

The Monetary System of the Luso-Brazilian Empire: the Changing Role of the 'Provincial' Currency in the 17th and 18th Centuries*

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Abstract. In this research we try to explain the dual character of the monetary system of the Luso-Brazilian Empire brought about by the introduction of a parallel, or complementary, currency in Brazil by the end of the XVII century. The simultaneous circulation of 'provincial' and 'national' coins can explain why these units of exchange did not act as both store and standard of value. Money had not only a hierarchy character according the value of payments (gold, silver and copper) but also the mint policy varied in the different areas of circulation. This implied that not all these coins were hoarded or obtained the same status on international market. Nevertheless, since the 17th century we have an evolution that we need to recognize and understand. This implied that 'provincial' money as a concept had an evolution and other attributes to make this money broadly acceptable as units of exchange. Which are the convergence of mechanisms that explain the emergence and consolidation of a money economy in the Portuguese Empire? We will analyse the monetary relations between Brazil and Portugal and the time span is since the 17th century until the 19th century.

Keywords: Monetary system, provincial money, currency system, Luso-Brazilian Empire.

Монетарная система Португальско-Бразильской империи: меняющаяся роль «провинциальной» денежной системы в XVII и XVIII веках

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* This is a work in progress intended to assess the monetary arrangements within the Luso-Brazilian Empire in the 18th century. In a previous paper (Lima & Sousa, 2017), we estimated the production and stock of the national gold coins in Brazil in the period 1703–1807.

Аннотация. В этом исследовании мы попытались выяснить двойной характер монетарной системы Португальско-Бразильской империи, созданной путем введения в обращение параллельной и комплементарной валюты в конце XVII в. Одновременной циркуляцией «провинциальных» и «национальных» монет можно объяснить, почему они не выполняли функции и сокровища, и меры стоимости. Деньги имеют не только иерархическую структуру в зависимости от вида платежей (золото, серебро и медь), поэтому денежная политика различается в разных сферах циркуляции. Следовательно, не все монеты образовывали сокровище или получали такой же статус на международном рынке. Несмотря на это, с XVII в. произошла эволюция, которую мы должны осознать и понять. Это предполагает, что концепция «провинциальных» денег подлжет эволюции и приобретает другие качества, благодаря которым эти деньги беспрепятственно принимаются в качестве средства обмена. Каким был механизм конвергенции, благодаря которому возникла и укрепилась денежная экономика Португальской империи? Мы проанализировали денежные отношения между Бразилией и Португалией в промежутке времени от XVII до XIX в.

Ключевые слова: монетарная система; провинциальная денежная система; денежная система; Португальско-Бразильская империя.

INTRODUCTION

This paper analyses the main features of the monetary system of the Luso-Brazilian Empire from the end of the 17th century to the beginning of the 19th century with emphasis on the changing role played by the *provincial* coins, that is, a currency supposed to circulate exclusively in the colony. We start by describing the monetary arrangements in Portugal and Brazil in the last quarter of the 17th century and correspondingly discussing the rationale behind the introduction of the provincial currency. The following section examines the changes in currency circulation brought about by the gold discoveries which gave rise to a dual currency system composed of national and provincial coins that remained in place right until the end of the colonial period. The third section assesses the increase in the provincial money supply that occurred during the second half of the 18th century and speculates about the reasons the Crown decided to meet the demands then being made both by the colonists and by the colonial authorities. The final section presents a summary of the main arguments.

1. THE LUSO-BRAZILIAN CURRENCY SYSTEM IN THE LAST QUARTER OF THE 17TH CENTURY AND THE COINAGE OF PROVINCIAL COINS

Throughout the colonial period, the Luso-Brazilian monetary system was bimetallic. As elsewhere in Europe, circulation was based on silver in the 16th and 17th centuries. The gold discov-

eries of the 18th century, however, increased the share of gold as a means of exchange in Brazil, where metallic coins and gold in the form of dust and gold bars served as a means of payment alongside other non-metal commodities such as sugar and cotton¹. All commodity moneys had their values determined either by the local authorities or by the crown in terms of the Portuguese unit of account — *real*².

After its independence from Spain in 1640, Portugal and its American colony faced an increasing currency shortage due both to the high costs associated with the war of Restoration and, later on in the 17th century, to the steady fall in the international price of sugar and tobacco. The crown then resorted to a sequence of devaluations of its unit of account: from 1640 until 1688, it raised the mint price of silver on five occasions, and that of gold six times, with a total increase of 133% and 243% respectively³.

These devaluations applied to both the kingdom and the colony but in Brazil, under pressure from sugar producers, the colonial authorities occasionally decided to cry up the money in circulation without asking for prior approval

¹ Sugar was used in payments everywhere in Portuguese America, whereas cotton served as currency exclusively in the State of Maranhão and Pará until 1750. In the eighteenth century, gold dust and gold bars circulated in the mining regions, which comprised the captaincies of Minas, Goiás and Mato Grosso.

² Only gold dust was allowed to act as a unit of account but its usage was restricted to the mining regions. Even there, a substantial part of the contracts and government accountancy were still denominated in *réis* (plural of *real*).

³ Sousa (2001).

from Lisbon⁴. Another way of protecting the interests of the sugar industry involved fixing the *réis* price of an *arroba* (approximately 15 kilos) of sugar around the time the fleets arrived and then impose this as legal tender. Setting the price of sugar also sought to resolve potential conflicts between local producers and Portuguese merchants that might have jeopardized the sailing of the ships back to the kingdom at the appropriate time. This expedient was maintained through the 18th century even though sugar mill owners had by then lost most of the political leverage they had enjoyed over the two previous centuries⁵.

Despite these devaluations, the money stock deteriorated both in terms of quantity and of quality. Most of the coins were of Spanish origin and the scarcity of silver and gold species was aggravated by the practice of clipping. In such a case, new coins were bound either to be exported or hoarded in accordance with Gresham's law.

As from the mid-1680's, laws were enacted in efforts to impose a more uniform circulation, initially to no avail and even in the metropolis. Finally, the monetary law of August 1688 succeeded in imposing the monetary regime that was to last almost untouched until the beginning of the 19th century. The *real* lost 20% of its value and the recoinage of all silver coins and of old gold coins was ordered⁶. The bad quality and the currency scarcity together justified the measures undertaken by the Portuguese authorities. The 20% increase in the mint price of metals was meant to compensate their owners for the loss experienced due to the recoinage but was also motivated by a similar devaluation in Spain two years earlier.

The 1688 monetary law received strong opposition in Brazil, where the monetary situation resembled that prevailing in the kingdom: silver coins, mainly *patacas* from Spanish America, circulated with very low intrinsic value, and complaints about currency shortages. The recoinage of silver in particular would therefore represent a considerable loss to the colonists. In an attempt to prevent such a loss, both the colonists and the local authorities repeatedly

appealed to the king and requested the creation of a Mint House to coin "provincial" currency with either a higher face value or a lower metal content than the metropolitan coins. Up until 1694, when the king finally decided in favor of establishing the first Mint House in Brazil, there occurred a number of what became known as "currency riots" in Bahia and, in particular, in the captaincy of São Paulo.

Initially located in Bahia, then the capital of the colony, the Mint began operations in 1695 coining exclusively "provincial" silver and gold currency that weighed 10% less than their equivalent in the kingdom. In 1698, after finishing the recoinage in Bahia, the mint was transferred to Rio de Janeiro and, two years later, to Pernambuco, where it remained in operation until 1702⁷.

If one takes into consideration the correspondence exchanged between the local and the metropolitan authorities about the shortage of coins in Brazil during the last quarter of the 17th century, the total coinage produced by the so-called "Travelling Mint" must have come as a surprise. The nominal amount of provincial coins represented about 60% of the silver circulating in Portugal at the beginning of the 18th century, and 20% of the gold circulation. Although there are no reliable estimates for the total population, we may state that the supply of currency per capita in Brazil was higher than in Portugal⁸.

As a consequence of the recoinage, silver coins accounted for around two thirds of total circulation at the turn of the century. These silver and gold coins were made legal tender and with their exportation prohibited. No further coinage was planned as the amount of provincial currency in circulation was deemed more than sufficient. Cash payments for imports could be made with the Spanish patacas resulting from commercial relations with Buenos Aires⁹. Part of the silver provincial pieces fulfilled the important role of small change as very little copper coins were then in circulation and none had been minted in Brazil.

⁷ For this reason, the Mint has been referred to as the "Travelling Mint" in the literature. See Gonçalves (1984); Lima (2005).

⁸ For monetary data in Portugal, see Sousa (2006).

⁹ As far as the sugar producers were concerned, the ideal situation would be one in which Portuguese merchants would accept sugar as a means of exchange.

⁴ See Sombra (1939).

⁵ For a discussion on the changes in the balance of power in Brazil during the 18th century, see Fragoso (1998).

⁶ For details, see Sousa (2001).

2. THE IMPACT OF THE DISCOVERIES OF GOLD ON THE MONETARY SYSTEM

The exclusive circulation of provincial coins within the colony's boundaries did not last for as long as a decade and thus we are not able to properly assess its impact on the Brazilian economy¹⁰. In response to the gold discoveries in the Minas region, the Crown reopened the Mint in Rio de Janeiro in 1703, this time to coin only *national* gold coins, that is, coins similar to those produced by the Lisbon Mint. Whilst the coinage of provincial currency represented a longstanding aspiration of the colonists, the reopening of the Mint above all held fiscal objectives: the authorities sought to boost their collection of the fifth (*quinto*), that is, the 20% tax on gold production, plus 6.6% gains from seigniorage¹¹.

The new Mint in Rio de Janeiro was designed to meet private demand for coins due to be sent to Portugal. Most historians have supposed that almost all of these coins were indeed sent to Portugal, but recent research suggests that about 20% of the amount coined in Brazil remained in the colony, whether in circulation or hoarded¹².

As regards metallic money, two types of coins were produced, both by the Lisbon Mint and by the mints set up in Brazil: national gold coins, intended for circulation in Portugal, as well as provincial coins, made of gold, silver and copper, which were to serve as legal tender in the Portuguese American territory. Thus, in the case of colonial Brazil, not only was the system bimetallic, but it was also a system that had complementary coins in circulation.

The large-scale mining of gold in Brazil, beginning in the late 17th century, soon led to deep changes in coinage policy. The Rio de Janeiro Mint was reopened in 1703 followed by the Bahia Mint in 1714¹³. Furthermore, a third mint was established in Vila Rica in 1724¹⁴. The initial

plan was that the Brazil mints would only strike national coins with the same intrinsic and extrinsic values as those produced at the Lisbon Mint, intended as a means to prevent the smuggling of gold dust.

The production of gold and gold coins came to have a profound impact on the specie in circulation. What was designed to become a clear-cut system, with the provincial coins playing a significant, if not exclusive role at least insofar as domestic transactions were concerned, instead became a mixed monetary system, one in which both national gold coins and provincial silver and gold coins circulated side by side even if through different circuits. Moreover, two main reasons drove a significant decrease in the supply of provincial coins to the sugar production captaincies. The first was the perennial deficits that the coastal areas ran with the hinterland¹⁵. The second reason stemmed from the decoupling of the official and the market gold/silver ratios: the gold discoveries provoked a decrease in the market value of gold in terms of silver and, as a result of the fact that the Portuguese authorities did not change the mint price of gold accordingly¹⁶, bad money (gold) expelled good money (silver coins) from circulation¹⁷.

Complaints about currency shortages were stronger in the captaincies that did not have a mint. In Pernambuco, which was the most important sugar producer up until the Dutch invasion in 1630, the authorities were trying to persuade the crown to send them provincial coins at the beginning of the 18th century despite the relatively high level of coinage of its mint in 1701–2. A great deal of those requests was only for the sending of small change, but not exclusively. The circulation of provincial coins was deemed crucial to the production of sugar and other commodities¹⁸ as these coins were used to acquire local inputs. It is interesting to note, however, that even though these requests became particularly insistent in the 1720's and 1730's, in that period alone Pernambuco remitted around 3,000 contos of national

¹⁰ As pointed out by Levy (1983).

¹¹ Costa, Rocha & Sousa (2013); Lima & Sousa (2017). According to law, the miners had to take the gold dust to *casas de fundição* (smelting houses) that returned them as gold bars after deducting the 20% levy. The bars then could be taken to the Mint if their owners so wished. Most of the gold sent by individuals from Brazil to Portugal took the form of coins.

¹² See Lima & Sousa, 2017.

¹³ The Bahia Mint remained in operation until 1832 (see Gonçalves, 1984). The Rio de Janeiro Mint is nowadays the Brazilian Mint.

¹⁴ See Boxer (1962). The mint was closed ten years later.

¹⁵ Russell-Wood (1968).

¹⁶ The silver mint price was raised in 1734 and 1747. See Sousa (2006) for an analysis of the effects of such changes in Portugal.

¹⁷ See, for example, Russell-Wood (op. cit.), Pinto (1979) and Lima (2012).

¹⁸ Arquivo Histórico Ultramarino. AHU_ACL_CU_015, Cx.51, D. 4522.

Coinage of Provincial coins in the Lisbon Mint (1752–1805)

	Lisbon Mint (in contos)	%
Gold (1752–1796)	527	32
Silver (1755–1797)	666	41
Copper (1753–1805)	443	27
Total	1636	

Source: *Estatística das moedas de ouro, prata, cobre e bronze, que se cunharam na Casa da Moeda de Lisboa desde o 1º de Janeiro de 1752 até 31 de Dezembro de 1871.*

Note: 1 conto = 1 million réis.

gold coins to Lisbon¹⁹, a sum greater than the total coinage produced by the Travelling Mint.

Similarly, in Bahia, in as early as the first decade of the 18th century, colonists began complaining about specie scarcity²⁰ and, in the same fashion as in the 17th century, the local authorities perceived the shortage of money as a fiscal hindrance. After the successful French raid on Rio de Janeiro in 1711, the reopening of the Bahia mint was seen as a way to increase public revenues to pay for higher military expenditures. That the issuing of provincial coins provided the crown with higher gains from seigniorage raised the hopes that the mint would coin at least some provincial currency. To the disappointment of the colonists and the Bahia authorities, however, the new Bahia Mint, which began operations in 1714, produced only national gold coins until 1752²¹.

The main consequence of the shortage of silver therefore reflected in the lack of small change for daily transactions. Such shortages were felt most keenly in the northeastern region — Bahia and Pernambuco, in particular —, where silver coins had beforehand constituted the bulk of the species in circulation. As these coins disappeared, the colonists once again began requesting the coinage of provincial money, including copper coins. These requests came mostly from the sugar and tobacco producers, who required cash to pay for the inputs necessary to running their “factories” and who furthermore benefitted from the difference in metal terms between the national coins they received when exporting their produce and

the provincial coins needed to pay salaries and inputs domestically.

In summary, in the first decades of the 18th century, the monetary situation had already dramatically changed from that originally envisaged by the Law of 1694 in which provincial coins were due to dominate the currency in circulation. The scenario brought about by the production of gold coins in Brazil meant the concomitant circulation of two different kinds of currency: the *national* (gold) coins and the *provincial* (gold, silver and copper) coins that did not compete, but instead ran side by side.

3. THE INCREASING SUPPLY OF PROVINCIAL CURRENCY AND ITS REGIONAL DISTRIBUTION

Despite the appeals arriving from the colony and even following assent from the Overseas Council, the crown did not change its monetary policy. Neither the metropolitan nor the colonial mints issued any silver or gold provincial coins until the mid-18th century. Only small quantities of copper were sent to the mining regions in the early 1730's. Change did finally come about in the end of 1740's. Table 1 displays the total amounts of provincial currency produced in Lisbon and destined for Brazil.

Silver and gold coins were three quarter of the total amount sent to Brazil. The amounts of copper increased in the beginning of the 19th century, with huge amounts sent in 1802 and 1803. Lisbon ceased the coinage of provincial silver and gold coins in 1796–7. This decision probably derived from results of consultation made by the crown with the governors of the most important captaincies, asking them to report on both the quantity and the types of species in circulation. On that

¹⁹ ISEG-UTL <http://ghes.iseg.utl/index.htm?no=551000100094>.

²⁰ As amply demonstrated by Russell-Wood (op. cit.) and Pinto (op. cit.).

²¹ The mint also produced some copper coins in 1730.

occasion, no governor complained about money scarcity. Fiscal considerations might also explain the crown's decision to carry on producing provincial copper coins until 1805.

What were the reasons behind the change in the crown's policy with regard to the provision of provincial coins? Did they reflect a change in the way Lisbon perceived the relative importance of the colony — and the colonists — within the Empire? Or, alternatively, was this motivated primarily by fiscal considerations?

One hint may arise out of the geographical distribution of the newly issued provincial coins. A significant proportion of the coins was initially delivered to the State of Maranhão and Grão-Pará, an area of great concern for the crown due to the proximity of territories under dispute with Spain. The decision was first taken in 1748, which means that the change preceded the rise to power of the Marquis of Pombal. The State of Maranhão and Grão-Pará continued to be the destination of most of the provincial coins produced by the Lisbon Mint following the forming of the General Company of Grão-Pará and Maranhão in 1755²².

A second reason derived from the change in the monetary regime imposed specifically in the Minas region. In 1750, both the Rio de Janeiro and Bahia mints were ordered to coin silver, and to a lesser extent copper, designed to fulfill the role of small change in that region. To avoid smuggling, gold coins of any sort were prohibited from circulation and thus gold dust became the preferred means of payment. However, because the *oitava* (3.585 grams) of gold, valued at 1\$500 réis, served as the unit of account, petty payments had to be made with even smaller fractions. As a result, throughout the 18th century, Minas inhabitants were continually asking for silver and copper coins to be sent to the region.

A third explanation lies in the fiscal advantages of coining provincial rather than national coins. Silver provincial coins allowed for seigniorage gains of about 17%, whilst those for national gold stood at 6.6%. The coinage of copper coins was

²² Portuguese desires to develop some Brazilian regions such as the State of Maranhão and Grão-Pará, as well the captaincies of Pernambuco and Paraíba, were interlinked with the setting up of monopolist trade companies in the beginning of the second half of the 18th century. Pernambuco also received frequent remittances of provincial coins from Lisbon and from Bahia.

even more advantageous, which may explain the fact that copper coins were still being remitted to Brazil in large quantities up until 1805²³. As the supply of gold faltered and government expenditure grew, seigniorage proved an attractive source of revenue.

A final point deserves mention. We have not found any evidence of *agio* between provincial and national gold coins; most probably the former were accepted at their face value even in private transactions. On the other hand, we have found evidence that national coins circulated all over the colony, except in the Minas regions. What could explain the fact that Gresham's law did not prevail? According to Pandiá Calógeras (1960), both coins ran at their face values because people were simply not aware of their real values, and because silver coins were not so abundant. However, as soon as the crown abolished the exclusivity of commerce in 1808, these gold coins headed abroad.

Another hypothesis interlinks with the complementary role played by provincial coins. A hierarchical system of payments implied that "small currency was used to exchange goods in view of their immediate use within the local economy [and] large coins were used by merchants (...) considering nothing else but the equivalence of the goods exchanged, in view of further exchanges"²⁴. This reflects the complementary role played by the provincial and the national coins, which allowed for their exchange at face value.

CONCLUSIONS

Our research points to conclusions that contradict the traditional literature on the monetary matters of the Luso-Brazilian Empire. In the 18th century, Brazil was not only an economy that exported precious metal. Particularly along the coast, the production of agricultural commodities both for export and for domestic consumption remained an important part of the economy; indeed, gold extraction helped to bring formerly dispersed economic activities closer. In other words, there was a *national* economy under formation, a fact that led to an increase in the demand for means of exchange and payments.

²³ It is interesting to note that the stock of copper coins was probably higher in Brazil than in Portugal at the beginning of the 19th century.

²⁴ Fantacci (2008, pp. 54–55).

Brazil followed the monetary rules and practices of the metropolis: the demand for money as a means of payment meant demand for metal coins; gold coins in particular, due to their international acceptance, ranked at the top of the monetary hierarchy. Nevertheless, in the case of domestic exchanges, part of

the demand for money was met by provincial currency. Therefore, the monetary system of the Luso-Brazilian Empire throughout the 18th century was a dual currency system with *provincial* and *national* coins that were accepted at their official value due to their complementary roles.

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