managing subsistence agriculture of workers (slaves in Brazil or Indian *encomendandos* in Spanish America). Even after the colonial period, the economies continued to be dominated by large extractive interests or agricultural exporters, which then transformed into large industrial interests. There was not a lot of room for small entrepreneurship, whether agriculture or manufacturing.

In Asia, this phenomenon also occurred. The large colonial enterprises were concentrated, since the beginning, on local export of spices. This was the main economic activity of the Asian colonies until at least the second half of the eighteenth century. Large companies controlled everything, from relations of the colonial metropoles with the colony to representatives in the local government. By being interested in, at least at the beginning, products that were easy to extract and obtain, there was no need for the European explorers to assemble a large production structure. Quite the contrary, maximum profit was obtained from the exclusive relations between monopolists of the big Indian companies with merchants, and the latter with small local producers. Large production, organized as a plantation by the colonial companies themselves, only appeared in the nineteenth century.[16]

Unlike Latin America, however, Asia's major commercial companies (India companies), following an exclusively economic and not political logic, were interested only in high-value products to be exported from the colonies, as well as, in a subsequent period, in the export of manufactured goods to the colonies. Thus, in Asia, subsistence farming and inter-regional trade were tolerated and even stimulated.[17] It was a way of ensuring the subsistence of a large local native population, enabling the continued exploration of high-value-added products.

[16] See in this respect the interesting description of E. Wolf in *Europe and the people without history*, Berkeley, University of California Press, 1982, p. 310 et seq.

[17] See G. Myrdal, *Asian drama – an inquiry into the poverty of nations*, Vol. I, New York, The Twentieth Century Fund, 1968, p. 462 et seq.

a. The Cycles of Growth and Stagnation in Colonial Latin America and the Formation of National States

Amid these differences, there is a common pattern. This pattern is the main feature of the colonies: the absence of internal economic stimulus for growth and economic development.

To understand this pattern, it is necessary to grasp the meaning of the colonial monopoly for the economy as a whole.

A simple example helps us understand what is meant. In Brazil in the late sixteenth century, all national production was concentrated among only 120 plantations. These plantations transferred only 3 per cent of the income earned by them to the rest of the economy – between wages and outsourced services. The reason for such a small proportion is clear. The more the commercial monopoly (of the metropole at that time) was able to concentrate income, the more the monoculture sector was itself capable of concentrating income. That is, the larger the transfers, the greater the capacity of the exploited sector to concentrate income.

This is the main reason for the vertical monopoly, which extended from the metropole to the local monopolistic merchant or holder of the allotment (see section 3.a). Income is fully concentrated and allows extraction of value on the three levels mentioned above, preventing them from producing any multiplier effect of income.

This capacity to concentrate income at three different levels depends primarily on two factors: on the one hand, the possibility of withdrawing income from the labour market and from existing consumers (groups formed basically at that time by landlords and their families since all others lacked consumption capacity); on the other hand, the possibility of concentrating power, ensuring that other sectors were constantly dependent on the primary sector. These two assumptions for operation of colonial exploration make up the largest pillars of the social and economic structure in the period, which is why they will be studied separately in the subsequent sections.

For now, it is sufficient to note that this economic concentration prevented any autonomous economic development. Let us take the example of colonial Brazil where 97 per cent of income remained with the planters. This huge financial amount was not transformed into any domestic investment that would generate a multiplier effect. Much went to foreign traders themselves (the Dutch at the time) who had financed the production. The rest went to spending on luxury products abroad.[18] Nothing, or almost nothing, remained or turned into investment in the colony.

This intimate connection between the foreign trader and the appropriation of much of the gain was undoubtedly useful to avoid crises of overproduction. The trader, who knew the demand, would not allow capital to remain in the country while demand was decreasing. At the same time, however, there was no stimulus, either on the supply side or on the demand side, for economic development.

On the supply side, as there was no investment either in new technology or to develop new forms of production, there was no possibility to increase production efficiency and thus greater accumulation of capital. From the demand point of view, as this was virtually non-existent at the time, income flow in these economies was greatly reduced, caused by the widespread use of slave or semi-slave (black or indigenous) labour.

On the demand side, any attempt at organization was blocked by the metropole's import monopoly. If the export monopoly of the metropole represented the key part of the system's operation – the real support base of the colonial economy – import monopolies imposed on colonies were the guarantors of colonial economic submission.

The import monopoly was absolute, if analysed according to current competition law standards. No actual or potential competition was allowed. Thus, not only were products imported from the metropole, but also imported products could not be produced in the colony. This was the case in Brazil, where the metropole at certain times prohibited the existence of manufacturing,[19] precisely to prevent competition (even potential) with imported products.

[18] See C. Furtado, *Formação econômica do Brasil*, 9th ed., São Paulo, Companhia Editora Nacional, 1969, p. 54 et seq.

[19] This is the Decree of January 5, 1785, from Queen Maria, which established the 'extinction and abolition of all factories in Brazil'. In fact, this Order made legal a *de facto* situation, which was the extreme economic disincentive to manufacturing arising from the legal monopoly of the metropole. On April 1, 1808, with the Crown established in Brazil, the ban was revoked through another Order. The war in Europe and the invasion of Portugal

It is easy to see that this kind of absolute monopoly prevented any kind of autonomous economic development in the colonies. The guarantee that internal income flows would not be formed was coupled with the export monopoly system. Consequently, the formation of consumer markets provided minimum diversification and made dynamism impossible.

Thus, growth or economic stagnation depended exclusively on exogenous variables to those economies, that is, increased or decreased demand for export of primary products. Hence, the economy of underdeveloped countries was at this time marked by so-called economic cycles.

The growth of colonies, therefore, depended on economic cycles. As, on the one hand, these cycles did not produce any change in production technology, the growth depended exclusively on the expansion of areas of cultivation and extraction. If, on the other hand, there was a very low level of free labour, the expansion of cultivated areas only led to the expansion of slave and semi-slave labour. With the abolition of various forms of slave and semi-slave labour, this labour force formed the bulk of poor workers or jobless workers in these economies (see below section 3.a). Growth is obtained, therefore, once again, at the expense of the underdevelopment and impoverishment of the population.

In addition to directly influencing the process of development (or economic underdevelopment), economic cycles help determine the form and nature of the regional states. This process shows, with particular clarity, the intimate relationship between the state and private monopolies in Latin America.

If the economic history of Latin America had to be divided into phases, a curious parallelism would be revealed. In view of the geographical features of the various countries, it can be said that the economic cycles are opposite. While in Brazil mining areas are in places that are difficult to access, flat areas for cultivation were plentiful, especially along the north-east coast. In Spanish America in general, the opposite was true. Many of the minerals were easily extracted. The areas for cultivation, because of the geographical domination of the Andes, were scarce.

made the Brazilian colony, at least temporarily, relevant as an autonomous economic centre.

This caused the business cycles to be the exact opposite, as demonstrated by C. Furtado.[20] Of the first 300 years of colonization, from 1500–1800 in Spanish America, the first 150 years are dominated by mineral exploration, and the major agriculture exporting, based on *latifundia*, is predominant (in certain regions) in the subsequent 150 years.

In Brazil, the opposite is true. In the first 150 years, the core economic activity was agriculture-based activity on large *latifundia* (especially sugar). Only in the subsequent period the predominant activity becomes mining, as large mines of gold and diamonds in Minas Gerais are discovered.

These economic cycles directly influence the formation of nation states. In Spanish America, in the first 150 years there is large inter-regional integration. Internal trade flows are formed, with some regions (Argentina) fuelling subsistence products for the mines of precious metals (gold, silver) found in other regions (Peru, Colombia).

The subsequent period is marked by the formation of very different regional identities related exactly to the main agricultural (or mining) activity in each region. At this time of a certain declining colonial power (Spain), major agriculture exports were left to private parties, which formed large exporting monopolies. National states formed around them. So, while commercial and agricultural activity for temperate products were predominant in Argentina, exploration of minerals was predominant in Mexico and Chile. Countries such as, for example, Colombia, where there was no predominant agricultural or extractive product to replace decaying metal extraction, formed stages of long civil wars, before arriving at the territorial unit.[21]

National states formed their units from main economic activities closely linked, therefore, to the interests of the private monopolies that exploited them. Interestingly, these monopolies, precisely because they preceded the actual formation of national states, were and continue to be closely linked to foreign interests. This characteristic significantly marked the subsequent economic history of

20 See C. Furtado, *A Economia Latino-americana*, op cit., pp. 35–6.
21 C. Furtado, *A Economia Latino-americana*, op cit., pp. 40–41.

Spanish America. The connection between large national monopolies and potential foreign dominant powers was different and more marked in those countries.

In Brazil, the sequence of economic activities is the opposite, but the results are similar. The first activity based on the large *latifundium* was not inclusive. The sugarcane cycle helped consolidate the power of the large *latifundia* owners but did not create a national economic unit, that is, since the *engenho* (sugar cane farm) was economically self-sufficient (slave work was used in sugarcane plantations as well as in food crops), no regional flux of commerce was created. The extraction of precious metals from the subsequent period was instead deeply integrated, which helps explain the national integrity of the Brazilian state compared with the diversity of Spanish American states.

This also makes the fates of large *latifundium* properties more closely linked to the metropoles. After the gold cycle, the state and landowners mutually depended on each other to fund the new activity of coffee. Also, this feature lasted for centuries. Interests of the state and internal private monopolies will not separate up to the present time.

b. The Succession between the Commercial Interest of the Exporter and the Importer in Asia

Another difference between the colonization of Latin America and Asia is underscored here, which will also have an influence on the subsequent development process.

As already seen, commercial exploration of Asia by colonial powers (Britain and the Netherlands, mostly) was not based on monoculture or monocultures for export. As colonization in this region was eminently carried forward by traders (private), even if with the full support of the state (England and the Netherlands, respectively), there was no interest in the general direction of all the colony's activities. The objective was to extract valuable products in the European markets and create a market for English and Dutch products.

Both interests intertwined, not least because logically the extraction of spices would be better and more easily financed the greater the acceptance of European manufactures in these regions. What changed over time was the relative importance of the exporter objective and importer objective.

There are many important controversies among historians on this topic, especially with regard to the critical point of historical discussions, the cause-effect relationship. One wonders, for example, from the point of view of the British economy, what would have been the cause of increased trade with the Mediterranean and the Indies, from the second half of the sixteenth century and with greater emphasis from the first half of the seventeenth century. According to one of the views, this increase was due to the decrease in trade with the countries of continental Europe, which caused England to seek new consumer markets for its products. According to another interpretation, still quite respectable and more recent, increased trade with the Indies did not have new sources of demand as its main cause. For this, it is demonstrated how the numbers of trade with northern Europe did not register a significant drop to the point of justifying further explorations. What would have arisen, rather, was a new class of merchants, who, seeing no expansion space for trade in northern Europe, sought out the East, not as a new pole of consumption, but as new sources of goods to be marketed in Europe. Only with these new goods was it thought possible to increase demand in northern Europe. It is, therefore, somewhat analogous, but only for trade relations, with what occurred during the so-called Industrial Revolution. Both represented innovations from the point of view of supply (changing products and change in the state of the art, respectively) to impact positively on the evolution of demand and economic growth. In this context, the sale of British manufactures in the East served only as a bargaining chip necessary for the highly prized spices, whose acquisition was so coveted.[22]

As is common in a historical study, causal relationships are necessary to extract what is essential to the research objectives. As

[22] This controversy is well reported in the important work of R. Brenner, who undertakes a significant study about the numbers of European trade at the time to deny the first explanation, presenting strong arguments in defence of the second. See R. Brenner, *Merchants and revolution – commercial change, political conflict and London's overseas traders, 1550–1653*, London, Verso, 2003, p. 3 et seq.

stressed by modern historiography, often the objective consequences of a particular event are more important than their determinant causes.[23] This statement is particularly applicable to this case because, when it comes to a discussion about the economic history of developing countries, the determinant causes of change in the commercial standard of the metropoles matter little. The effects produced in Asian colonies are, indeed, relevant.

These effects are quite obvious and do not vary, whatever the theory adopted in regard to the results produced in the colonies. What was created in the Asian colonies is a very different pattern from Latin America. In the case of standard commercial exploitation, colonial exploitation in Asia was limited to products that it respectively wished to buy and sell. It is true that, depending on the actual privileges that came into force from the seventeenth century, only companies endowed with this privilege (East India Company) were entitled to such trade. It is also true, however, that other traders co-existed with it, which could send to the Indies products that it did not export.[24] Also in relation to local production, there

[23] See, for the description of the famous controversy, R. Evans, *In defense of history*, Norton, New York–London, 1999, p. 111 et seq.

[24] In fact, this system ended up allowing many abuses, as explained by the following excerpt from H.V. Bowen: 'A number of reasons help to explain why the monopolistic East India Company's export performance was viewed unfavorably during the late eighteenth century. In particular, it must be remembered that any overall figures for exports to East India or Asia generated by the customs service incorporate one or (after 1793) two trades in addition to that conducted by the Company itself. These were the "privilege" allowed to the commander and crew members of East Indiamen, and the private trade permitted after the Charter Act of 1793 when cargo space equivalent to 3,000 tons a year was granted to merchants who wished to export goods to India on board Company ships. The privilege or indulgence trade, based upon a sliding scale of cargo space and value determined according to rank, had long enabled individuals to carry a defined range of goods to Asia on their own behalf or on behalf of others. The company reserved to itself the right to export woolens, cooper, gunpowder, and firearms, but allowed those engaged in the privileged trade to transport most other types of goods. Since common sense dictated that crew members could best utilize their allowance by concentrating on fine, low volume/high value goods, a small but increasingly significant part of the East India export trade lay in private hands even before 1793 and this encouraged the belief that the Company's inefficiency and conservatism was such that it was neither able nor willing fully to exploit the commercial opportunity open to it' ('Sinews of trade and empire: the supply of commodity exports to the

was tolerance. As we have seen, production and intra-regional trade in goods of no interest to the English and that could generate income for the population were tolerated and even stimulated. This was the case in the seventeenth and eighteenth centuries for the production and trade of rice and domestic and regional trade in textiles.

From the mid-nineteenth century the situation reversed. In areas subjected to colonization of the great industrial powers (England and the Netherlands), with its industrial decline in relation to other newly industrializing countries (mainly the USA and Germany), there was greater interest in exploring the extractive agricultural industry, which passed from the hands of small planters to large foreign companies.[25] Those plantations then became controlled by major foreign monopolies (United Fruit Company, and others). Local small-scale producers had no technology to compete with it. There was, then, partly a rural exodus and partly a return to the subsistence economy.

From this period, in order to stimulate the formation of income, at least in the middle classes of the local population, the urban craftsmen and the urban craft industry were permitted and even stimulated. England, mainly from the beginning of the twentieth century, began pursuing a policy called *discriminating protection*, whereby it encouraged and even protected certain sectors of small and medium Indian industry, especially in certain basic industries necessary for British industry.[26] Thus, in addition to providing its own industry, it created multiplier effects within the Indian economy that created income capable of generating consumption for British consumer products, which became increasingly sophisticated.

Evidently, these multiplier effects were limited and did not reach rural populations, which, no longer having access to intra-regional trade (also dominated by large companies), had already returned to subsistence farming. This event ended up contributing to the

East India Company during the late eighteenth century', in *Economic History Review*, Vol. 55, No. 3 (2002), p. 466 et seq.).

[25] E. Wolf, *Europe and the people without history*, op cit., p. 312.

[26] As reported by G. Myrdal, this process intensified since the end of the First World War (see G. Myrdal, *Asian drama*, op cit., p. 459), which is included also in the colonial period for most Asian countries, including India.

absence of *entitlements* for farmers and episodes of collective famine in the twentieth century.

The constant concern with domestic markets as a source of demand, be it a standalone or related interest to the purchase of goods, generated a very positive effect, namely the possibility of autonomous existence of other economic sectors alongside the exporter-importer. Compared with Latin America, there was no intra-sectoral resource drain. The monopoly produced harmful effects on labour and consumption, but its effects were much smaller in other economic sectors. This made it easier for the states to stimulate such sectors and hence promote economic growth in more advanced stages of industrialization (second half of the twentieth century).

It is also easy to understand, from this combination of factors, the lower urgency in decolonization in Asian countries. The power of the industrial powers also served there to ensure the existence of the consumer market. Meanwhile, in Latin America, the colonial system was used to ensure protectionism of products and markets for countries (the metropoles, Spain and Portugal), which since the mid-seventeenth century no longer constituted the dynamic centre of the capitalist system. Hence the pressure coming from the industrial powers for decolonization and other movements (such as the abolition of slavery) that generated expansion of consumer markets.

c. Partial Conclusion: Effects of Trade Monopolies on the Economic Development of the Colonies

The conclusion reached is interesting and will have significant effects in the analysis of development processes in the respective regions, both in subsequent periods (post-colonial industrialization) as well as in the study of the current period.

The comparison between Latin America and Asia during the colonial period reveals very different situations regarding the export economy. In Latin America, exporting activity was heavily monopolized. The exporter monopoly was the basis of colonization. In its shadow, nothing thrived, neither the consumer nor any complementary industry, continually constituted by subsistence economies dependent on the major exporter establishment.

In Asia the situation was quite different and almost the opposite. With colonization directed by large commercial companies, commercial concern with extraction coincided with the need to create a consumer market for goods from monopolistic trading companies (for example, the East India Company). What these companies wished to have, besides valuable spices and agricultural products, was privileged access to this consumer market – especially because the sale of products to the colonies was essential to finance the increasing purchases of spices and agricultural products essential to supply the increasing English demand.[27] This is why they constituted, as will be seen in more detail in the following section, true import monopolies in favour of large companies from the Indies. But monopoly is useless without being able to guarantee the existence of demand. Thus, the English and Dutch colonizers felt the need to grow internal income flows inside the colonies. This led the metropoles to increasingly allow and encourage the formation of independent economic sectors endowed with vitality (unlike dependent sectors, typical of Latin American economies and persisting until the present), especially by encouraging small and midsize agricultural and industrial production. From production and intraregional trade of rice in the seventeenth century to small and medium urban manufacturing in the nineteenth century, there was always tolerance and encouragement of the domestic economic sectors alongside the core business of import and export.

These economic characteristics inherited from the colonial period help explain, in part, the better performance, in terms of economic growth, of Asian economies in the late twentieth century and early twenty-first century (note, however, that as will be seen below, the structural limits to the true development, with income distribution, continue to be equally present both in Asia and in the Latin American continent).

There are two causes, both originated in the colonial period, which help explain the economic structure. On the one hand, there were better conditions for the development of the domestic market resulting from less choking of economic sectors not related to exporting monopolies. And on the other, less importance was

[27] See R. Brenner, *Merchants and revolution – commercial change, political conflict and London's overseas traders, 1550–1653*, op cit., p. 28 et seq.

placed on internal monopolies in the economic process. As will be seen, in these countries, the large companies that were established from the second half of the nineteenth century with the introduction of the *plantation system* were mostly foreign. These companies were never seen as pursuing national interests. Once decolonization initiated, from the end of the Second World War, the national Asian states, freer than those in Latin America from the designs of the private economic order, had greater autonomy to influence industrial organization. Clearly, however, this was slow to occur, because the inheritance of the industrial colonization period would still influence it for a long time.

In Latin America, the reverse is true, as we have seen. The export monopolies converted from agriculture to industry. They kept the economy, other sectors and the state itself under total control. By relying on the prices for exports of their products, virtuous circles of creating income and investment were not formed. Even when this occurred, the effect was isolated to exporting sectors, not creating multipliers or relevant income in other sectors. As a result, the momentum towards formation of a dynamic consumer market was small.

The economic and social effects are compatible with this economic standard. Living in the shadow of monopolies, surplus is always extracted from the population, either directly through monopoly product prices or indirectly through unemployment caused by large concentrations. The exclusion from the economic process gradually and constantly follows the progress of the main economic activities (the dynamic sector) and the accumulation of capital. As we will see, when the dynamic sector shifts from the rural areas to cities because of industrialization, social problems will follow it. Famine and abundance then start to co-exist in cities.

In Asia, on the other hand, famine and absolute poverty were still mainly rural problems, recalling the abandoning of a large portion of the population by the colonial explorers who wanted to be nothing more than 'night watchmen' doing commerce in a favourable and unique situation.

Different colonial characteristics, as shadows of the past, seem to still be responsible for different economic and social structures, both leading to social and economic underdevelopment.

3. STRUCTURING OF MONOPOLIES AND THE DOMESTIC MARKETS OF THE COLONIES

Within the vision that we intend to propose for economic history of underdeveloped countries, we need to examine the other side of the colonial system. This is how the internal structures of economic organization enable operation of the system and colonial exploitation by the monopolies.[28]

Here it is interesting to note that as the forms of extracting surplus value were diverse, so too were the forms of internal economic organization in the colonies of Latin America and Asia. In Latin America, as the main activity was agriculture, the accumulation depended on obtaining a premium on invested capital. Thus, the form of appropriation of the surplus capital invested was fundamental. Hence the intimate connection between a monopolistic regime on the one hand and slavery on the other. It was the latter that allowed the former to expand the monopolist price premium beyond the consumer market.

In Asia the situation was different. With essentially commercial colonial activity, the price premium had to be obtained from commerce. It was, therefore, through the organization of trade that monopolies structured colonial exploitation.

[28] It is very difficult to split, as intended by Marx, economic and legal structures. It is unquestionable, on the other hand, that there is a high degree of interplay between them. In the colonial period, this influence departed particularly from the economic sphere, especially in the colonies. Legal institutions such as the *encomienda* or *dandi* in Asia were immediate legal responses to pressing economic needs. This was the pattern during the formative period of capitalism, ranging from the colonial period to the end of the Industrial Revolution. During this period, the economic system constantly transformed itself and the law simply ends up reflecting it (as in the Marxist description). This relationship will not always remain the same, however. Especially from the second half of the twentieth century, law changes its function. Once the capitalist system is stabilized in Western democracies, law, rather than being seen as an instrument capable of transforming societies and economic systems, is seen as a stabilizing element. It is interesting to note that, paradoxically, at this time it is far more influential than in previous periods. It is therefore at this time that a critical theory such as new legal structuralism can be more relevant.

a. The Import Monopolies of Slave Economies

The slave trade, since the early days of colonization, was the main item on the import agenda from the American colonies.[29]

At the outset, it is necessary to reject the thesis that sees slavery as almost a natural consequence of the sugar economy.[30] Such theories, which saw in the sugarcane cycle the creation of nearly a 'technical determinism' originating from extensive and intensive capital in sugar production, are now outdated. In many regions, over long periods, sugar was produced from small rural properties producing sugarcane and provided to mills owned by producer cooperatives or the state.[31] The use of slave labour and the dominance of the *latifundia* are due only to a deliberate decision to accumulate wealth through the concentration of ownership of factors of production necessary for the production of sugar. It was, therefore, a deliberate decision to vertically integrate production, as a monopoly.

Illustrative of this feature is the fact that the growth of the slave trade produced a greater proportional concentration of slaves on large estates, linked to the monoculture exporter. The conclusion is clear: slavery served the accumulation of large monopolies and fed them. Slavery was, therefore, at the same time, an instrument and a product of the concentration of monopolistic income.[32]

Thus, it is not surprising then that this type of activity had a series of negative economic and social effects on the economies of the colonies,[33] many of them already well illustrated in our economic historiography. From the standpoint of economic structures,

[29] In the 1770s the population of slaves in the Americas was estimated at more than 18 million people – see in this respect R. Blackburn, *The overthrow of colonial slavery*, New York, Verso, 2000, p. 5.

[30] See R. Davies, *The rise of the Atlantic economies*, op cit., Ithaca, Cornell University Press, 1973, p. 257.

[31] See the critical review of the literature in B.W. Higman, 'The sugar revolution', op cit., in *Economic History Review* (2000) No. 2, p. 213 (228).

[32] The data provided by M. Florentino and J.R. Góes gives an account of parallelism between growth of the slave trade and increase in the percentage of slaves (relative to total) held by large properties – *A paz nas senzalas*, Rio de Janeiro, Civilização Brasileira, 1997, pp. 54–6.

[33] It is interesting to note that the so-called *Sugar Revolution* is today also regarded as a curse for the consumer market in primary economies of that

however, it led to two very clear results. Firstly, it created a large and powerful class of slave traders who, in their financial capacity and network of contacts, ultimately controlled the entire trade of the colonies. As the total supply of the colonies, especially of manufactured products, came from abroad, this meant that these traders controlled the demand in these countries. Such domination of trade leads to an important characteristic of Latin American colonies that influenced the process of (under)development until today and constitutes the second result mentioned above. This is the debilitating trend of demand as an autonomous driving force of development processes. The need for external impulses is constant. In the central and southern American slave-holding colonies,[34] it was the slave traders who determined what would be consumed, as they chose the products to introduce in the country.

But it was not only there that the slave trade weakened these economies. The introduction of the slave was an important element to ensure the absence of cash flows and income in the colonies. As slave labour was the main source of labour in these economies, it obviously was able to shape the economic system. And it did, indeed. In addition to not generating income, it prevented the formation of income in other sectors since large exporter rural properties, besides using slaves in the main agricultural activity, also used them in the secondary activity of support and maintenance of the mills and others. By doing so, they significantly decreased the demand for urban wage labour.

period, especially England, precisely because it created a new pattern of consumption for luxury goods, not necessarily beneficial to health, which was the beginning of the consumption patterns that marked the period of the Industrial Revolution until the present day (see in this regard S.W. Mintz, *Sweetness and power: The place of sugar in modern history*, New York, 1985, p. 214). This is what is now called consumerism. In fact, it is not an intrinsic characteristic or property to the asset that characterizes this form of consumption, but rather the fact that there is almost an imposition on the consumer with artificial production of desires and tastes. This pattern, typical of the monopolist form of production, is what characterizes the consumer market up to the present day.

[34] In Spanish colonized South America, this same process occurred, albeit without an important trafficking of slaves, with trade controlled by Spanish entrepreneurs residing there.

But it is not only in the economic sphere that the phenomenon was felt. Slavery also had profound consequences in the social and political spheres. Actually, these consequences originated during slavery itself. The economic drain was accompanied by a social drain and a drain on resources. Appeasement in slave quarters was made in large land holdings by the creation of families and procreation of slaves, which increased the social and political dominance of the owners.[35] It is this social situation that led to the appearance of *coronelism* (relevant social and political power of landlords), which, for many centuries (even after the abolition of slavery), governed the social and political life of the country.

Note that a highly similar economic process, albeit with differences in legal terms, occurred in Spanish America. There, neither African slavery nor the slave trade existed. There was, however, a different, but quite similar, legal institution in its economic and social effects to slavery.[36] The *encomienda* attributed to the *encomendero* all rights of use of indigenous labour. It did not pay them wages, providing only subsistence. As such, it did not generate income or domestic demand. The differentiating element of the *encomienda*, which did not generate rights to its holder of an *inter vivos* transfer or *mortis causa* of the slave, stemmed from the need for greater control by the Spanish state on private colonization,[37] plus the greater availability of qualified indigenous labour (for the standards of the time, of course), existing in the Inca and Mayan tribes in Peru and Mexico, respectively, the main areas of extractive economic exploitation.[38]

[35] This is the famous theory of M. Florentino and J.R. Góes, *A paz das senzalas*, op cit., esp. p. 129 et seq.

[36] Which demonstrates the little influence in regard to the institutions in the process of development of the colonies, as compared with economic structures.

[37] This occurred, as it made the *encomendado* Indian almost an accessory tied to the land exploited by its owner, Spanish colonizers, which had to respond for the security of the region and for their subject population. See in this respect, other aspects of the system, T. Yeager, 'Encomienda or slavery? The Spanish crown's choice of labor organization in sixteenth century Spanish America' in *Journal of Economic History*, Vol. 55, No. 4 (December 1995), p. 842 et seq.

[38] As highlighted by historiography, it was in these areas that the Spanish colonizers also found less resistance by the indigenous people to servile work,

These facts demonstrate an enormous intertwining of slave labour and private monopoly power. It is no coincidence, therefore, that in general in the Americas slave labour prospered precisely in those colonies where the power of private monopolists was greatest.[39] Hence the enormous difficulty that the abolition of slavery (or extinction of *encomienda)* represented, especially in those countries where agricultural production classes were most powerful.

This last statement would perhaps lead to the conclusion that once slavery (or *encomienda*) was abolished it would be possible to transform the economic structure of the colonies. This was not, however, what occurred. In fact, the economies are so structurally monopolized that the abolition of slavery does not change the mode of production and in many cases only reinforces monopolies.

The economic historiography identifies three possible effects of the abolition of slavery. The first is simply the transformation of a slave worker into a wage worker in those situations in which its shift or use in another activity (outside the *latifundio*) was impossible. In these cases, it was common that the *latifundium* began to spend less with the free man than with the slave. As in some cases significant compensation was paid to the landowners for the 'property', of which they had been deprived, the result was even greater concentration of capital in the hands of *latifundium* owners.[40]

A second possible situation was one in which there was an effective transfer of income. In this case, income does not move, as scholars believe today, either abroad or to the industrial sectors (non-existent internally and impossible to structure without income streams). What happened was the shift of capital to sectors already prepared for the changing work structure. This applies to regions that already had operating sectors based on salaried employment and began to benefit from more surplus labour, reducing costs. To the free man, already employed, there is no significant income transfer, as the abundant supply of labour causes his salary to continue at subsistence levels.

Only a third situation, in areas where there was large availability of land accessible to free men, created competition for labour and hence the possibility of transferring income to the salaried mass. Even in these regions, as Furtado also reports, the demonization of work generated by slavery made the free men prefer just to maintain the same level of subsistence income, reducing their working hours. The effect was therefore to increase leisure time, with no increase in the income stream or in savings.[41]

The monopolist/slave economy thus prevented the formation of demand and income streams in dependent economies, which greatly hindered its economic development. A rebuttal to this is that precisely those Latin American regions where the presence of *encomendados* slaves and Indians was less relevant and where it was necessary to break the monopoly on the import of the metropole to ensure the subsistence of extractive regions, were those which most developed their domestic markets, with positive economic development in the industrial period. This occurred particularly with Chile and Argentina, countries benefiting from

because in these regions the Spanish colonizers came into contact with a large indigenous population, already under the control of centralized institutions (from the respective Inca and Mayan empires) and used to produce an economic surplus for the advantage of the dominant group, which did not occur in other regions, in which Spain had to carry on a war of domination over three centuries – see in this respect N. Wachtel, 'The Indian and the Spanish conquest', in *Cambridge history of Latin America*, Vol. I, Cambridge, Cambridge University Press, 1984, p. 207 (237 et seq.).

39 See R. Blackburn, *The overthrow of colonial slavery*, op cit., p. 17, which divides the country between those with greater control of the metropole or greater freedom for private class. In fact, this classification is not entirely accurate. It is not necessary that there is little power or little control of the metropole. It is enough that the state is controlled by private producers for it to defend fiercely its interests. This is what happened in Brazil, where the degree of presence and state control was great but where the abolition of slavery was one of the last to be declared in the Americas. This was due to the power of big farmers to influence state policy (to the point of forcing the abdication of a monarch in 1831 – D. Pedro I – which wanted to oppose it). Hence this is why it seems better to speak of power of the monopolist class, since it dominated the definition of state interests.

40 The case of liberation of slaves in Antigua, reported by C. Furtado – *Formação econômica do Brasil*, op cit., p. 145, note 124. This situation also occurred in the Brazilian north-east, where most freed men, without the possibility of employment, remained employed at the mill.

41 See C. Furtado, *Formação econômica do Brasil*, op cit., p. 147 et seq.

intra-regional trade, which long served as regions providing subsistence means to Spanish American regions, where mining occurred (Peru, Colombia). The *encomienda* was likewise not present there, precisely because it was not located in regions of greater exploration for the Spanish.

Even if in these southern regions of Spanish America there was also a large degree of monopolization in the fields (which hindered the expansion of wealth and the creation of domestic demand), for a time, rich inter-regional trade was created, including low-value manufacturing, which enabled flow of income and wealth in the areas producing these goods.

b. Private Monopolies in Asian Economies: The Companies of the Indies

The general framework described in the economies of Latin America in the colonial period is a state monopoly managed and directed by the state, based heavily on the slave system. Precisely, because of this state direction, the goals of the monopoly overlap with the goals of the metropole at that time, namely, territorial expansion.

Not so in Asia. Monopoly was eminently private, exercised by various colonial *trade companies*[42] and its character was predominantly commercial. This was, moreover, the interest of both the companies and of England and the Netherlands themselves (major trading powers of northern Europe) in the sixteenth to eighteenth centuries. It was based neither on land ownership nor on the ownership of slaves.

These are significant differences with important consequences for colonization. As the fixed capital investment was low, so to speak (land and slaves), there was much greater geographic and product

[42] To say that the trading companies were private enterprises is actually too simplistic. In modern legal terms they are closer to public–private enterprises. Their 'shares' belonged to private parties, their administration was done by elected managers (mainly aristocrats and members of the *bourgeoisie*) but they depended on a royal grant (or concession) to exist. Their links to the interests of their states were, therefore, immense; they were the entrepreneurial face of the state's mercantile interests.

mobility (that is, much greater possibility of geographic and product substitution).

These statements could give the initial impression that the monopoly would be weaker or almost non-existent in these regions, by virtue of geographical alternatives and product alternatives. This impression is theoretically correct but it does not apply to the economies studied here, that is, the colonies.

Alternatives, when existing, were to the benefit of the metropoles. The commercial and non-intensive fixed capital[43] nature of the activity allowed a rapid replacement of raw materials to be exported to Europe. This replacement was always controlled by monopolists. Such was the significance of its monopoly power that it allowed them to in fact control the formation of tastes in regard to spices in the European market. First sugar, then coffee and tea, and so on.

In the colonies, on the other hand, what was observed was a gradual integration of monopolistic structure in regional economies in order to enable the dominance and extraction of extraordinary profits. It followed in Asia in the seventeenth and eighteenth centuries two distinct approaches that must be traversed.

Firstly, it is important to understand that the longer-lasting colonizations of Asia referred to here belonged to the greatest European trading powers of that time, Holland and England. There's no mention of the Spanish and Portuguese colonization, based on territorial occupation and, by the early seventeenth century, in frank decay in Asia, where they were replaced by the Dutch and English colonizers.

The logic of colonization of the latter was not territorial, but rather commercial. There were also marked variations between the Dutch way of colonization and the English variant, even though both occurred through colonial companies.

[43] It is true that the East India Company and others made huge fixed investments in British ports, ships and commercial facilities in the colonies themselves, but the latter served primarily as commercial outlets for trade in different commodities and different regions of Asia – see N. Tarling, 'The establishment of the colonial regime', in *Cambridge history of Southeast Asia*, Vol. 2, Cambridge, Cambridge University Press, 1992, p. 9.

It is interesting to follow them, as they help clarify the monopolistic logic and, at the same time, the immense difficulties created by the system.

Already in the beginning of colonization, from the mid-sixteenth century, Dutch colonization, concentrated in south-east Asia (especially Jakarta and Java), was marked by intense competition between groups of traders from various cities for lucrative trade in the region. Colonization was, then, typically trade with successive fleets of ships coming and going from the area. As the goods were scarce and dominated by local elites, the first effect of this 'free trade' system was the price increase and the concentration of profits in the hands of native traders. After successive years of declining income and losses and after long discussions, Dutch traders came to an agreement and formed a single company, the *Dutch East India Company*, which received the royal privilege (on 20 March 1602) and the right of the monopoly to explore Asian colonies.[44] Actually, this was institutionalized cooperation, since all its groups became shareholders, who arranged and divided among themselves the regions to be explored and then distributed the profits.

The monopoly was still not, however, guaranteed. The reason is that the rights received protected *Dutch East India* against domestic Dutch competition, but nothing could be established in relation to other countries. And the seas of south-east Asia were the subject of intense competition with Spain, Portugal and especially England, the emerging power at the time. The solution adopted to cope with this problem required an abandonment of a purely commercial philosophy, hitherto prevailing. It was necessary that the company be established in colonial ports in the region, building warehouses and fortifications and making arrangements with local chiefs. It was necessary, in short, to insert itself more into the economy and society of the region, including influencing the political power to have its monopoly assured. Also, obviously, it was necessary to guarantee the sovereignty through warlike means if necessary. This is the so-called *trade and war policy*.[45]

[44] See G. Maselman, 'Dutch colonial policy in the seventeenth century', in *The Journal of Economic History*, Vol. 21, No. 4 (December 1961), p. 455 (459).

[45] See G. Maselman, 'Dutch colonial policy in the seventeenth century', op cit., p. 460.

From 1619, the Dutch established their sovereignty and prevalence in south-east Asia after successive battles with the British. The Dutch colonial policy that was established from there on and that lasted throughout the seventeenth century – a period of Dutch dominance in the region – was more and more based on territorial domination and exploitation of inter-Asian trade, in addition to exports to Europe. To do so, they established possessions, displacing the Spanish and Portuguese, in China and Japan. The most important feature of this monopolistic exploitation – which was in response, in large part, to its decadence and the predominance of the English from the early eighteenth century – was the fact that the *Dutch East India* forbade its officials, including those established in its possessions, to engage in any form of trade. They did not accumulate income and did not fix, therefore, the colonizers in the region. This weakened their bonds with the community and the local economy itself. From the late seventeenth century, the Dutch possessions in south-east Asia were reduced to Java and Jakarta. The weakness of commercial bonds, coupled with the decline of the Netherlands as a colonial power, caused in 1820 the *Dutch East India* monopoly to be replaced by the state monopoly in the few colonies that remained to it,[46] using the plantation system, similar to the Portuguese and Spanish colonies in America.

The Dutch colonization in Asia, from the perspective of the development of monopolies, was marked by an increasing integration of the monopoly in society, in order to allow the extraction of excess profits to the point of turning it into genuine territorial occupation. This growing integration of monopolies in the state apparatus was accompanied by the increasing economic decline of colonized regions in south-east Asia. The parallelism did not seem to be fortuitous. After all, the non-formation of income in sectors outside the monopoly was the natural result, especially in the colonial economies, of the operation of the monopoly itself. The difference was normally only in the degree and extent of the drainage of resources.

[46] V.R. Elson, 'International commerce, the state and society: economic and social change', in *Cambridge history of Southeast Asia*, Vol. 2, Cambridge, Cambridge University Press, 1992, p. 131 (137).

The English colonial system was different from the Dutch exactly because of its extent. By being later, it perhaps benefited from knowledge of problems that led to the decay of the competing system. The eighteenth century was marked precisely by these events, decadence of one and growth of a different system.

The difference is not in the progression of colonization. The English, like the Dutch – and even to dislodge them – had to increasingly involve themselves in internal affairs as well as transform from commercial into territorial colonization.[47] This was an essential condition for securing the monopoly. It happened that British colonialism, even when accompanied by territorial occupation, always sought to enable the creation of income for those who worked with or for the monopoly. This was particularly the case in India, where a social system was found already with a reasonable degree of organization, with different varieties each responsible for a very specific social and economic activity.

Perhaps by learning from the mistakes of earlier colonizers in the region (Portuguese, Spanish and Dutch), the British did not interfere greatly in this organization. Particularly, as the objective is purely economic, permitting subsistence and providing an occupation enabled the economic domination of the colonies with the least possible capital outlay. This even allowed – at the time of weakening of the British economy (from 1813), with rising inflation, due to (among other factors) the exploitation of the monopolist situation by the *East India Company* in the English market – the possibility to opt for trade liberalization,[48] which became the basis for further economic domination.

[47] This was done in the case of the English through the *East India Company.* This change in pattern from commercial to colonial colonization was responsible for the growing inefficiency – and corruption – within the *East India Company* – C.H. Philips, *The East India Company 1784–1834*, Manchester, Manchester University Press, 1940, p. 23 et seq.

[48] The breakup of the monopoly was done mainly to allow the entry of traders from the English provinces into lucrative trading, which, through *East India*, was dominated by London traders. It is also true, however, that this breakup in the monopoly became politically justified because of the high prices of a variety of commodities in Europe, caused, among other factors, by the monopoly held on various products and the high storage capacity of products by the *East India Company.* Note that, even so, the breakup of the monopoly did not include trade with China and maintained restrictions on the export of Indian manufactured goods – see. A. Webster, 'The political economy of trade liberalization: the East India Company Charter Act of 1813', in *Economic History Review*, 1990, No. 3, p. 404 (412).

The relevant factor, as already highlighted, is that it always seemed important to the monopoly, or at least to its shareholders (British merchants), to develop the markets of the Asian colonies for their own products. Although the domestic market of the Asian colonies did not reach a significant share in demand for British manufactured goods,[49] this objective led the English explorer to allow and even encourage the internal and regional formation of income flows. This stimulus was always limited and insufficient, because the possibility of access to products (especially manufactured products) of the colonies to the rich European market remained limited and, therefore, trade was restricted to intra-regional Asia. Even upon breaking up the *East India Company* trade monopoly in 1813, one of the few restrictions to remain in place was sending Indian manufactured goods to the European market. Still, the effects of this less strict policy were sensitive if compared with the total paralysis of the economy promoted by colonial monopolies in Latin America.

The regional and domestic trade of agricultural and manufactured products, especially woollen and cotton, reached significant levels in India in the eighteenth century when compared with other Asian colonies of the time. Even if there is disagreement as to the extent and depth of this process, historians argue that there is evidence of

[49] From the beginning of colonization, the *East India Company* had difficulty putting British and European goods in Asia, which is why for a long time it had to finance its purchases with important shipments of precious metals – see in this respect K.N. Chaudhuri, 'The East India Company and the export of treasure in the early seventeenth century', in *The Economic History Review*, Vol. XVI (1963–64), p. 23 et seq., and also K.N Chaudhuri, 'Treasure and trade balances: the East India Company's export trade, 1660–1720', in *The Economic History Review*, Vol. XXI (1968), p. 480 et seq. In order to make its purchases less dependent on precious metals, it constantly tried to create demand for its products. The imports of products by Asian colonies always remained, however, largely below exports of products made from the Indies – see R. Brenner, *Merchants and revolution*, op cit., p. 28 et seq., and also A. Webster, *The political economy of trade liberalization*, op cit., p. 405, citing the lack of knowledge about the reality of trade by traders from the provinces, which was considered necessary to be able to make large exports to the colonies.

regional integration and the beginnings of a national market already in 1720 in India[50] and that, if it was not for the territorial occupation and British colonization from the nineteenth century, it probably would have led to more significant levels of internal development at the time of nineteenth-century industrialization.[51]

c. Partial Conclusion: Monopolies and Internal Structure of the Markets of the Colonies

It is interesting to try to join together the results, albeit sparse up to this point, of the brief historical tour taken through the colonial period.

Firstly, the mode of inserting monopolies in the colonial economies seems clear. Two patterns are then observable and comparing them leads to relevant historical conclusions.

A first pattern is the insertion of the monopoly in the state apparatus. In Latin American colonization, this was done from the beginning, with the metropole leading the formation of the monopoly and the colonial state being formed to protect monopoly interests.

A historical variant, still within the first pattern, as its economic effects are identical to the first, is a system originally based on mere trade and that evolves to the trade monopoly. This system, adopted by the Dutch in south-east Asia, ends up requiring, so that it can reap monopoly profits, that the monopolist is progressively integrated in the social organization and ends up creating true states (with the help and intervention of the metropole).

There is, however, a second monopoly standard, adopted with respect to the colonies. This is the pattern of economic domination having as its main objective trade and not territorial interest (at least not until the nineteenth century). The central objective of this

50 See T. Raychaudhuri, 'The mid-eighteenth century background', in *Cambridge economic history of India*, Vol. 2, Cambridge, Cambridge University Press, 1983, p. 3 (28).

51 There is no consensus in the economic literature about it and it is a difficult debate for completion because there is no possibility of historical proof of one hypothesis or another – that is, what would have happened if India had remained independent – see, for the debate, T. Raychaudhuri, 'The mid-eighteenth century background', op cit., p. 32 et seq.

pattern of colonization was to enable commercial domination.[52] To this end, what matters is to have command over profits in trade and not directing the economic activity of the colony. However, the exploration and extraction of excess profits can be more effective in this case, precisely because of the possibility of income distribution to employees (in the case of British colonization) of the colonial company, local traders and local manufacturers.

Obviously, both were systems of monopolistic exploitation. The difference is perhaps in scope. The Latin American colonial system provided the triple drain of resources mentioned in section 1 above. Being allied to slavery, its necessary complement, allowed it to extract three different price premiums: in the labour market, because the expenditure with slaves was the minimum required for subsistence. The extremely reduced life expectancy of slaves demonstrates how, in addition to being exploited to the maximum at work, spending on health and nutrition were neglected, and were actually below subsistence level. As reported by Blackburn, the relatively inexpensive price paid for slaves and the enormous value of the goods produced by them created the inhuman economic logic of exhausting the life of the slave in a few years of hard work.[53]

52 It is true that the period of territorial disputes in Asia between the European powers with effective occupation since 1870 is historically considered colonial. Thus, the economic historiography generally treats the period studied as pre-colonial Asia. Given that the purpose of this work is not factual and historic, but rather the reconstruction of the effects of economic structures established in the colonies, economic periods and the respective forms of colonial occupation are relevant. That is why the period called by historians as colonial in India, including some of the major Asian colonies (especially India), will be included in a subsequent period, that is, the post-colonial or industrialization period.

53 The text of Blackburn on the subject is eloquent: 'The low survival rate of Africans in much of the New World partly reflected the fact that they were concentrated in the tropical lowlands where disease took a heavy toll on all immigrants. But overwork, and the consequent neglect of subsistence, certainly helped to kill the slaves. At least two thirds of the Africans arriving in the New World were sent to sugar plantations. In the Caribbean and Brazil the sugar plantations regularly imposed a sixteen or even eighteen-hour working day on the slaves; there was night work in the mill, and, rain or shine, field work in the day during the long plantation and harvesting cycle. The slaves were given bare rations and expected to feed themselves by working for a day, or a day and a half, each week on plots given to them for the purpose. The relative cheapness with which new captives could be bought from the slave merchants

The consumer market was the second sector in which monopoly profits were extracted. Perhaps referring to the consumer market is exaggerated in the slave colonies or colonies based on the servile labour of Indians. Consumption only occurred by large *latifundium* owners or *encomenderos*. As the luxury consumer products consumed by them were all imported from the metropoles, which had a monopoly on their sale, the prices were very high, which meant that a substantial part of the income from farming and mining returned to Europe.[54] The manufacturing and artisanal activity of the colonies did not, therefore, have room for survival, which also prevented the formation of internal income streams.

Finally, these systems, by not creating streams of income, ended up generating dominant and dependent economic sectors. In general, the dominant sectors prevented the existence of other sectors with a specific dynamic, both because they did not create income and because its returns were extremely high, discouraging investments in other sectors. In its monopolistic logic, they drained resources that could move towards diversification of the economy.

An exception to this rule was made for regions that were of no interest to colonizers and served only as commercial and agricultural production and distribution posts for extractive regions. This was the case in Argentina and Chile, which produced and marketed food for the mining regions of Peru and Colombia. Thus, the possibility of creating income was higher, as was the possibility of economic diversification.

The Asian system of colonization, also based on monopoly, allowed exploration in the same way. European goods, whose sale was monopolized, had a much higher exchange value than native goods, which could be bought at different local trading posts. Furthermore, since the eighteenth century, a period of British colonial dominance, there was a monopsony by the *East India Company*, which took even more unequal exchanges. In the consumer market, there was huge room, therefore, for extracting monopoly profits from local consumers.

In the labour market, this extraction of price premium did occur, but not as extensively. The Indian economic system, based on production by castes, produced inequities but generated income at least in the cities. The largest depletion occurred in the subsistence agricultural sectors and later in the salary-based agricultural sectors, dependent on *plantations*.

There was neither, at least in the commercial colonial period (until the late eighteenth century), total asphyxia of other economic sectors. Conversely, the British found in India already reasonably developed regional manufacturers, which they dismantled to a large extent, and intra-regional trade, which they sought to maintain. There was an interest in income formation and the existence of autonomous sectors that generated income and created demand for Indian or even English products. As seen above (section 2.b), where possible, an incipient domestic market was created, which facilitated and anticipated the later stage of industrialization.

4. SOCIAL STRUCTURE RESULTING IN COLONIES

Obviously, this economic structure has a significant economic impact on the social fabric. All too clearly this impact is different in each country and region. Elements of race, culture and religion have a decisive influence in the social formation.

Some common general features are, however, conspicuous, the first and most serious of which is the contribution made by the monopolistic economic structure to social rigidity.

The monopolistic, state or large colonial companies, organizing themselves around major extractive or agricultural activities and activities to further them, created an army of individuals linked by ties of subordination to these great economic structures. Upon

and the great value the slave produced – whether sugar or gold – gave a terrible commercial logic to the practice of using up the lives of the slaves in a few years of intense labor. And so long as slave crews were wracked by disease and overwork they found it difficult to resist their oppression collectively' (R. Blackburn, *The overthrow of colonial slavery*, op cit., p. 21).

[54] See for the Brazilian situation C. Furtado, *Formação econômica do Brasil*, op cit., p. 53 et seq., reporting how everything spent on production factors and a substantial portion of consumer spending, particularly luxury, ended up being reverted abroad.