



# *Inglorious Revolution*

Political Institutions, Sovereign Debt, and  
Financial Underdevelopment in  
Imperial Brazil

WILLIAM R. SUMMERHILL

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FINANCIAL UNDERDEVELOPMENT IN IMPERIAL BRAZIL

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*For Yolanda*



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## NOTE ON ORTHOGRAPHY AND CURRENCY

BECAUSE OF CHANGES in Portuguese spelling since the nineteenth century, contemporary and present spellings of many words and even of names differ. In titles of references and proper names I tried to adhere to original spellings. In some instances there is no unique original spelling. For example, the Banco do Brasil in its own publications sometimes spelled Brasil with an s and at other times with a z. Outside of proper names and titles, I use modern spellings.

The base unit of Brazilian currency by the early nineteenth century was the *milréis*, written as 1\$000. One thousand milréis made up one *conto de réis*, or 1:000\$000. The milréis was only rarely convertible to gold at a fixed rate of exchange; for most of the nineteenth century it floated freely against other currencies. With the emission of large quantities of paper money between 1809 and 1829, the value of the milréis in terms of the principal foreign currency, the pound sterling, declined steadily through 1831, then recovered some of the ground it had lost before starting a long downward slide in the late 1830s. In 1846 Brazilian legislation fixed “parity” at 27 English pence per milréis. This parity was notional, representing an exchange rate target that was not supported on a continuing basis. Where suitable, monetary values are expressed in original milréis. When compared to or summed with the external debt, they are reported in British pounds.



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## CHAPTER ONE

### Introduction

IN 1824 THE constitutional monarchy of independent Brazil borrowed money in London for the first time. A syndicate of three merchant firms loaned it 1 million pounds sterling, raising the cash by issuing bonds. In return, the emissaries of Emperor Pedro I promised that the government would repay the loan over a period of thirty years and make interest payments of 5 percent a year to bondholders. The cabinet in Rio de Janeiro wanted to use the money to pay down the Treasury's debt to the Banco do Brasil. Instead the government spent the cash fighting the anticonstitutional revolt in the northeast. In January 1825 Brazil borrowed again, taking 2 million pounds sterling through Nathan Mayer Rothschild. Once again the money was supposed to settle debts within Brazil. And once again the funds were spent on war, underwriting the emperor's blockade of Buenos Aires. In 1829 the Treasury could not make its next interest payment on time. So with the authorization of the emperor's council of state, the minister in London turned again to the same bankers, who issued more bonds to cover the interest due. New money under such circumstances was not cheap. But the ability to borrow was a remarkable achievement, one that the Empire would repeat in London at least once per decade during hard times and as often as four times per decade in good times.



Had Brazil been like other Latin American borrowers it would have already been in default by 1830. Mexico, Peru, Colombia, Guatemala, Buenos Aires, and Chile all suspended payment on their debt in the 1820s and were cut off from new borrowing in London. Most of the Spanish American republics went on to become serial defaulters over the course of the century. For its part, Brazil repaid almost none of the principal it owed between 1829 and 1852. Its bondholders, however, always received interest. When in 1853 the first loans from the 1820s were about to come due, the Treasury did not have the 3 million pounds it needed to retire the remaining bonds. It had no trouble getting new credit, however. With the consent of the bondholders and the intermediation of N. M. Rothschild & Sons, the Empire extended its loans by another ten years. Its credit was so good that when the modified loan was about to come due in 1863 the government simply rolled the remaining balance into a new bond issue bearing a lower coupon rate than before. Rather strikingly, it executed the debt rollover in London during a complete breakdown in diplomatic relations with the British government. International politics aside, Brazil raised new cash and effectively extended the maturity of what remained from its original 1820s loans by yet another thirty years with no trouble. By that time Brazil was already on its eleventh London loan, involving four different financial intermediaries.

Brazil's good standing in credit markets was not restricted to London. At home the Treasury ran its first auction of domestic bonds (*apólices*) in 1828, shortly after parliament established the national debt. Slave traders and Rio de Janeiro's merchants were prominent buyers of the bonds. The new *apólices* provided lenders with annual interest payments of 6 percent in Brazilian currency (*milréis*) and were supposed to be paid off over thirty-three years. Relatively little of the initial tranche of *apólices* from 1828 had been retired when the parliament halted amortization in 1838. From that point forward the bonds were perpetuities. This change had little impact on the government's ability to borrow. Investors continued to absorb new issues in ever larger amounts through the politically turbulent 1830s and 1840s. By the early 1880s *apólices* had been bid so high that the current yield had fallen below the coupon rate. So with parliamentary sanction the finance minister converted the *apólices* from 6 percents to 5 percents in 1886, leveraging the government's high creditworthiness to reduce outlays on debt service. By then the government had borrowed