British Banks in Brazil
during an Early Era of Globalization (1889-1930)*

Prepared for:

European Banks in Latin America during the First Age of Globalization, 1870-1914
Session 102
XIV International Economic History Congress
Helsinki, 21 August 2006

Gail D. Triner
Associate Professor
Department of History
Rutgers University
New Brunswick NJ 08901-1108 USA
triner@ix.netcom.com

* This paper has benefited from comments received from participants at the International Economic History Association, Buenos Aires (2002), the pre-conference on Doing Business in Latin America, London (2001), the European Association of Banking History, Madrid (1997), the Conference on Latin American History, New York (1997) and the Anglo-Brazilian Business History Conference, Belo Horizonte, Brazil (1997) and comments from Rory Miller.

British Banks in Brazil
during an Early Era of Globalization (1889-1930)

Abstract

This paper explores the impact of the British-owned commercial banks that became the Bank of London and South America in the Brazilian financial system and economy during the First Republic (1889-1930) coinciding with the "classical period" of globalization. It also documents the decline of British presence during the period and considers the reasons for the decline. In doing so, it emphasizes that globalization is not a static process. With time, global banking reinforced development in local markets in ways that diminished the original impetus of the global trading system. Increased competition from privately owned banks, both Brazilian and other foreign origins, combined with a static business perspective, had the result that increasing orientation away from British organizations responded more dynamically to the changing economy that banks faced.

British Banks in Brazil
During an Early Era of Globalization (1889-1930)

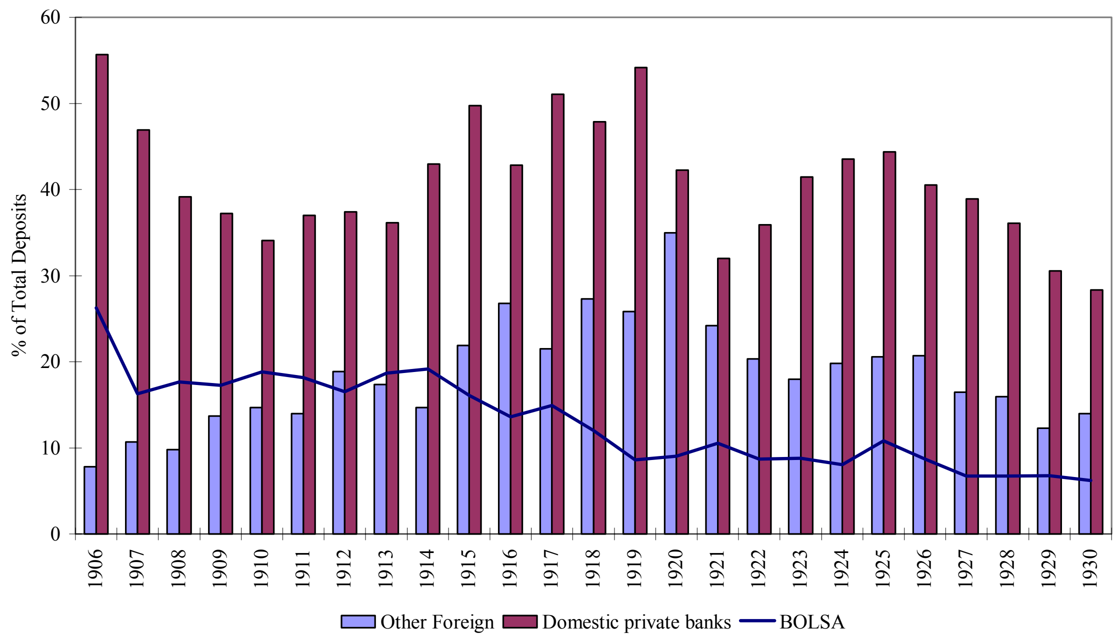
Brazil's long history of intensive commodity export gave the country an international presence and attracted foreign (primarily British) capital and export-related business.[1] British commercial banks served as a linchpin in Brazil's presence in global networks, linking coffee trade and its financing with currency value and regimes (the gold standard.) Finance was the visible and crucial nexus that linked domestic activity in Brazil with international markets. These relations became especially important during the Brazilian First Republic, from 1889-1930. By the 1920s, Brazil was Latin America's largest international debtor (Marichal 1989: Table 7). Simultaneously, British investment and commercial banks were prominent in Brazil. During their years of most intense dynamism, they influenced public policy, and provided commercial finance, access to European capital markets and to international distribution systems for coffee. British financial activities reached their apogee and experienced notable decline during the First Republic.

During the same period, the modern domestic financial system began to coalesce. British banks provided much financing to sustain international commerce and actively participated in shaping the Brazilian banking system. They also served the special function of conducting many of the transactions that linked international long-term capital investment, commodity trade and money exchange into an integrated global financial system. After fundamental reforms to the banking system in 1906, the banks

[1] Furtado ([1959] 1991) and Peláez (1979) offer diverse analyses of export commodities in Brazilian economic history.

that came to comprise the Bank of London and South America held 26 percent of Brazilian bank deposits; by 1930, they held 6 percent of deposits. (See Graph 1.)

Graph 1
Share Distribution, % Total Deposits
% of Total Deposits, by nationality of ownership



Source: Triner (2000, Data Appendix)

This paper explores the impact of the three commercial banks that became the British Bank of London and South America in the Brazilian economy of the First Republic, coinciding with the "classical period" of globalization.[2] The paper also documents the decline of British presence during the period and considers the reasons for the decline. In doing so, it emphasizes that globalization is not a static process. With

[2] Both investment and commercial banks were very active (Ross 1996). Although, they had overlapping interests, they financed different types of activities and incurred risks of different natures. British investment banks, most notably represented by the Rothschilds family banking house, did not invest in or lend to Brazilian borrowers; nor did they necessarily raise "British" capital. The Rothschilds merely sold to investors the debt issued by the Brazilian government. Similarly, banks subsidized by individual states for the special purpose of agricultural crops and mortgages – the largest were B. Crédito Real de Minas Gerais and B. de Crédito Hypothecário e Agrícola de São Paulo/Banco do Estado de São Paulo (which began in 1909 with French capital)– are also not included because of the difference in their business structures and profit dynamics, and the component of state-ownership. Even so, both banks also ran commercial portfolios.

time, global banking reinforced development in local markets in ways that diminished the original impetus of the global trading system. Within Brazil the perceived benefits of global financial participation changed dramatically during this period, as international economic conditions and relative comparative advantages in different sectors shifted.

Filling a gap in the existing economic historiography, this paper focuses on the influence of British banks on the business practices of banking within the Brazilian private sector, rather than on the management of overseas business operations. Policy and international debt are considered for their effects on the private sector banking practices.[3] Also departing from the general direction of existing historiography, this paper adds another perspective to the explanation for the declining influence of British finance in the Brazilian economy. In addition to the shift in international economic relations away from the dominance of the British, development within the Brazilian economy and the inadequacy of British understanding of Brazilian political economy supported the shift. The published balance sheets of foreign and domestic banks,[4] archival holdings of the major British banks and the lively contemporary financial publications support these findings.

The Bank of London and South America (BOLSA) embodied British commercial banking in Brazil. The Banks of London and Brazil (opening in 1863) and of London and River Plate (opening in Brazil in 1892) merged to form BOLSA in 1923. The British Bank of Brazil was acquired during the 1930s. During the 1960s Lloyd's Bank acquired

---

[3] As a result, the paper considers policy debate, money supply and the institution of the Banco do Brasil to a lesser extent than is typical in the financial historiography. For a consideration of the impact of the Banco do Brasil on the practices of private sector banking during the First Republic see Triner (2000).

[4] The quantitative data of the paper begins in 1906 because that is when systematic financial reporting became reliable for banks in Brazil. See Triner (2000: Data Appendix) for a discussion of bank financial reporting.

BOLSA (Joslin 1963). Prior to their consolidation, the three constituent banks were the entire British commercial banking community in Brazil. As independent organizations, their business practices – their customer bases, lending criteria, and financial management of the banks – were extremely similar. Therefore, analysis of BOLSA and its constituent organizations offers an understanding of British commercial banking in Brazil.

BANKING IN THE FIRST REPUBLIC

The Brazilian-British trading system, centered on coffee and finance, successfully created globally integrated and very efficient markets for coffee and money. Coffee was the product that most prominently connected Brazil to global markets during the First Republic.[5] Financial institutions were the nexus that allowed Brazilian coffee and the economy to become internationalized, and British commercial banks operating in Brazil dynamically connected local mercantile activity to global markets. The coffee trade often influenced government policy; it also was closely associated with industrialization and overall economic growth.[6] Although the benefits of commodity production for export did not extend to a majority of the population, prosperity was strongly identified with coffee. Large scale coffee cultivation for export began in the middle of the nineteenth century, and grew rapidly in volume and importance (Prado, 1993: Chs. 16-19). From 1889 to 1930, Brazil produced 71 percent of the world's coffee (Fritsch 1988: Table A.6). The

[5] A variety of other agricultural commodities – cotton, cocoa, and sugar – also contributed to Brazil's reputation for providing tropical products to the wealthier northern countries. For a short period at the beginning of the First Republic, rubber provided a lucrative source of trade, before meeting with a spectacular crash.. In 1910, rubber accounted for almost 40 percent of Brazilian exports; but the share dropped precipitously to less than 5 percent by 1919. (*Anuário estatístico*, 1939/40, Table III.7). But these commodities did not influence financial structure to the extent of the coffee trading network.

[6] Suzigan (1986), Cano (1977) and Dean (1969) are the best sources on the linkages between coffee and industrialization.

markets for coffee were dynamic, responsive to market forces and international in nature by the beginning of the twentieth century.

In its early stages, expanded coffee production required relatively little capital and import/export merchants attended to the necessary financial arrangements of extending short-term credit to bridge the needs of each stage of the production and trading cycles. Separate financial institutions were not necessary to accommodate commercial needs, and attempts to establish domestic banks did not succeed prior to the end of the nineteenth century.[7] By the end of the nineteenth century, the volume and risks of coffee financing were sufficient that coffee merchants became anxious to remove themselves from financing the commerce.[8] Small domestic commercial banks appearing at the end of the nineteenth century partially filled the need to finance Brazilian merchants.[9] Segmenting the separate activities of the coffee trade separated the risks of production, foreign currency exchange fluctuation and finance. The separate activities were broadly aligned with nationality. Brazilian producers cultivated coffee beans. British and increasingly Brazilian banks financed the cultivation and export.[10]

British commercial banks had been among the most prominent institutions spreading European business interests in Brazil. From their appearance in the mid-nineteenth century, British commercial banks engaged in business of a relatively

---

[7] Sweigart (1987) and Ferreira (1977) consider early finance of commercial agriculture. See Levy (1972) on the inability of commercial banks to establish a continual foothold in Brazilian commerce during the nineteenth century. Pacheco (1973) outlines the attempts during the nineteenth century to establish a national bank servicing the public sector. The establishment of British banks, the earliest foreign entries, is discussed below.

[8] Ferreira (1977) shows this for the province of Rio de Janeiro, where coffee production peaked and declined earlier than in São Paulo.

[9] Some of the banks that were organized at this time, which survived into the twentieth century, include B. de São Paulo, B. Commercial, B. de Comércio e Indústria (SP) and B. Lavouro e Commercio (Triner 2000: Table A.8).

consistent nature. They provided short-term credit to planters in order to span the period between the production of tradable commodities and the receipt of revenue from selling the commodities. They advanced credit by purchasing at a discount commercial paper guaranteed by the commodity or the personal guarantees of the merchants. If the client defaulted, the bank had recourse to the payment from the original mercantile transaction on which the client had originally based the note. By providing on-going services for their clients, these short-term arrangements could be effectively converted to long-term financing, to the extent desired. Banks also actively engaged in trading currencies.

At the end of the century, important differences characterized the businesses that Brazilian and the three British banks conducted. During the nineteenth century, small groups of business associates owned the few (and short-lived) domestic banks, which offered them the opportunity to combine commercial and investment financing and to undertake equity investment in the partners' other business enterprises.[11] At times, the Treasury granted specific Brazilian banks the right to issue notes based on their own creditworthiness. When granted these rights, the domestic banks used them actively (Franco [1983] 1987).

From its inception in 1889, the financial structure of the First Republic had suffered periods of severe disruption. In late 1890, an unbridled financial expansion led to a crash, widespread corporate and bank failure and a prolonged financial instability.[12]

---

[10] See Ridings (1994) on the history of foreign merchants in Brazil.

[11] Mauá (nd) or Joslin (1963: 101). This is similar to patterns that Lamoreaux (1994) found in New England.

[12] The best recent source on the monetary instability during the first years of the Republic is Franco [1983] 1987.) It is also usefully discussed in Neuhaus (1974: 5-7) Peláez and Suzigan (1976: 177-181) Cano (1977) Levy (1980) and Goldsmith (1986: 106-07). Triner and Wandschneider (2005) considers the implications of globalized financial markets for monetary instability within Brazil.

The London investment banking house of the Rothschilds underwrote a loan to re-finance the Brazilian government debt in 1898 (RC: 1898: 19, Villela and Suzigan 1973, Bouças 1950: 160-64). Partially due to the very restrictive conditions of this loan, a series of bank failures followed in 1900 and 1901, rendering the domestic banking system virtually inoperative (Bouças 1950:183-88, Neuhaus 1974: 8-12, Pacheco 1973: vol. 4). During the subsequent four years, British commercial banks were the major providers of financial services in Brazil (MFR 1907: lxix). Widespread restructuring of the failed domestic banking system during 1905 and 1906, resulted in a substantially reformed and revitalized financial system.[13] The newly-constituted Banco do Brasil became the federal government's fiscal agent and occasionally acted, informally and selectively, as a lender of last resort to other banks. In addition to administering the gold standard, the bank was the agent for the federal government's financial transactions. The most profitable of its privileges were tariff collection (paid in hard currency), monopoly rights to conduct the Treasury's foreign exchange transactions, and a federal charter allowing it to establish branches across state boundaries. Simultaneously with its public sector functions, the bank held the largest private sector deposit base and credit portfolio.

In contrast to earlier years, privately owned domestic banks engaged solely in financing short-term commercial transactions with rigorous procedures to protect against

[13] The 1906 coffee valorization program influenced the timing of the banking reforms. The state of São Paulo negotiated an international loan of £3 million, guaranteed by the federal Treasury to finance the price support program (Fritsch 1988: 18-22). At the end of 1905, the Banco do Brasil was re-chartered, as the successor to the Banco da República, the Treasury's agent bank, (which led the failures in the 1900 crisis. Goldsmith 1986: 106-07, Topik 1987: 40-43). A major component of the banking reform and organizational structure of the Banco do Brasil was the establishment of a Conversion Office within the bank to implement a metal standard, in an attempt to reverse the long-term decline of the mil-réis, which was expected to continue with the valorization.The exchange rate had fallen steadily from 26.4 pence/mil-réis in 1889 (annual average rate) to 7.4 pence in 1899; from 1901 a slight recovery brought the rate back to 12 pence until the 1906 reform (IBGE1990: Table 11.10).

the risks of borrowers' failures. They funded their short-term investments with their own capital and deposits, rather than issuing notes that created insecure future liabilities (Triner 2000: Chapter 4). Amended bank statutes and regulation precluded direct engagement in long-term finance and the issuance of unfunded notes.[14] Risk minimization was an explicit and on-going goal of bank management. These characteristics were common to all publicly chartered banks, whose equity shares traded on the securities exchanges. Enhanced stability and legitimacy accompanied the reforms that restructured the banking system in 1906.

By 1906, once chartered, laws, regulation and taxation did not consider foreign banks differently from their local counterparts (Hurley 1914: 44).[15] However, the nature of financial regulation offered foreign, and especially British, banks effective advantages not available to domestic organizations. The two most important areas of difference were with respect to conducting foreign exchange transactions and their pre-existing national bank charters.

The British concerns appeared to be more risk-averse than their local counterparts. They limited their business to short-term, fully-funded, self-liquidating commercial transactions, especially in the foreign exchange market, in order to minimize their risks. Because "speculative" foreign exchange transactions were illegal after 1900, regulation prohibited foreign currency transactions that were not associated with specific commercial transactions. Therefore by servicing their compatriot export-merchants, British bankers had an effective advantage in the sector of business which heavily

[14] Bankers did effectively convert short term finance into medium and long term facilities, but with a structure that allowed them to revert to the benefits of short term lending (Triner 2000, Chapter 4).

[15] Despite the legal provisions, at times, foreigners apparently perceived discrimination against their

required the exchange of currency. The British organizations earned a large share of their revenues, and conducted a large portion of their business by simply exchanging currencies, which involved no risk of credit exposure. In doing so, the banks profited both by the fees they charged and by their ability to realize gains from fluctuations in currency values.[16] British bankers displayed a reluctance to extend credit, and only slowly extended their activities to include the extension of credit in the form of general-purpose loans with personal guarantees. Although potential borrowers decried their risk-averse behavior, often with nationalistic overtones (Levy 1991: 364) British banks and their domestic counterparts clearly preferred the relative safety of exchange transactions, as compared to credit exposure (RC 1909: 24).

British banks only gradually modulated their different perspective on the nature of lending at this time and continued to benefit by their preference for the relative safety of their currency exchange activities. Further, when extending credit, British commercial banks assessed their risk somewhat more severely than did their domestic competitors. In 1907, while the local business community decried a debilitating lack of credit (RC 1908: 8), a British consul reported that a “notable feature of the banking business during 1907 is the heavy amount represented by discounts and loans” (BCR 1907: No. 4054: 5). The British described much of the credit extended by Brazilian banks as accommodation notes, short-term credit extended to borrowers based on the personal relationship between the borrower and the banker (BOLSA: G3/8, 13 February 1907). This form of lending

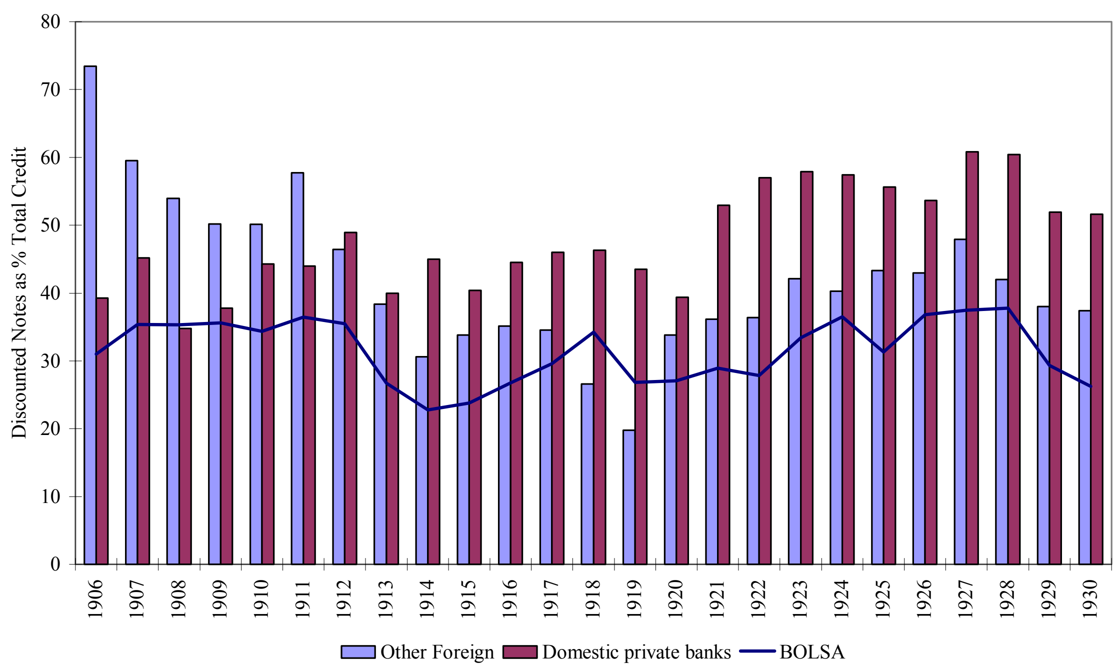
---

position in commerce (Montagu 1924: 7).

[16] The money market for currencies was active both in London and Brazilian financial centers. By the beginning of the twentieth century, British banks telegraphed to their head offices the prevailing exchange rates at least daily. They aggressively pursued arbitrage opportunities to profit from exchange rate differentials between the locations. See BOLSA (G3/8, 3 March 1906) for an early demonstration of arbitrage efforts. BOLSA (G3/12 31 January 1923) demonstrates the aggressive foreign exchange posture

was often seen as an expression of inefficient or "uneconomic" personalism. From the perspective of Brazilian bankers, however, a decision to extend credit secured by personal relationships could be an effective means of protection in an uncertain environment (Triner 2000: Chapter 5). Interestingly, however, the credit portfolios of British banks did not match their rhetoric. For the entire period from 1906 to 1930, the distribution of credit between personally guaranteed short-term loans and purchases of discounted commercial paper was more heavily oriented towards loans, and away from discounted notes, for British banks than for the Brazilian organizations. (See Graph 2.)

Graph 2
Composition of Credit



Source: Triner (2000, Data Appendix.)

The second advantage accruing to British banks after the 1905 reforms was their ability to retain national bank charters acquired when they opened prior to state-level regulation of banks. After the banking failures at the end of the nineteenth century,

of the Bank of London & Brazil.

domestic banks were chartered within individual states. Private domestic banks required individual state approval and capital allocated to each office, as though each charter represented a separate institution. Foreign banks only needed one national charter specifying the number, but not location, of separate offices. British banks, with their very early presence in Brazil, were the clear beneficiaries of this arrangement. Each office within the British organizations shared information; they coordinated total credit limits to manage exposure to clients, shared financial and political information, and pooled their funding. Before the national expansion of the Banco do Brasil (slowly beginning in 1908), a consistently operating national bank was not reliably available in Brazil. Arrangements for note-issuing, deposit-taking, and funds transfers had been regional in nature. British banks offered one of the most expeditious ways of transferring funds inter-regionally.

Prior to their merger, British banks competed among themselves, more than Brazilian organizations, for regional representation. Pooling deposits of different offices, the banks maximized their business and enhanced their regional presence by allocating total resources to their most attractive opportunities, with little regard to geographic location within Brazil.[17] They also competed for the ability to expand to new regions. For example, while rubber was a still profitable export, the Bank of London and Brazil worried when the London and River Plate opened a competing office in Manaus, the major rubber commercial center (BOLSA: B3/8, 5 September 1907). In 1910, the London and Brazil complained that it had more difficulty obtaining permission to open local offices than the London and River Plate (BOLSA: G3/10, 20 January 1910). With the

[17] BOLSA (G3/7, 23 February 1905, 15 August 1907 and G3/9, 9 April 1908) demonstrate typical efforts

opening of the Banco do Brasil as a national bank, the London and Brazil did not initially expect competitive pressure on its local commercial business from regional Banco do Brasil branches (BOLSA: G3/9, 15July 1908).

Despite their implicit advantages, economic growth and exchange rate stability British commercial banks were dissatisfied with the results of the 1905 reforms for their activities within Brazil (BOLSA: G3/9, 30 July 1908 and 5 August 1909). The benefits that the Banco do Brasil received from its quasi-public position were constant sources of complaint. Foremost among these benefits were its monopoly on foreign exchange transactions from the Treasury and customs collection (BOLSA: G3/8, 30 May 1907, 5 September 1907; G3/9, 14 May 1908, 30 July 1908; G3/10, 2 June 1910). Notwithstanding these complaints, the commercial operations of the restructured banking sector that emerged after 1905 was, in form, very similar to its British counterpart.

COMPETITIVE PRESSURES

Within Brazilian banking, "globalization" was not synonymous with British dominance. A progressively expanding range of competitors, from an ever-wider geographic network, increasingly integrated Brazilian agriculture, manufacturing and commerce into complex global networks. British banks faced vastly increased competition from a variety of sources, challenging their position in Brazil. At the end of 1906, immediately after the banking reforms, British banks represented about 77 percent of the foreign bank deposits in the major financial centers.[18] By 1930, these same banks accounted for 31 percent of foreign bank deposits. (See Graph 1.) Similarly, credit

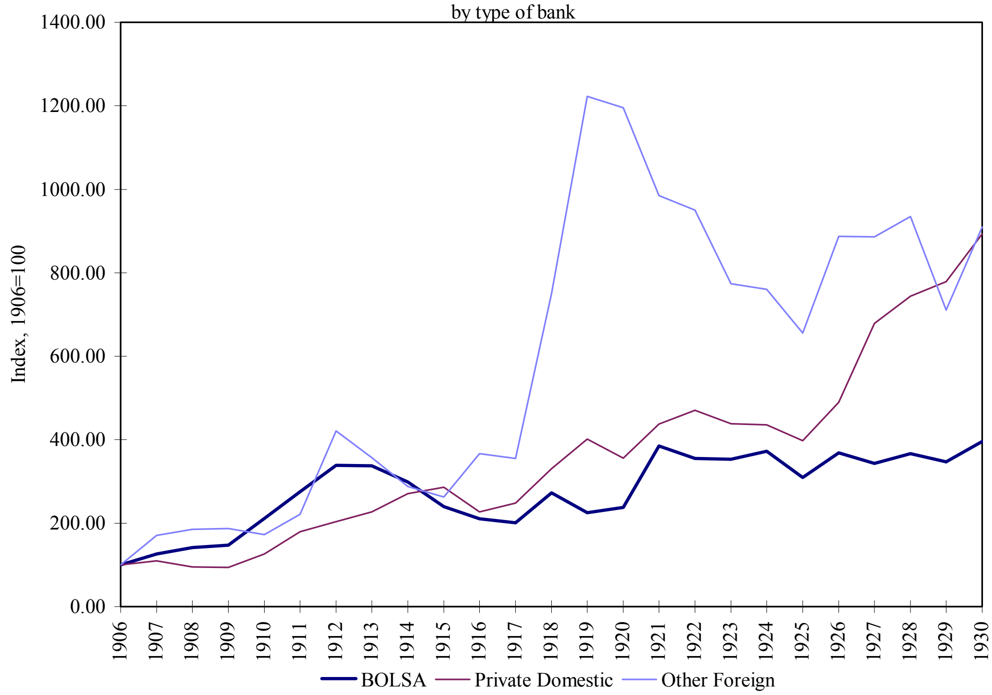
---

to combine funding among different regional offices of the Bank of London and Brazil.

[18] Derived from Triner 2000 (underlying data for Appendix Tables A.3 and A.5). These data include balances at the Banco do Brasil (which held about 25 percent of bank deposits over the course of the

extended by British banks increased four-fold between 1906 and 1930 in real (inflation-adjusted) volume; while both foreign and private domestic bank credit increased approximately nine-fold.[19] (See Graph 3. If measured in the more usual manner, by deposits, the disparity is even greater: BOLSA banks' deposits increased about 2.3-fold, while other foreign and domestic private banks increased 12.4- and 8.4-times, respectively.)

Graph 3
Growth of Credit; Index, 1906=100
by type of bank



Note: Based on real growth, after adjusting for inflation.
Source: Triner (2000: Data Appendix.)

Rumors had circulated throughout 1923 of the possible merger of the London and Brazil with the London and River Plate. The Bank of London and Brazil denied the

period).

[19] These measures understate the importance of the British institutions in the financial system, since it does not take account of their tradition (though declining) foreign exchange business.

possibility as early as January; the banks announced the merger in November (BOLSA: G3/12, 31 January 1923, 8 November 1923, 15 November 1923 and 25 January 1924). The motivation for the merger had been to consolidate two organizations that were very similar, and had not been growing at satisfactory rates (BLRP: Annual Report, 1923). Changes to bank management policies did not accompany the new corporate structure; credit-issuance and deposit-taking continued without noticeable change. By the 1923 merger, the newly constituted bank had offices in fourteen states.[20] Through 1924, they consolidated separate banking offices, staff and administrative arrangements. However, internal communications mentioned no changes of banking policies (BOLSA: G3/12, 1924 *passim*). The ease of the merger reflected the similarity of the practices and businesses of the institutions. Despite an easy merger, British banks did not reverse their relative decline. (See Graph 1.)

The declining role of Britain in Latin American economies after World War I,[21] reflecting a relative shift of international financial importance towards the US, may not have been as pronounced as generally believed.[22] At least as important as changes in international economic positions, the relative decline experienced by British commercial banks reflected the growth of the Brazilian economy and the domestic banking system. As the First Republic progressed, the growth and diversification of the domestic economy contributed to the declining importance of British financial institutions.

The evolution of the Brazilian economy made possible the shift in the type of

---

[20] They were present in Rio de Janeiro, São Paulo, Santos, Salvador da Bahia, Ceará, Curitiba, , Maceió, Manaus, Maranhão, Pará, Pelotas, Pernambuco, Porto Alegre, Rio Grande [sic] and Victoria (BOLSA: Beane Report, Statistical Annex, 1933).

[21] BOLSA: G3/11, 8 February 1918 and RC, 1925, 105 (on new loan for $25 million issued by Dillon Reed). See also Stallings (1987).

financing that accompanied the change in its national origin. Increasingly, important sectors of the economy were more committed to domestic than international markets. A significant portion of domestic development during the First Republic occurred in the realm of early industrial manufacturing. Between 1900 and 1930, industrial production increased 4.6 times, while all agricultural production (including coffee) increased 2.8-fold.[23] Further, available evidence suggests that the areas of most dynamic economic growth during the last decades of the First Republic were regions supporting domestic, rather than international, markets (Triner 2000: Ch. 7).

Domestically owned private banks also grew rapidly in number and size at this time in response to the expansive conditions (Triner 2000: Ch. 4, Baer 1995: 245). After strongly expansionary rediscount programs that shifted business to the Banco do Brasil from 1914 until 1923, private domestic banks re-emerged dynamically for the remainder of the decade. Brazilian-owned banks increased their share of private bank deposits from 38 percent in 1921 to 58 percent by the end of the decade. (See Graphs 1 and 3.)

Production for domestic markets developed to a scale and complexity that it required and supported more dynamic financing arrangements. Brazilian-owned commercial banks accommodated these financing needs at least as well as their British counterparts. They did not require as much access to foreign exchange markets as the export trade for working capital, which had been the historic strong-point of the British organizations. Further, Brazilian organizations responded more sensitively to domestic conditions. As domestic concerns required financing, and accepted the ability of Brazilian organizations to meet those needs on an on-going basis, short-term finance

---

[22] Marichal (1989: Chapter 7) also makes this point.

shifted towards domestic banks.

Foreign banks of other nationalities were another major source of competition for the British. The growth of manufacturing capacity to accommodate the increasing demand for consumer goods supported the growing predominance of direct foreign investment in emerging industries. General Electric, RCA, IBM, Ericsson, Philips, Burroughs, Pirelli, General Motors and Ford were some of the corporations investing and producing in Brazil for the benefit of the domestic economy by the end of the 1920s (Dean 1969: Ch. 5). Transnational corporations accommodated both the presence of a wider variety of nationalities among foreign banks and the relative decline of portfolio investment in financial assets.[24] The share of deposits in the Brazilian banking system from foreign banks not of British origin increased from 9 percent in 1906 to a short-lived maximum of 41 percent in 1921[25] and by the end of the First Republic was at 29 percent. The real level of credit at foreign banks had increased about the same magnitude as the private domestic banks between 1906 and 1930. (See Graphs 1 and 3.) During the 1910s and early 1920s at least nine foreign banks opened offices in Rio de Janeiro or São Paulo.[26] Although not all of these organizations had long or successful lives, they increased the sense of competition and dynamism for commercial banking during the

---

[23] Derived from Haddad (1974: Table 1).

[24] Therefore, although not the subject of this paper, British pre-eminence in meeting the investment banking needs of Brazil also declined during this period.

[25] This short sharp increase was an effect, probably, of the post-World War I boom in global commodity markets (the "dance of the millions.")

[26] These included two new German bank opened in 1911 (Allemão Transatlântico and Deutsch Sudamerikansche); two US banks opened (First National City of New York in 1915 and American Banking Corp. in 1919); Español y Rio de la Plata opened a Brazilian office in 1909; Hollandez - America do Sul appeared in 1917; the Norwegian Banking Amalgamation opened in 1918; Royal Bank of Canada came in 1919; and Yokohama Bank appeared in 1923. (Triner 2001: Table A.8, BOLSA: G3/11, 8 October 1918). Not all of these organizations had a long life in Brazil. See also Joslin (1963: 108-110) and Levy (1991: 364-365).

1910s and early 1920s.

BRITISH BANKERS' UNDERSTANDING OF THE LOCAL POLITICAL ECONOMY

Increased competitive pressure compounded a deeply embedded and problematic feature of the British banking presence in Brazil. Notwithstanding the long and influential history of British commercial banks in the Brazilian financial system and the system's increasing stability, British bankers did not master the political economy of their business environment during the First Republic. During the early period of bank restructuring and expansion, the Bank of London and Brazil, with the longest record in Brazil, made fundamental errors of judgment with respect to the political economy. In 1907, they did not expect the newly constituted Banco do Brasil to survive; nor did they expect that the Treasury would support a federal guarantee for the coffee valorization loan (BOLSA: G3/8, 31 January 1907, 13 February 1907, 11 April 1907; G3/10, 17 August 1911). They professed to be surprised by the loan, even when it was eminent (BOLSA: G3/9, 23 July 1908). They further expected that the administrative bureaucracy of the procedures for maintaining the gold standard would not survive (BOLSA: G3/8, 2 January 1908).[27]

A few years later, rather surprisingly, the Bank of London and Brazil did not expect the British ban on coffee and cocoa imports, because of the financial and shipping demands of the military during World War I, to be important for Brazil. "After all, the USA is the largest purchaser of your [Brazilian] coffee and European neutrals appear to have all they require for some time to come …" (BOLSA: G3/77, 9 March 1917). This response did not consider the complexity of the trading system in which they

[27] The metal standard suffered inconstancies, but it was not abandoned until 1914, and the Caixa de

participated. The British-centered financial network supported a coffee trade that was very diverse. Germany had been the second largest importer of Brazilian coffee. Closing that market jeopardized the financial viability of the coffee trade. The response also did not consider the additional difficulty that the London money market was also closed for Brazilian commercial paper and currency, making business transactions impossible for all economic sectors.

Within Brazil, the weakness of their political judgment did not prevent British bankers from an intimate involvement with the business community. Although slow and modest in scope, from the 1910s, they began a shift toward financing Brazilian domestic enterprise, such as the textile and other consumer goods industries and domestically oriented infrastructure projects.[28] During these years, monetary expansion through Treasury note issuance and the Banco do Brasil Rediscount Office fueled domestic expansion (Neuhaus 1974: 35-42, Peláez and Suzigan 1976: 206-07). Commercial banks broadened their presence in sectors beyond agriculture and the British organizations increasingly participated in lending consortia and rescheduling arrangements for failing or troubled local concerns.[29] British banks also remained active in issues related to the structuring of the Brazilian domestic banking system. As one instance, in 1914, significant leadership from the Bank of London and River Plate (RC 1914: 13) contributed to establishing a unified bank lobbying position in response to the Treasury's foreign debt restructuring proposals.

Conversão remained formally constituted until 1921.

[28] (BOLSA: G3/11, 2 February 1917; B14/2, 8 June 1926). These circumstances occurred during the years from 1914 until the early 1920s, when World War I constrained access to international markets and domestic financial markets became expansive (Suzigan 1986: 195-211, Fritsch 1988: 28-33).

[29] Their actions during the 1915 bankruptcy negotiations of the Cia. de Tecidos de Botofogo provide a

The collapse of global commodity markets and international financial stringency threatened the viability of the expansive policies at the end of World War I. Increasing international and domestic debt burden, price inflation, and the strong global post-war slump in commodities diminished the financial options for the Brazilian government by 1923. Through the mid- and late-1920s, the Brazilian economy was under pressure (Baer 1995: 32-35, Goldsmith 1986: 148-49). Reflecting economic and political realities, orthodox monetary policies regained strength. At the end of 1922, a new government based its strength largely on an orthodox platform of tightened monetary policy and financial restructuring. The Montagu Mission, representing the investment houses of the Rothschilds, Baring Brothers and Schroders, undertook a study of Brazilian public finance in order to support a loan intended to restructure public debt in 1924. [30]

The newly constituted Bank of London and South America and the British Bank of Brazil responded by focusing on the contractionary aspects of their environment, and lowering their public profile. Internal communications focused on transferring funds among regional offices in order to accommodate credit commitments in a contracting banking system.[31] The benefits of inter-office transfers of funds were strongly demonstrated during 1924 and 1925 when monetary policy was severely contractionary. By actively managing their funding, the banks maintained their credit portfolios more than would have been the case otherwise. However, increased attention to allocation of

---

good example (Triner 2000: Chapter 5).

[30] Fritsch (1980) describes the relationship between the introduction of privatizing and deflationary policies and 1924 Commission led by Norman Montague. The Commission was sent to Brazil to study the changes necessary to economic policy which would render acceptable to investors a £25 million loan for the purpose of liquifying domestic floating rate debt.

[31] BOLSA (G3/12, 7 December 1923, 25 January 1924, 26 September 1924) contain some of the most pertinent communications; though they appear frequently through 1924.

funds among regions did not signify growing markets, as it had in earlier years, as much as it indicated more acute management. One telegram complained of “the lack of safe and profitable investment and the consequent large cash holdings that practically every bank shows” (BOLSA: G3/12, 9 February 1923). Under these circumstances, foreign exchange trading also received renewed attention.[32] For example, from 1923 to 1930, in Brazil, the Bank of London and South America (BOLSA) offices earned between 42 percent and 120 percent of their operating profits from foreign exchange operations.[33] These profits often subsidized new offices and loan losses.

The pressure on public finance and the consolidation of the banking system within Brazil continued through the remainder of the 1920s; and the financial situation remained precarious. The severe deflationary monetary policies (partially associated with the Montagu Commission recommendations) were in effect until 1926. A sharp domestic recession followed, largely due to contraction in the textile industry. Immediately thereupon, came the global depression of 1929, which resulted in capital flight from Brazil and depressed international coffee prices. By the end of 1929, the benefit of allocating funds among branches had reached its limits. As deposits contracted in reaction to the uncertainty of the times, individual branches were unable to release funds to other branches.[34] London management permitted widespread overdrafts for the first time (BOLSA: B14/4, 26 October 1929, 28 November 1929).

From the middle of June 1930, BOLSA officials in Brazil played down the

---

[32] See as examples: BOLSA (G3/12, 9 February 1923, 18 May 1923.)

[33] Consistent data are not available for a longer period. (Source: BOLSA: Beane Report 1933, Statistical Annex.)

[34] BOLSA (B14/2, December 1925; B14/3, August - November 1927; B14/4. April, October. and November 1929) offer examples of continual efforts to move funds within the BOLSA during periods of

political unrest that anticipated the coup of October. Local staff dismissed the seriousness of uprisings in the states of Paraíba and Rio Grande do Sul, and did not recognize the paralysis of the state government's finances in Minas Gerais as a political event (BOLSA: B14/4, 18 June 1930, 4 and 5 September 1930, respectively). At the same time, the Treasury removed exchange restrictions (BOLSA: B14/4, 30 June 1930). The anticipated depreciation of the value of the mil-réis caused all banks immediately to withdraw available funds. Exercising their advantage in the foreign currency markets, BOLSA branches converted their mil-réis and shipped as much gold as possible out of Brazil, to London or New York.[35] By this time, the federal Treasury's request for help to halt the outflow of gold had no credibility with BOLSA management (BOLSA: B14/1, 1 August 1930). Curiously, despite widespread political upheaval as a likely factor motivating the capital flight, the first specific recognition that a coup was likely occurred on 3 October, 1930, one week before the event (BOLSA: B14/4, 3 October 1930).[36]

In 1931, seven years after the Montagu Mission, the Niemeyer Mission conducted another advisory trip to Brazil to propose changes in the structure of public finances.[37] The circumstances of this mission differed significantly from efforts in 1924. Rather than an abrupt end to an expansionary period, the Brazilian economy had suffered seven years of intense pressure. Under these conditions, potential lenders insisted on a comprehensive

---

acute shortages. In November 1929, branches claimed that they were unable to provide funds for transfer.

[35] BOLSA: B/14/4, almost daily telegrams on this subject from 5 July 1930.

[36] From a casual reading of contemporary newspapers and from subsequent historiography, it is difficult to understand the delay in understanding the situation (Fausto [1970] 1989).

[37] These were the British equivalents of the US "money doctors," financial advisors who have roamed Latin America periodically offering financial advice, examined by Paul Drake and others. Edwin W. Kemmerer was the most famous of the "money doctors" in the first half of the twentieth century (Drake 1989). In fact, Júlio Prestes, the President-elect of Brazil before the 1930 coup, briefly proposed Kemmerer as the expert to advise Brazil on financial reformrs. The British, however, insisted on British advisors to undertake the task (BE: OV103/1 7 August 1930).

study of the financial system with recommendations for improvements as a prerequisite for another debt restructuring and increased borrowing.

The Niemeyer Mission proceeded despite the coup. The recommendations of the Niemeyer Report in 1931 had the support of the traditional business press (Niemeyer 1931, RC 1931). However, they lacked political support necessary for implementation. Despite initial lip-service to the commission's report and its orthodox policy prescriptions, its recommendations were not adopted. The new regime of Getúlio Vargas subtly, but quickly, showed protectionistic tendencies. Indications that the Vargas Government either could not, or did not intend to, implement the recommended reforms came early (BE: OV 103/40, 17 August 1931; OV 103/1, 23 October 1932).[38] In fact, the initial appearances of accepting the Niemeyer Mission recommendations radically reversed within a year, when the Vargas Government announced a moratorium on foreign debt service payments in 1932. These actions supported the coffee interests concentrated in São Paulo. More intriguing, however, the ensuing decline of currency value supported the interests of emerging import-substituting manufacturing, also concentrated in São Paulo. The moratorium presaged later and more explicit development policies, based on protection of new import-substituting industries (Baer 1995: 38-53).[39]

EFFECTS OF BRITISH BANKS IN BRAZIL

The injection of financial resources is the first contribution that analysts traditionally consider when examining the effects of foreign business in a local

[38] Not coincidentally, Vargas faced a coup attempt in the State of São Paulo in 1932.

[39] The questions under examination in, and source material for, this paper do not generate a hypothesis regarding the failure to understand the local political economy. Possible explanations include that: by the 1920s, the early entrants began to experience disadvantages of being early market entrants; the focus on short-term self-liquidating transactions did not motivate attention to longer term concerns; the quality of personnel sent from Britain to Brazil; or the quality of managers in Britain.

environment. With the exception of short-term overdrafts in the crisis of 1930, BOLSA and its pre-existing constituent banks actively avoided transferring funds, particularly capital or reserves to Brazil. Nevertheless, throughout the First Republic, the importance of British commercial banks extended beyond the financial services they provided to the business community. By the end of the First Republic, BOLSA had profoundly influenced the Brazilian financial system.

The British system served as a model for the structure of the evolving Brazilian system in two especially important ways. The separation of commercial and investment banking emerged without debate after widespread bank failures at the end of the nineteenth century (MF, 1923, xxi). Further, the long battle to establish a central banking authority received impetus from the British experience and from British "money doctors" (RC, 1919: 142). British banks and bankers actively participated in the evolution of the Brazilian banking system. The domestic British commercial banking system demonstrated the uses of such mechanisms as discounting, specific management tools (such as credit limits, valuing inter-branch fund transfers) and establishing an inter-bank clearing house to expedite the transfer of funds between banks. With time, the business activities of domestic and British banks converged.

Although unintentional, the national networks of the banks that merged into BOLSA constituted an early proto-national banking system in Brazil, by virtue of their national charters, which other banks ultimately emulated. Especially in the earlier years, these banks provided a significant volume of short-term commercial finance and they offered the model for developing a commercial banking system. Brazilian law both prohibited explicit legal discrimination by nationality in business and increasingly legislated for a structure of commercial banking law similar to the British model. Finance flowed freely between Europe and Brazil, and supported a dynamic trade in agricultural commodities (notably coffee). This system was fundamentally disrupted only once between 1906 and the end of the First Republic. During World War I, exogenous disruptions of trade and finance caused coffee and money to be locked in their locales of origin. The exogenous disruption provided an impetus for domestic financial development, with ample participation from BOLSA.

The economic constraints of the 1920s and increasing domestic competition entailed significant erosion for the bank. During the late 1920s, the directors of the Bank of London and South America appreciated that they needed to re-consider the form of business that they conducted in Brazil (BOLSA, B14/2, 18May, 1926). By 1933, they recognized that the bank needed to further lessen its propensity for facilitating trade transactions and avoiding credit commitments, to develop a business more firmly rooted in lending funds:

> …in 1929/30 there was a general tendency to increase loans and discounts. This tendency was not, I am quite certain, the result of a decided policy by the Board, but rather the lack of any policy or of any control or consideration of the general rise in advances. To avoid this in the future I think that we should have laid before us a summary … We shall almost certainly have to rely more and more in the future on our Banking profits rather than exchange profits, and good management and control will become more essential.[40]

The increase of loans and discounts in 1929 and 1930, mentioned above, was relative to the bank's base of deposits available to fund credit. In absolute volume (adjusted for price level fluctuations), credit remained virtually constant. (See Graph 3.)

Even so, the end of the First Republic coincided with indications that the original

[40] Lloyds Bank, file 2383, letter from F. Beane to F. Glyn (1 August 1933).

interests with which the British banks had entered Brazil were no longer viable. In Brazil, as elsewhere, the effects of the Great Depression consolidated a turning away from global markets as a source of growth and development. Whether given a politically nationalist or economically Keynesian interpretation,[41] the protectionist policies and increased economic intervention of the Vargas administration signaled an emphasis on developing domestic industrial markets in preference to the traditional global coffee markets. The convergence of policy and structure may also hold the key to understanding the demise of this system. Adjustment was uni-directional. Changes to monetary systems, legal structure, and fiscal policy occurred in Brazil in order to accommodate financial and economic requirements administered (or implied) by British financial representatives. Symptomatically, despite their long and increasingly deep experience, British bankers suffered a disadvantage in Brazil. They did not become well versed in the political economy of their environment. Monetary policy was the core of profound political difference and debate throughout the First Republic. However, BOLSA personnel[42] did not display a deep understanding of the political tensions inherent in the differences of interests; and turns of political events often left them surprised. The interests in risk-avoidance and maintenance of the original profit dynamics of the commodity and money trading system remained constant, and it did not adapt to the changing realities of the Brazilian economy.

CONCLUSION

By 1930, the economic and political structure of Brazil was very different from

---

[41] Representative examples of these approaches include Wirth (1970) and Versiani (1984.)

[42] By design, Brazilians did not become bankers for BOLSA. (Lloyds Bank, BOLSA Personnel and Training Notes [File 2384, 12 December 1929]).

the beginning of the First Republic, and the perceived benefit of accommodating the interests of British commercial banking had lessened significantly. Brazil's comparative advantage in agricultural commodities, and more importantly, the desire to maintain that comparative advantage were under increasing pressure through the early twentieth century. With industrial manufacturing and domestic markets gaining importance in the economy and nationalistic interests gaining political ground, the predominating influence of the coffee sector faced serious challenges. Investment in industrial capability grew, and increasingly took the form of direct, rather than portfolio, investment. Therefore, the perceived need to accommodate international financial negotiation also shifted. Government policy was increasingly willing to impose protective tariffs in support of domestic industry and to institute debt moratoria, rather than submit to the requirements imposed by rescheduling debt. The private domestic commercial banking system grew dynamically during the first third of the century, as its organizations more flexibly and reliably accommodated local requirements. The original relations were of decreasing importance.

The Bank of London and South America continually assessed their circumstances in Brazil relative to their original relations because their profit dynamics remained relatively stable. For Brazilian business, however, the success of earlier activities for economic development and growth changed both the volume and composition of demand and the relative prices of goods and services. Producing for an enlarging domestic market, both to substitute for imported goods and to provide low-value consumer goods became increasingly viable. British financial and commercial networks did not accommodate the fundamental shift in the balance between domestic and international markets in Brazil. Ironically, successful global networks at the end of the nineteenth and early twentieth centuries contributed to the ability to forego the benefits of those networks when conditions shifted.

Archival abbreviations

BBB	British Bank of Brazil Archive; University College Library, London.
BCR	British Consul Reports.
BE	Bank of England Archive; London.
BLB	Bank of London and Brazil Archive; University College Library, London.
BLRP	Bank of London and River Plate Archive; University College Library, London.
BOLSA	Bank of London and South America Archive; University College Library, London.
JC	*Jornal do commércio*. Annual series. Rio de Janeiro: Rodrigues e Cia.
MFR	Brasil. Ministério da Fazenda. 1898-1930. *Relatório apresentado ao Presidente da República dos estados unidos do Brasil pelo ministro de estado dos negócios da fazenda*. Annual series. Rio de Janeiro: Imprensa Nacional.
RC	*Retrospecto comercial de Journal do Commércio.* Annual series. Rio de Janeiro: Jornal de Commércio de Rodrigues e Cia.

References

Baer, W. (1995) *The Brazilian Economy: Growth and Development*, 4th ed. (Westport, Conn., Praeger).

Bouças, V. F. (1950) *História da dívida externa*, 2nd ed. (Rio de Janeiro, Edições Financeiras).

Brasil. Instituto Brasileiro de Geografia e Estatística. Conselho Nacional de Estatística (1939-40) *Annuário estatístico do Brasil* (Rio de Janeiro).

Brasil. IBGE (1990) *Estatísticas históricas do Brasil: Séries econômicas, demográficas e sociais 1550 a 1985*, 2nd. Séries estatísticas históricas do Brasil, vol. 3 (Rio de Janeiro, IBGE).

British Financial Mission Report by British financial mission to Brazil to Messrs. Rothschild, Messr. Baring Bros. & Co Ltd. and Messrs. J. Henry Schroder & Co., pp. by Edwin Montagu and the members of the mission, 1924 (File 111/309, Rothschilds Archive, London).

Cano, W. (1977) *Raízes da concentração industrial em São Paulo*. Corpo e Alma do Brasil, 53 (Rio de Janeiro, DIFEL/Difusão Editorial, S.A.).

Dean, W. (1969) *The Industrialization of São Paulo, 1880-1945*. Latin American monographs, no. 17 (Austin, Published for the Institute of Latin American Studies by the University of Texas Press).

Drake, P.W. (1989) *The Money Doctor in the Andes: The Kemmerer Missions, 1923-1933* (Durham, N.C., Duke University Press).

Fausto, B. (1989 [1970]) *A revolução de 1930: Historiografia e história* (São Paulo, Editora Brasiliense).

Ferreira, M. de Moraes (1977) A crise dos comissários de café do Rio de Janeiro, tese de mestrado (Niterói, Universidade Federal Fluminense).

Franco, G.H.B. (1987 [1983]) *Reforma monetária e instabilidade durante a transição republicana*, 2nd edition (Rio de Janeiro, Banco Nacional de Desenvolvimento Econômico e Social).

Fritsch, W. (1980, Dec.) 1924, *Pesquisa e Planejamento Econômica*, 10(3), 713-744.

Fritsch, W. (1988) *External Constraints on Economic Policy in Brazil, 1889-1930* (Pittsburgh, University of Pittsburgh Press).

Furtado, C. ([1959] 1993) *Formação econômica do Brasil*. 40th ed. (São Paulo, Ed. Brasiliense).

Goldsmith, R.W. (1986) *Brasil 1850-1984: Desenvolvimento financeiro sob um século de inflação* (São Paulo, Banco Bamerindus e Ed. Harper Row do Brasil).

Haddad, C.L. (1974) Growth of Brazilian Real Output 1900-1947, diss. (University of Chicago).

Joslin, D. (1963) *A Century of Banking in Latin America; to Commemorate the Centenary in 1962 of the Bank of London & South America Limited* (New York, Oxford University Press).

Lamoreaux, N. R. (1994) *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (Cambridge, Eng., Cambridge University Press).

Levy, M.B. (1972) "História dos bancos commerciais no Brasil" (Rio de Janeiro: IBMEC).

Levy, M.B. (1980) O encilhamento, in: Paulo Neuhaus (Ed) *Economia Brasileira: Uma Visão Histórica*, pp. 191-256 (Rio de Janeiro, Ed. Campus).

Marichal, C. (1989) *A Century of Debt Crises in Latin America: From Independence to the Great Depression, 1820-1930* (Princeton, Princeton University Press).

Mauá, Visconde de ([n.d.] 1998.) *Autobiografia (exposição aos credores e ao público seguida de o meio circulante no Brasil)* (Rio de Janeiro, Topbooks).

Neuhaus, P. (1974) A Monetary History of Brazil, 1900-1945, diss (University of Chicago).

Niemeyer, O. (1931) *Reorganization of Brazilian National Finance; Report Submitted to the Brazilian Government* (Rio de Janeiro, British Chamber of Commerce).

Pacheco, C. (1973) *História do Banco do Brasil*. 4 vols. (Rio de Janeiro, Banco do Brasil).

Peláez, C.M. (1979) *História econômica do Brasil: Um elo entre a teoria e a realidade cconômica*, 1. ed. (São Paulo, Atlas).

Peláez, C.M. & Suzigan, W. (1976) *História monetária do Brasil: Análise da política, comportamento e instituições monetárias*. Monografia (Instituto de Planejamento Econômico e Social. Instituto de Pesquisas), no. 23 (Rio de Janeiro, IPEA/INPES).

Ridings, E. (1994) *Business Interest Groups in Nineteenth-Century Brazil*. Cambridge Latin American studies, 78 (Cambridge, Eng., Cambridge University Press).

Stallings, B. (1987) *Banker to the Third World: U.S. Portfolio Investment in Latin America, 1900-1986*. Studies in international political economy; 18 (Berkeley, University of California Press).

Suzigan, W. (1986) *Indústria brasileira: Origem e desenvolvimento* (São Paulo, Brasiliense).

Sweigart, J.E. (1987) *Coffee Factorage and the Emergence of a Brazilian Capital Market, 1850-1888*. South American and Latin American economic history (New York, Garland Pub.).

Topik, S. (1987) *The Political Economy of the Brazilian State, 1889-1930*. Latin American monographs, Institute of Latin American Studies the University of Texas at Austin, no. 71 (Austin, University of Texas Press).

Triner, G.D. (2000) *Banking and Economic Development: Brazil, 1889-1930* (New York, Palgrave Press).

Triner, G.D., and K. Wandschneider. (2005, Oct.) "The Baring Crisis and the Brazilian Encilhamento, 1889-1891: An Early Example of Contagion Among Emerging Capital Markets?" *Financial History Review* 12, no. 2: 199-225.

U.S. Bureau of Foreign and Domestic Commerce (1914) Banking and credit in Argentina, Brazil, Chile and Peru, by Edward S. Hurley, U.S. Bulletin of the Department of Commerce, Special Agents Series no. 90 (Washington, D.C., GPO).

Versiani, Flávio Rabelo. (1984) "Before the Depression: Brazilian Industry in the 1920's." In *Latin America in the 1930's: The Role of the Periphery in World Crisis*, edited by Rosemary Thorp, 163-87. Oxford: Macmillan Press.

Villela, A.V. & Suzigan, W. (1973) *Política do governo e crescimento da econômia brasileira, 1889 -1945*. Instituto de Planejamento Econômico e Social. Instituto de Pesquisas. Monografia, no. 10 (Rio de Janeiro, IPEA/INPES).

Wirth, John D. (1970) *The politics of Brazilian development 1930-1954*. Stanford, Calif.: Stanford University Press.