

Philip III and Spain's Economy

Philip III inherited a disastrous economy from his father, Philip II. Spain was essentially a bankrupt nation by 1598.

The decline of Spain was not sudden. Philip II had seriously drained Spain's resources and Philip III had inherited his father's legacy. The fear of such bodies such as the Inquisition had dwindled as intellectuals openly discussed Spain's plight and analyzed the reasons for this. It was stated in the open that the Spain of the C17th was not as strong as the Spain in the 16c. These intellectuals suggested reforms: public spending had to be cut and people had to be left with more money to spend to stimulate the economy in terms of production. The desired for increased wealth would also create more social stability.

Economically, Spain was on a short fuse. Her wealth was based on her trade with the Americas--especially the silver mines of Latin America. However, her presence in the region was now being challenged by other European states (especially the United Provinces) and the region itself was moving towards 'independence'. Peru and Mexico were witnessing a growth in their economies and needed products which Spain could not provide. Not unnaturally, both countries looked elsewhere for trade. These regions also realized that the vast fortunes generated in their own countries was being lost and that they could better use that wealth if it stayed in their own country. This attitude fuelled the 'independence' movement and led to a large decrease in the silver bullion that was reaching Spain.

In 1598, 2 million ducats a year was entering Spain. By 1618, only 800,000 ducats entered Spain. It did increase to 1 million and stayed at that level but a 50% decline in this form of revenue was a severe blow to Spain. However, this revenue had not been 'spent' by the time it arrived in Spain--this was the only part of Philip's revenue not to have been spent. It was used to finance a foreign policy.

How active Philip III's foreign policy was depended on how much silver he had to spend. When there appeared to be plenty, he could be aggressive. If there was little, he had to rely on diplomacy as opposed to war. However, the court in Madrid was frequently filled with those who wanted an aggressive foreign policy and Philip was usually persuaded into a foreign policy he could not afford. By 1618 - the start of the Thirty Years War - Spain's impact on European policy was limited and her involvement in the war as a whole was not that expected from a great power.

Spain's internal economy was weak. There was little industry and agriculture was stifled with backwardness. Estates were vast and worked by peasants who had been ruined by taxation. Their willingness to work for others had been severely limited. Agricultural development was stunted. The failure to use such basic reforms as irrigation - first seen in the reign of Philip II - continued after 1598.

Castille also suffered during the reign of Philip III. There had been a huge population drift from the rural areas to the towns and cities. Peasants and small holders lost about 50% of their income to various taxes. The rest was not enough to live off of and many small holders sold off their land to the large estate owners and moved to the towns and cities. Food was grown haphazardly on these estates and the towns and cities were not well supplied with food. Disease and cramped living conditions weakened those who lived in urban areas and in 1599, the bubonic plague hit Castille. About 500,000 died. Only a major change in government policy could help Spain. This had to be a policy of making the rich pay their fair share of taxation. As Philip III let the rich grandees govern for him, it was highly unlikely that this would ever happen. They were the last people who would make sacrifices

for Spain.

The development of large estates was not necessarily a bad thing for Spain - but this proved to be the case. The owners were more concerned with prestige and did little to develop their land which would have been of benefit to the towns and cities. Improving yields was not a high priority and landlords spent much time at the court of Philip III enjoying life, hunting and finding government posts. The nobility paid no tax. About 10% of Spain's population claimed to be noble. The Catholic Church also paid no tax and by 1660 there were about 200,000 clerics and the Church owned 20% of all land.

This land that the Church held was used for pasture farming and the rearing of sheep was popular. Wool was in constant demand and the sheep owners organised themselves into a powerful organisation called the Mesta. This could use any land to send its sheep to market - including royal - as it loaned large sums to the crown. This right was perpetual. The emphasis on wool led to food production falling but the crown did nothing because it had an interest in maintaining the system. Also, sheep needed few people to herd them and they were no great trouble to rear. Those peasants who were not needed in this trade, drifted to the towns and cities increasing the problems there. But the reduced number on the land had to pay the same level of tax, therefore their tax demands increased. Therefore, they had even less found to spend on food etc.

Spain had very little industry and those with ability went to work in the government, the army or the church. Therefore, industry was starved of brains. The rich brought goods, but what they brought could not be produced in Spain. Luxury goods came from abroad, which meant that precious revenue actually left Spain during this time of economic crisis. The poor could only buy essentials. There was no demand in Spain for non-essentials. The cost of production was much higher than people could afford and foreign products--especially by the Dutch--were brought because they were cheaper and of better quality. The incentive to produce did not exist in Spain. Industry was not a great employer and simply did not 'take-off' in Philip's reign.

Though serfdom did not legally exist in Spain, many people lived the life of a serf. Some gained work on the huge estates (called *latifundias*) but many landless peasants existed - known as *braceros*. The huge estates did produce food, but it was consumed locally and rarely found its way to the cities and the towns. Spain imported vast amounts of goods yet exported little. Her balance of trade deficit was large and had to be made good by the bringing in of more bullion. The fact that bullion imports were shrinking greatly hampered Spain. The fall in silver imports led to the government minting copper coinage called vellon. 1599 to 1620 saw two decades of vellon production. This had a two-fold effect. First, it increased inflation. Secondly, it created a crisis in confidence. Such short-term remedies failed to work and mostly made matters worse. An economy survives on confidence. By debasing her economy, Spain was signaling to other nations that her economy was in trouble. No-one valued the new coinage. Ironically, the copper to produce the vellon came from protestant Sweden, was purchased in Amsterdam and paid for with silver.

Institutions were still willing to loan Spain money but patience with Philip III was running out. Up to the 1620's, Genoa was the main financier but in 1627 Spain refused to pay its interest payments and Genoa pulled out of lending Spain money. Portuguese lenders stepped in. They were seen as second rate money lenders and the fact that Spain took money from them was seen as a symbol of how low her status had fallen in western Europe.

SOURCE:

"Philip III and Spain's Economy." <<http://www.historylearningsite.co.uk/P3econ.htm>>