also expected to come to the defense of Brazil. Olivares used the second front

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The foreign commercial policy of the rising contenders pushed Spain’s response toward punishment. Both liberals and economic nationalists within Spain identified imperial France, Holland, and England as foes. Members of the liberal bloc supported aspects of the economic nationalists’ agenda of punishment, even though the domestic result was the ratcheting-up of the strength of the opposing coalition. The main barrier to the economic nationalists’ hard-line grand strategy were members of the liberal faction such as the Cortes of Castile, Castile’s aristocracy, bankers, and merchants who called for lowering the cost of hegemony through fiscal discipline, defensive military operations, ending the exclusive trading companies and embargoes, retreating from empire, and approaches to the contenders. Through a strategy of punishment, the economic nationalists set out to weaken the liberal coalition’s resistance and circumvent the Cortes of Castile, thereby granting the Crown fiscal autonomy and complete control over public revenue. By pressuring the Cortes to grant millones for war, the Crown steadily undermined the Cortes’ administrative and distributive powers. In addition, the Crown sought to use the outbreak of war to unify the disparate monarchies of the empire.

The crushing weight of punishment everywhere fell almost exclusively on Castile’s population and liberal constituency. Increases in the millones and the alcabala deprived Castile of capital for domestic investment and forced the peasants into subsistence farming, undermining Castile’s home market and contributing to prolonged famines in the 1620s and 1640s. High prices left peasants with little for consumption, while heavy taxes, increased rents, and depressed living standards meant that there was no reason to remain on the land, contributing to Castile’s massive depopulation (Elliott 1961, 57–68; Parker 1979a, 147, table 6; Lynch 1992, 112, 392). Deurbanization and the loss of skilled labor further undermined the likelihood of Castile’s economic revival.

Punishment proved fatal to Castile’s economy. Confiscation of remittances resulted in the decay of Castile’s profitable trade system between Seville and America, and the decline in the Sevillian credit structure (Elliott 1961, 71; Jago 1979, 60). Castile’s fledgling economy meant that Spain increasingly carried foreign goods (instead of its own products) to

on the peninsula opened by the war with France to draw Portugal into the war and offered improved status and opportunities to Lisbon in exchange for contributing troops and money.
Spanish colonies in the Americas (Elliott 1989, 235). The colonies, especially Mexico and Peru, developed their own indigenous industries and agriculture, growing less dependent on Spain. Further, despite economic embargoes, Spain lost a large share of its domestic market to foreign goods. For this reason, Spain became increasingly dependent upon England, France, and the United Provinces for industrial and agricultural imports, undermining its ability to make an economic recovery and exacerbating its relative industrial and technological decline.

By the seventeenth century, virtually every sector of Spain’s industry was depressed, and Spain was growing increasingly backward in the key growth industries of textiles, metallurgy, and shipbuilding (Elliott 1989, 233; Lynch 1992, 211–20). In the textile industry, technical inferiority and inflation meant Spain lost its market share to competition from English cloth. In one major textile city the number of textile looms declined from 600 in 1580 to 300 during Philip IV’s reign and to a low of 159 in 1691 (Lynch 1992, 212). In the sixteenth century, Spain possessed a small but active metallurgical industry, which was an essential component for creating a modern arms industry. By 1619, the metallurgical industry could no longer meet domestic demands. Spain became heavily dependent upon foreign-based iron production for the supply of military parts, particularly France and England, and by the 1650s, its factories had nearly ceased production (Stradling 1981, 63). In the area of shipbuilding, Spain failed to keep pace with the new techniques of the north European dockyards. As John Lynch notes, Spanish shipyards produced “huge and ponderous galleons, floating castles which were years behind the vessels of northern Europe in manoeuvrability and adaptability” (1992, 218). As Madrid began to lag behind in productive investment in new products, its traditional wares—silk, textiles, leather, wood, wool, and iron—were priced out of their customary markets in Europe.

The import of the collapse of Castile’s economy, as discussed in chapter 6, is that Castile could no longer finance a modern army and navy to defend Spain’s global commitments. In desperation, the king sought resources outside of Castile, where he had limited constitutional power, contributing to revolts in Portugal and Catalonia in 1640, and eventually to the dissolution of the Spanish monarchy.