

Title:

Philip II of Spain and the Power of
Money

Between Parliament and Bankers

Carlos Álvarez-Nogal and Christophe Chamley

Table of Contents

Introduction

PART ONE: Castile in the 16th century: markets, banks and credit

1. Castilian cities, Habsburgs, and bankers
2. The fairs of Medina del Campo
3. The public banks of Castile
4. The administration of the royal finances
5. Royal revenues in Castile
6. The long-term debt: the juros
7. *Crecimientos*: reducing the yields of juros
8. A model for the public finances in Castile

PART TWO: The first years: triumphant battles with the Pope, France, the bankers and the Cortes

9. The young prince and the financial weapon
10. First test: the 1557 debt restructuring and the war
11. The 1560 Cortes: a new relationship

PART THREE: The sixties: turning to the South while the North was brewing

12. The Bull of the Crusade
13. Taxation in the Low Countries
14. The short-term debt: the asientos before 1575
15. Financing the construction of the Escorial with factorias

PART FOUR: The main confrontation with the cities and the crisis of 1575-77

16. Obstruction in the Cortes (1572-1575)
17. Acceleration towards the crisis: 1575
18. The Decreto of 1575
19. The crisis in the credit market
20. War of attrition between the crown and the cities (1576-77)
21. Resolution

PART FIVE: The latter part of the reign

22. Financing in Flanders
23. Exploiting the Armada's disaster: the *millones*
24. The Fiesco asiento: from fountains in Castile to streams in Flanders
25. Mesadas with an option to refinance in juros: The Maluenda asiento
26. The renewal of the service of *millones* and the decree of 1596
27. The resolution of the last crisis

Acknowledgments

Archives

Bibliography

List of figures

Picture 1-1: The cities of the Cortes

Figure 2-1: Dates of fairs and arrivals of precious metals (thousand ducats)

Figure 5-1: Ordinary and Extraordinary Revenues (1556-1598) (million ducats)

Figure 5-2: The revenues in Castile (million ducats)

Figure 6-1: Distribution of the yields of juros in 1598

Figure 8-1: Efficient financing of a war between the fixed dates 0 and T

Figure 8-2: Taxation and public debt in 18th century Britain

Figure 8-3: Efficient financing of a war with a random end

Figure 8-4: Efficient financing with a constraint on tax increases in a stylized model

Figure 8-5: Taxes and debt service in Castile (million ducats)

Figure 12-1: Revenues of the “Three Graces” between 1556 and 1575 (thousand ducats)

Figure 15-1: Credit balance of Lorenzo Spinola Factoria 1570 (thousand ducats)

Figure 16-1: Ordinary revenues and service of the juros in Castile before 1575

Figure 16-2: Ordinary revenues and service of the juros in Burgos and Murcia

Figure 19-1: Fairs in Medina del Campo between 1562 and 1580

Figure 20-1: Nicolao de Grimaldo's total balance with the crown (million ducats)

Figure 20-2: Constantin Gentil's total balance with the crown (million ducats)

Figure 22-1: Asientos signed in Flanders between 1580 and 1600 (million ducats)

Figure 22-2: Asientos signed in Flanders and money sent to Flanders and France with asientos signed in Madrid (1579-1598) (million ducats)

Figure 24-1: Distribution of payments for the first tranche (by 12/91 at the latest)

Figure 24-2: Geographical distribution of payments for the first tranche

Figure 24-3: Time profile of the payments for the first tranche

Figure 25-1: Cumulated sales of juros and net cash disbursements by the Maluendas (thousand ducats)

Figure 26-1: Ordinary revenues and service of the juros (million ducats)

Figure 26-2: Amounts of the asientos signed by the Vitoria brothers' public bank (thousand ducats)

List of illustrations

For the editor: The purpose of this list is to have a count of the illustrations. We think that these illustrations should not be numbered in the text. The title should be sufficient. Some of these pictures have been placed in the text where we would like them to be. For others, the placement is indicated in the text, but the picture is at the end of the chapter.

Picture 0-1: The castle of Simancas where Philip II placed his archives

Picture 1-1: The city of Avila

Picture 1-2: Map of Castile with the cities of the Cortes

Picture 2-1: Medina del Campo today (photo)

Picture 4-1: Example of accounting document with hole for archiving

Picture 9-1: The European empire of Philip II

Picture 12-1: Philip II (by Sofonisba Anguissola, 1565)

Picture 14-1: Asientos in the archives of Simancas

Picture 14-2: Simon Ruiz

Picture 15-1: The Escorial

Picture 21-1: Instructions of the king (the smoking gun)

Picture 24-1: Asiento signed by Tomás Fiesco April 3, 1591

Picture 24-2: Map for the Fiesco asiento

Picture 24-3: Repayment of the first mesada

List of tables

- Table 1-1: Percentage of credit offered to the crown by bankers' groups
- Table 2-1: Amounts and delivery times of the General Treasury of the Crusade (1564-1566)
- Table 2-2: Place of bankers' disbursements to the crown (1570-1575)
- Table 4-1: Cash available in the coffers with three keys in Madrid (ducats)
- Table 5-1: Royal incomes subject to negotiations or free
- Table 6-1: Income and proportion of redeemable juros ("al quitar") (ducats)
- Table 6-2: Juros of Ortiz de Zárate in 1597
- Table 7-1: Crecimientos of juros in Sevilla by Bernardo de Mostrenco in 1597 (ducats)
- Table 7-2: Asientos signed in 1570 and 1572 with clauses for crecimientos to 5 percent with a total of 658,000 ducats (thousands of ducats)
- Table 7-3: Perpetuals sold and annuities purchased by Bernabé Centurión
- Table 7-4: Crecimientos by Agustín Spinola and Nicolao de Negro in February 1596 (ducats)
- Table 10-1: Amounts seized from individuals at the beginning of the reign of Philip II (ducats)
- Table 10-2: The Monarchy's revenues mortgaged to bankers (*consignaciones*)
- Table 13-1: Amounts and place to deliver the credit borrowed in Madrid 1571-1575 (ducats)
- Table 13-2: Percentage of credit contracted in Madrid according to the destination of the provision 1571-1575 (ducats)
- Table 14-1: Places of asientos' disbursement (thousands ducats)
- Table 14-2: Appropriations in the asiento of Juan Curiel de la Torre (June 1, 1573)
- Table 15-1: Contracts of Lorenzo Spínola (1571-75) (ducats)
- Table 15-2: Crown's payments for the 1569 *factoría* with Lorenzo Spínola
- Table 15-3: Crown's payments for the *factoría* 1570
- Table 15-4: Crown's payments for the *factoría* 1572
- Table 15-5: Crown's payments for the *factoría* 1574
- Table 17-1: Asientos in 1575
- Table 19-1: Credit transfers signed in Madrid in 1576
- Table 20-1: Calculations by the accountants on the excess return of bankers (ducats)
- Table 21-1: Debt with bankers and form of repayment
- Table 21-2: Provision included in the Medio General of 1577

Table 22-1: Disbursements by the bankers according with the asientos signed in Madrid in different locations (1576-1583) (ducats)

Table 22-2: Asientos signed by Alexander Farnese in Brussels (ducats)

Table 22-3: Appropriations in the asiento of Francisco and Pedro de Maluenda (February 23, 1589), mirror of the asientos in Flanders in Table 22-2

Table 23-1: Expenditures on real goods (actual and projected) (ducats)

Table 24-1: Ducats provided in different locations from credit negotiated in Madrid (1586-1596)

Table 24-2: Sales of offices and lands for the payment due no later than December 1591

Table 24-3: Payments by Tomas Fiesco by the crown in units of mesada

Table 26-1: Asientos signed in Madrid in 1596 (ducats)

Table 27-1: Participation of the bankers in the contract of 600,000 ducats of June 30, 1597

Table 27-2: Libranzas for the asientos signed before the decree of 1596 (ducats)

Table 27-3: Ordinary income and service of juros in 1598 (ducats)

Table 27-4: Revenues and potential crecimientos on life-annuities in Castile in 1598 (ducats)

List of abbreviations

D.: Document

mrs: *maravedís* (Castilian unit of account)

MG: *Medio General* (General agreement with the bankers)

nº: number

vol.: volume

p.: page

Introduction

The book presents a history of Philip II of Spain through the prism of finance. This sovereign has been maligned for centuries, and up to the present day, by a propaganda tinted by cultural racism. Our financial approach shows that he dealt adroitly with institutional constraints and that he was not an autocrat. The purpose of this introduction is to bring the reader to see the world as he did.

Philip II was born at a time when part of the Iberian Peninsula had become one of the most vibrant regions of Europe. Society and institutions had been shaped by the Reconquista, which had gradually pushed the Muslims south after their sudden conquest in 711. To populate and stabilize the frontier zones, incentives were offered to settlers. As early as the 9th century, cities in the north were granted rights through charters (*fueros*). This environment led to the first representative assemblies in history, which included city delegates who were not ecclesiastical or aristocratic (Cortes de Aragon, 1162, Cortes de León, 1188). Because of its gradual construction, the social fabric combined local life with a sense of unity under a king, reinforced by geography, the military, and a common religious faith.

In 1470, the territory of present-day Spain consisted of two kingdoms, Castile, the main one, and, in the eastern part, Aragon. In addition, a small muslim enclave remained in the south (the Kingdom of Grenada). The final unification was achieved first in 1469, when Isabella, heir to the Castilian throne, eloped with Ferdinand of Aragon at the age of 18, and second, when the fall of the Alhambra in Grenada completed the Reconquista (January 1, 1492). Spain had acquired its present borders (with some later adjustments in the north) centuries before any other country in Europe. The Iberian Peninsula of that time has been called a monarchy of urban republics, content with its natural borders south of the Pyrenees and that was not yet aware of the immense resources of the recently discovered Americas.

In the pre-modern era, medieval rules of inheritance still dictated who could claim a throne or territory. The political landscape was constantly shifting, subject to the hazards of marriage, birth, and death. The high mortality rate created opportunities for new connections. While the pool at the top was small, the Church could break the rules against consanguinity, as in the case of cousins Isabella and Ferdinand. The Habsburgs, the "House of Austria," dominated this political game of "mergers and acquisitions." By the end of the 15th century, they emerged in this game as the most skillful and successful family in Europe.

A central part of the narrative in this book is Flanders, which roughly included what is now northern France, Belgium, and the Netherlands. The reader may wonder how on earth Castile, protected by the Pyrenees, got involved Flanders. Were these colonies? In the spirit of the time, not at all. It started with the fateful decision, in 1496, of Isabella and Ferdinand to marry their daughter Juana, who was only third in line to the Castilian throne, to Philip "the Handsome", son of the head of the Habsburg family, Maximilian I. Philip (Philip I in the history of Spain) was

the fruit of the Habsburg acquisition of Flanders through the marriage of Maximilian to Mary, Duchess of Burgundy, whose territories included Flanders, one of the richest regions on the planet.

The son of Juana and Philip, Charles was born in Ghent (in present-day Belgium) in 1500 and educated in Flanders by Flemish tutors. He was catapulted by a rapid succession of events to the dominant position in Europe. Almost immediately after his birth, the last heir to the throne of Castile died. Then, at the age of 6, the untimely death of his father (Philip the Handsome) made him heir to the Habsburg Empire and caused his mother (who was heir to the throne of Castile) to lose her mind and become known as Juana la Loca. Castile received the fateful Habsburg inheritance that would draw it into the European theater and centuries of military and religious strife.

Charles, at the age of 19, was elected Holy Roman Emperor with the help of a loan from the richest man of the time, Jakob Fugger. In addition to the Iberian Peninsula, his empire included the Habsburg territories of Austria, Bohemia, Transylvania, Flanders, part of eastern France, the Milan region, and the southern half of Italy, including Sicily. This empire was cracked by the Reformation, despite Charles's tireless efforts. Shortly before his death, the first true emperor since Charlemagne, bequeathed the eastern part of his empire to his brother and the western part to his only son Philip, who, unlike his father, had been raised to be a true Spanish monarch.

Philip (Philip II after the death of his father, Philip I), had been regent of Spain before ascending the throne, and one of his main duties was to raise money for his father, who was fighting in Germany. He wrote to him:

“The main foundation on which the war can be sustained is money and credit and without those, one cannot do anything.”¹

When he was about to succeed his father, he wrote to him:

“I would very much like to explain my actions before the world, to show that I have no claims to the territory of others, but I would also like it to be understood that I must defend what Your Majesty has granted me.”²

One of his most important bankers and financial advisors, Juan Fernández de Espinosa, later reminded him:

“His Majesty is Lord of the States of Flanders and is determined to keep them and not to lose them. He is also lord of the kingdoms of Naples and Sicily, and is determined to preserve them and not to lose them. The same could be said of Milan and the other kingdoms of Spain and Aragon, namely that He is determined not to lose them... And in the end it all comes down to providing sums of money to maintain the armies.”³

¹ (Carande Thovar, 1965-1969: II, 125)

² (Kamen, 1997: 60) See AGS, E, 808, n^o 54.

³ (ref. Lovett).

During his reign, Philip fought against France, the Ottoman Empire, the Dutch rebels, and England in an unbroken succession. On the day of Philip's death, the ambassador from Venice wrote to his senate:

“He was a prince who fought with gold rather than with steel.”⁴

Philip had far more than any other ruler in Europe, but it was never enough during the military revolution in Europe. Military spending soared as success depended on large armies with an expensive combination of highly trained infantry (the famous *tercios*) and firepower, and it would rise further in the second half of his reign in siege warfare against the new “Italian line” of defense.⁵

This book presents a historical account of the reign of Philip II from the point of view of his finances. He solved a series of fiscal and financial problems in a sequence that can be presented in their historical order, the book follows. The overarching theme is the tension between Philip's imperial revenue demands and the cozy oligarchies in the cities of Castile. (Aragon's contribution to the revenue was small).

Castile never really accepted to pay for the Habsburg inheritance. This resistance gradually increased during the reign, especially in the second part of it, when most of the expenditures were made in Flanders which was foreign land to the Castilian elite. The primary locus of their resistance was the Cortes of Castile.

Following a four-century tradition of representation, the Cortes of Castile in the 16th century included a representation of 18 cities of Castile and their surrounding territories. As in all regions of Europe at the time, the Cortes had to be convened by the king, who, as in previous centuries, called them when he needed money. They could not, of course, oppose the king directly, but through procedural maneuvering, long speeches and legal wrangling, they could impose costly delays on the king. The power of the Cortes stemmed from the fact that, under the implicit constitution of Castile, their approval was required for half of the ordinary revenues (to be explained in the book), which were the only revenues that could pay the interest on most of the king's debt, the *juros*, which were long-term annuities. The details of these restrictions will be crucial to the story told in the book.

Philip's debt gradually increased in a standard process of high spending and economic growth. The service of this debt—the payment of its interest--required an increase in the type of revenue that was subject to the approval of the Cortes. Three times during his reign, Philip found himself in the situation where the debt service had reached the level of ordinary revenues and he had to ask the Cortes for an increase. The Cortes, whose interests did not align with those of the king, resisted. This struggle is conceptually related to a recent struggle in the U.S. Congress, when some Republicans tried to leverage the legal limit of the national debt in order to reduce the size of government spending. In that case, the opposition to raising the limit failed

⁴ (Kamen, 1997: 315 and footnote 100) See Calendar of State Papers, Venice, IX, 342-3.

⁵ The *tercios* in the Surrender of Breda (1625) were illustrated in 1635 by one of Velázquez most famous paintings, *Las Lanzas*.

because of the risk of a credit crisis. During Philip's reign, the opposition of the Cortes twice led to such a credit crisis, in 1575 and 1596.

The crises occurred when Philip suspended payments on the *asientos*, or loans from the bankers. These loans never amounted to more than 10 to 15 percent of the royal debt, and the *asientos* were much more than loans. The bankers, most but not all of them, from Genoa, were also merchants, since most private loans were closely tied to trade. They were essential in providing the crown with the financial services for war expenditures, especially since most of them were far from Castile. Bankers provided credit, managed the flow of tax revenues to the places of expenditure, and exchanged currency when that expenditure took place abroad; they sold *juros* of the Crown, which was a complicated task that required expert knowledge of the credit market in Castile, as we shall see. At a time when the crown had no administration to collect revenues or manage its debts, the bankers were the "money men" who, two centuries later, were essential to the marketing the British public debt.⁶

The decrees that declared a suspension of payments on the *asientos* in 1560 and 1575 had two parts, as we shall see. The first was addressed to the Cortes and the Castilian elite, pretending to castigate the bankers who were hated by the Castilian elite. This part was intended to convince them to accept the increase in taxes demanded by the king. The second part of the decree was to refinance the short-term debt into *juros*, which had a much lower cost. This operation, urged by some of Philip's advisors, as it would be by any modern economist, was not a debt reduction. Some of the refinancing terms may have been "below market", especially in 1560, but that was window dressing for the Cortes. For the actual terms of the refinancing, we have to look at the contracts with the bankers in the years after the suspension.

These suspensions have been erroneously referred to by modern writers as "bankruptcies," a term that was never used during this period. This nomenclature has an anachronistic connotation, as it corresponds to the contemporary concept of sovereign default and the procedures associated with it. It has perpetuated a pervasive negative image of a monarch in a perpetual state of default. Not only is this perspective inaccurate, it deserves to be corrected, not as a defense of the monarch, but as a correction of a misreading of the political economy of Philip II's reign, which was far from an absolute monarchy. Philip often complained that there was not enough money, but that is a common complaint. Ironically, to focus on Philip's relationship with his bankers is to fall into his own trap, which was to play up his conflicts with the bankers in order to achieve his main goal of extracting more revenue from the Cortes.

Picture 1-1: the castle of Simancas where Philip II placed his archives

Philip was a reserved man with a keen intellect and an acute awareness of his position and authority. He preferred to "put it on paper" and made decisions based on written notes, often after very long deliberations, rather than by discussion. In 1592, during a visit to his reorganized

⁶ (Dickson, 1967).

archives in the castle of Simancas near Valladolid, he declined to attend the festivities prepared by the villagers. Instead, he withdrew to the legajos, the files of his administration, which he bequeathed to us in this castle, where they still are. We went there many times. These documents contain information on royal finances that is unparalleled for his time.

Not even his ministers knew what the king wanted until he sent his order through a secretary, which then had to be obeyed. Secrecy was often the key to the success of his strategy, as we shall see. We are no more intimate with his thinking than his ministers were, but economics is a powerful investigative tool. At the end of the first part of this book, after setting the Castilian stage, we summarize the constraints that Philip faced in his debt financing through a simple model. This provides a synthetic view of Philip's main budgetary problem.

This work would not have been possible without the deep scholarship of the researchers who preceded us in the study of Philip II. Ulloa, Ruiz Martin, Lorenzo Sanz, Lovett, Carlos Morales, Fortea Pérez and Thompson, are indispensable sources for understanding the taxation of the reign, from a qualitative and quantitative point of view, the relationship between the king and the Cortes and the arduous and difficult negotiations on fiscal matters throughout the reign, the important role played by the Genoese bankers in the finances of the Crown, the commercial dynamism of the city of Seville and the close relationship between the king, his bankers, and the important ministers around the Council of Finance.

We refer to all the works that we trust and often admire, although we often do not share some of their interpretations of historical facts and archival documents. Such differences are part of the work of history. This book, although it contains hundreds of references for the scholar, is intended for the nonspecialist. Rather than criticizing the interpretation of a particular author - the specialist will know whom- we prefer to focus on our coherent narrative. Our narrative differs from the standard "serial defaulter" interpretation of Philip's reign, but it is not new. Three scholars, Fortea Pérez, Thompson, and Stasavage, have suggested it, but they did not elaborate.

We firmly believe in the value of documents and texts. Our objective is to provide readers with direct access to these texts. We offer a narrative surrounding the texts, but we do not instruct the reader to think our way. We encourage readers to form their own vision of the history of this period.

Some chapters are based on our articles published during the last 10 years. We have added a significant amount of additional research in an exhaustive consultation of the original documents preserved in various archives, especially in the General Archive of Simancas. As a rule, when a document is cited, we have consulted that document in the archives, even if it has been used and cited by other authors. The archives contain not only the king's asientos or credit contracts with his bankers, but also the discussions of his ministers in the councils, the reports of the corregidores on the opinion of the cities on fiscal matters, hundreds of accounting books of the accountants of the Royal Treasury on income and expenses, the letters written to the king by his subjects denouncing injustices or those of his bankers claiming their rights or offering succulent deals. It is essential to consult all these documents, not only the Asientos, in order to understand the fiscal and financial problems of the monarchy during the reign of Philip II

This archival work has allowed us to establish different series on the amount of asientos signed in Madrid, to make an estimate of those signed in Flanders, and to analyze in detail innumerable financial operations carried out by the bankers, in order to better understand and explain how the framework designed by the crown to finance its expenditures worked. This book and our interpretation are based on a foundation of primary documents. For additional information, we have created a website dedicated to this book.

The book is divided in five parts, in which each chapter is short and focuses on one topic.

I. Castile in the 16th century: markets, banks and credit

The first part presents the main elements of the public finance of Castile. It provides the building blocks and the theoretical framework for understanding the narrative in the following parts of the book.

The first chapter describes the life of the cities at the time of Philip II and shows that Genoese bankers were already well integrated into the financial activities of Castile before his reign. In Chapter 2, the biennial trade fairs of Medina del Campo are shown to be the clock of for financial contracts, especially in the first part of the reign. The public banks of Castile, in Chapter 3, have often been neglected. They were important institutions of financial intermediation, as today, and their response to financial crises will provide useful observations of these. Chapter 4 is devoted to the administration of tax collection. The crown had no capacity to collect taxes. The collection system had two components: first, the task of collection was delegated, outsourced to private collectors or to cities that organized and collected their local taxes; second, powerful accountants and audit chambers verified that the collection complied with the royal decision.

Chapter 5 emphasizes that understanding the distribution of royal revenues by type is absolutely crucial to interpreting all the financial events of the reign. Chapter 6 describes the long-term debt, mostly in perpetual annuities, the *juros*, which were paid from local revenues. This fragmentation of the capital markets was due to their historical development, but it somewhat prevented the crown from diverting the revenues that serviced the *juros*, and this safeguard lowered the rate demanded by investors, which was consequently to the crown's advantage. As the century progressed, the downward trend in interest rates allowed the crown to refinance its debt at lower rates. Because of the definition of *juros*, this reduction in yield was achieved by a special method, a *crecimiento*, in which a *juro* was refinanced by increasing its face value, rather than by reducing its coupon, as would be done in the centralized capital market of England two centuries later. *Crecimientos* were important throughout the reign. They became important in resolving the financial crisis of 1575-77 and were essential in resolving that of 1596.

II. The first years: triumphant battles with the Pope, France, the bankers and the Cortes

After the preparation of the first part, the narrative begins and is divided into three parts, each corresponding to a phase of Philip's reign. In his early years, Philip immediately achieved brilliant victories, which were achieved almost simultaneously. The first was against a pope who held a grudge against Spain. Shots were avoided by a combination of financial and military blockade (Chapter 9). The second success was the war that France had declared against the new

king and the mobilization of resources to raise an army twice the size of France's and crush it at San Quentin. This was achieved at the same time as a financial restructuring that has been called the first bankruptcy. Careful examination shows that it was nothing of the sort, but on the contrary, excellent financial management (Chapter 10). All these successes were achieved immediately after he took over from his father in Brussels, and while he was far from Castile, shuttling between London and Brussels during the first four years of his reign.

Upon his return in 1559, the young king undertook a decisive reorganization of his finances. He completed the refinancing begun in 1557 by suspending payments in October 1560 and increasing the contribution of the cities in the Cortes of 1561. For the first time, the text of the suspension decree is carefully analyzed in relation to its actual implementation (Chapter 11), and this text is later compared with the text of 1575. The implementation demonstrates that the suspension itself was a show for the Cortes, and that after the Cortes agreement, the crown granted terms in *asientos* that circumvented the decree.

III. The sixties: turning to the South while the North was brewing

After this success, Philip exploited the Ottoman threat in the Mediterranean to obtain a significant increase of the Church's contribution through the sale of bulls of indulgence. This was in spite of the simultaneous Council of Trent, called in response to the Reformation, which itself had been sparked by the sale of indulgences by the Fuggers in Germany. This phase ended triumphantly with the Battle of Lepanto in 1571 (Chapter 12). Philip's then turned his attention, perhaps too late, to the north in Flanders where a revolt had begun in 1564.

After examining the context and the fiscal issues in these provinces (Chapter 13), we turn to the famous *asientos* which were key instruments for channelling revenues to military expenditures through various territories and for lending to the crown (Chapter 14). An interesting illustration is provided, not for the military, but for the project that was so dear to Philip, the construction of the largest building of the time, the Escorial. The financing of the beginning of the construction is followed through a series of special *asientos*, the *factorías* (Chapter 15).

IV. The main confrontation with the cities and the crisis of 1575-77

In this pivotal part of the book, we first examine how tensions between the Cortes and the king began to rise in the 1570s as he sought to increase his revenues because of the closing gap between ordinary revenues and the service of the debt while military expenditures increased in Flanders (Chapter 16). Philip broke the deadlock in two steps. In the fall of 1574, he decreed a tripling of the cities' contribution. This constitutional breach was rejected by the cities (Chapter 17). In the second step, after signing a record amount of *asientos*, Philip decreed a suspension of the payments to the bankers in September 1575 (Chapter 18).

The documents and the sequence of events show that the main objective of the suspension was to obtain the higher tax, not through a formal acquiescence in the Cortes, which they had submissively signed in the winter of 1575, but by forcing an explicit agreement with the oligarchies of the cities, according to the implicit constitution of the kingdom.

The payment stop brought the fairs of Medina and the entire credit market of Castile to a halt, thus putting pressure on the cities. Meanwhile, Philip protected the bankers from the legal

proceedings of their creditors who tried to recuperate their funds. We present much documentary evidence on the pain that the people of Castile suffered from the credit crisis (Chapter 19).

During this war of attrition with the cities (Chapter 20), the thorny problem of the *juros de resguardo*—collaterals for asientos--had to be solved with the bankers. This problem, which has so far been underplayed, was the dominant issue with the bankers. In this system, which was grossly abused by some bankers, as they sold the collateral and thus raised liquidity at the expense of the crown.

In the spring of 1575, an agreement with the bankers was formalized, on terms that were little changed from the previous two years and that did not involve debt reduction. Philip, however, despite the urging of many parties in Castile and Genoa to settle, gave strict instructions not to separate the negotiations with the bankers and the cities, which were still holding out in the summer (Chapter 21). A compromise was reached in the Cortes in November: the cities' contribution would be doubled instead of tripled. Two weeks later, the king and the bankers ended the crisis with the *Medio General*.

V. The latter part of the reign

In the fifth and last part, we show how the strong renewal of the business of the asientos and the negotiations with the Cortes increased military spending to unprecedented levels. First some asientos were signed in Flanders by the very successful Alexander Farnese, Duke of Parma (Chapter 22).

Following the disaster of the Armada in 1588,⁷ Philip brilliantly seized the opportunity to secure a substantial contribution of six years from the Cortes, which far exceeded the actual loss. This was the only time in his entire reign when he obtained such a tax increase from the Cortes, albeit temporarily, when he did not have his back to the wall by having all the ordinary revenues pledged to the service of the debt: it was the only time that the interests of the Cortes, the pride and fear of the English in the sea, coincided with the goals of Philip (chapter 23).

The next two chapters (Chapters 24 and 25) analyze two revealing asientos. They are based on our published work. They are the first accurate accounts of such asientos to be published, with details of their implementation that the reader can verify in the documents we provide and from which he can get a better idea of archival research. The focus of the analysis is on the role of the bankers as financial agents of the crown. The fascinating details show that this role was much more than that of a lender.

The last crisis of the reign is examined in the last two chapters (chapters 26 and 27). It was only partially resolved and, in this respect, resembled the first crisis of 1557. It would have to be fully resolved in the next Cortes under Philip's son. Nevertheless, the Kingdom of Castile had reached a state of tax exhaustion, aggravated by the economic recession of the 1590s. Philip III

⁷ Note that the disaster had more to do with the weather than with the English, and for analogous reasons, Drake experienced a disaster of his own the following year, which was no smaller, but curiously been forgotten by most historical accounts.

would be able to obtain the renewal of a tax concession from the Cortes, but it would only be temporary, like the one granted in 1590. There would be no further concession from the Cortes to increase ordinary revenues.

A road map for the reader short in time

This book is not a comprehensive financial history of Philip II; it presents a narrative, and it is advisable to read all the chapters to understand that narrative and its context. We have collected information, documents, and data over many years, which we have pruned here to present a clear and concise representation of Philip's financial challenges. Readers with limited time, however, may want to concentrate on the first chapter for the historical context, and then on the 12 chapters that cover the most important points: the structures of taxation and long-term debt, the *juros* (Chapters 5 and 6); the theoretical model (Chapter 8); the first crisis at the beginning of the reign, which is a crucial reference point for the subsequent crises (Chapters 10 and 11); the main crisis (all of Part Part III); the Armada and the *Millones* (Chapter 23); and the end of the reign (Chapters 26-27).

Picture 0-1: the castle of Simancas where Philip II placed his archives



PART ONE

Castile in the 16th century: markets, banks and credit

1. Castilian cities, Habsburgs, and bankers



The city of Ávila

(There could be a picture of another city)

When the Reconquista began in the north, there was no population tied to the land under long-established aristocratic families as there was in France. Incentives had to be created to attract people from the other side of the Pyrenees to populate the new lands. From the 9th century, these took the form of privileges or charters granted by local lords or ecclesiastics. These evolved into formal royal grants, called *fueros* (from the Latin word *forum* for public), beginning with the city of León (1017), followed by many others in the 11th century, Sepulveda, Soria, Burgos, Logroño, Segovia, Ávila, Salamanca, and others in the 13th century.⁸ We will use the term “city” rather than “town” because their main role here is a political one, in the Cortes, and it did not depend on their size, which varied greatly from Sevilla, with more than 100,000 inhabitants, to Ávila with a population of about 5,000. The *fueros* strengthened the decentralization and political autonomy of these cities. In 1188, for the first time in history, representatives of the cities were summoned to the Cortes of León. They came from the elite of the cities, merchants or minor nobility, but they did not represent the first or second order, the Church and the nobility.

Gradually, a proud elite of nobles and merchants, with a strong individualistic spirit, ensured that these privileges would endure over time.⁹ The definition of an urban center at that time depended not only on the size of the population. Possessing a wall, enjoying a privileged legal status by the king's will or having a unique political power were the main characteristics of

⁸ Medieval Iberia: an Encyclopedia, 344-345.

⁹ (Pérez-Prendes y Muñoz de Arraco, 1960; Ladero Quesada, 1981).

1. Castilian cities, Habsburgs, bankers

many of them.¹⁰ From the Middle Ages, Castile became one of the most urbanized regions after the Netherlands and northern Italy.¹¹

This has led some to call Spain a monarchy of urban republics. A political framework characterized by respect for liberties and local privileges.¹² Compared to some other regions of Europe, the cities of Castile enjoyed a vibrant economic life and had a semi-autonomous status in relation to the monarchy, which had to respect the laws and customs inherited from its predecessors.

In the city governments, which were initially dominated by a small elite of families belonging to the lower and middle nobility, with chivalrous ideals and an aristocratic lifestyle,¹³ a new class of merchants and wealthy bourgeoisie emerged from the economic growth of these centers. Many of them were descendants of the conversos, the Jews who renounced their religion in 1492 to remain in Castile. They soon challenged the power of the old aristocratic families.

The crown reciprocated with a complete reorganization of urban life in many aspects: construction of public buildings, consolidation of municipal treasuries, systematization and updating of government regulations. Thanks to this policy, Isabel I was able to win over the urban oligarchies and gain their cooperation in the collection of higher taxes, which were essential to pay for her war in Granada. This relationship between the cities and the crown revolved around the collection of sales taxes, called *alcabalas*, the most important tax in Castile. Until the late 15th century, the monarchy outsourced the collection of these taxes through contracts with private tax farmers (contractors) often Jews or converts. Beginning in 1495, the monarchy replaced this system for some cities with another known as the “*encabezamiento*,” which, in exchange for a fixed payment to the Crown, handed over the collection and management of the municipal administration to the urban patricians.¹⁴ In 1537, under Charles V, this system would be extended to the *encabezamiento general* (hereafter *encabezamiento*) for all the cities represented in the Cortes.

For the monarchy, the cities were a very powerful ally. Not only did they provide men and money for war, but they were also the perfect counterweight to the power of the high nobility and the Church. Through the cities, the king was in direct contact with an important part of his subjects.

¹⁰ (Gautier Dalché, 1979).

¹¹ (Bairoch et al., 1988).

¹² (Rawlings, 2012; Herrero Sánchez, 2017).

¹³ (Ladero Quesada, 1986: 559).

¹⁴ (Ladero Quesada, 1986: 570).

1. Castilian cities, Habsburgs, bankers

After the 18-year-old Isabel I of Castile eloped and secretly married Ferdinand of Aragon in 1469, the Iberian Peninsula (except Portugal) was united under a single crown.¹⁵ In the early years of the 16th century, the economy was prosperous, the wool trade with the northern countries was flourishing, and new prospects were opening up in the recently discovered Americas.

When Ferdinand died in 1516 at the age of 64, 12 years after his wife, he had witnessed the deaths of his son John, Prince of Asturias, at the age of 19, and his daughter Isabella, married to the Prince of Portugal, the following year. Had she lived, or their infant son Miguel, who did not survive more than a year, the Iberian Peninsula could have been united early and Castile would have been spared the Habsburg inheritance.

Before John's death in 1497, his sister Joanna was only third in line to the throne of Castile. In 1496, she married the Duke of Burgundy, Philip the Fair, son of Maximilian of Austria, who would become Holy Roman Emperor and head of the most powerful family in Europe, the Habsburgs.

The eldest son of Philip and Joanna, Carlos V--Charles V--, was born in Flanders (in Gand, now in Belgium) with a century whose first half he would dominate. At the age of 19, he bought the position of Holy Roman Emperor with a loan from Jacob Fugger, one of the richest men in history.¹⁶ His European empire was made up of territories through the merger & acquisition strategy of the Habsburgs, who so skillfully played the game of thrones through the dice of marriage, birth and death.¹⁷ Its perimeter included the cities of Cádiz, Amsterdam, Breslau (now Wrocław), the Carpathians, Palermo, as well as Madrid, Vienna, and Naples. Throughout his life, Charles struggled to hold all the pieces of his empire together at a time when the Reformation was shattering its unity and strengthening regional identities.

The accession of Charles V to the throne of Castile abruptly disrupted the close relationship and traditional cooperation between the crown and the urban elite during the time of the House of Trastámara. The arrival of Flemish and some Castilian exiles from Brussels displaced those who had been running the government and initially failed to recognize the inherited tradition of the previous 150 years of urban political development.

From the beginning, Charles V was regarded as a young foreigner who was primarily interested in Castilian money to achieve his imperial goals. When he summoned the Cortes in Compostela in 1520 to raise more taxes to pay for his wars in Italy and Germany, and to repay the huge Fugger debt that had financed his election, the Cortes rejected the demands outright, and some cities revolted. The revolt spread to León, Valladolid, Salamanca, Segovia, Ávila and Toledo and lasted for a year. After the defeat of the rebels in two battles and the execution of their leaders, peace was restored through a general amnesty. The memory of the *Comuneros* revolt would

¹⁵ Since they were cousins, they needed a dispensation from the Pope. This was granted by the Spanish Pope, the infamous Alexander VI, who had it signed by his dead predecessor.

¹⁶ See also the account in Chapter 13.

¹⁷ (Benzell and Cooke, 2021).