

Foreign Direct Investment in Imperial Brazil: Banking and Coffee Trade, 1862-1870¹

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Introduction

This paper analyzes an instance of Foreign Direct Investment (FDI) in Brazil during the Imperial period—specifically the organization and activities of one English bank, the London and Brazilian Bank during the period 1862 to 1870.

Measuring the presence of FDI in nineteenth-century Latin America is not a simple undertaking because the historical sources are often unreliable. For instance, it can be challenging to distinguish what was invested in private portfolios from what was invested in public portfolios (i.e., public debt securities). Such difficulties notwithstanding, Albert Fishlow calculated that European assets in the region grew from \$1.8 billion in 1855 to \$6.4 billion in 1870, surging to \$35.8 billion in 1914. As Fishlow noted, “changes in the stock of assets before 1914 approximate flows of foreign investment.”³

In the case of Brazil, Maria Barbara Levy and Flávio Saes have called attention to the fact that although at midcentury “the greater share of capital exports from industrialized countries was directed to titles of public debt, starting in the 1880s investment in the private sphere (direct and from portfolios) was reaching the magnitude

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³ FISHLOW, Albert. Lições do passado: mercados de capitais durante o século XIX e o período entre guerras. IN: Idem. **Desenvolvimento no Brasil e na América Latina: uma perspectiva histórica**. Translated by Claudio Walter Abramo. São Paulo: Paz e Terra, 2004, p.270. The data were found in Table 1, p. 272.

of that in the public portfolios.”⁴ However, if we look at the same data from Marcelo de Paiva Abreu that those authors used, we can observe a rising trend of foreign capital in direct investments starting as early as 1860 reflected in the growth from £1.3 million in 1840 to £7.5 in 1865, or an increase of 580%.⁵

Although direct British investment in Brazil took many forms, from banks to railroads and insurance agencies, it was frequently organized until 1920⁶ into “free-standing companies.” This concept has been defined by Mira Wilkin as

enterprises domiciled abroad, managed by British migrants who had been born and brought up in Britain but who resided overseas; such enterprises might not have a British head office or a British parent company. The individual Briton who settled abroad did not create a foreign direct investment, since there remained no obligation to anyone in Britain, whereas the expatriate who went abroad for years, who considered himself British and who then returned home, retaining an interest in his overseas business, became thereby on his return a foreign investor. In those instances where the expatriate tapped British capital markets, establishing a company or companies in England or Scotland, the British company became the foreign direct investor.⁷

But the emergence of this particular foreign-capital enterprise must also be understood within the dynamic context of institutional changes unfolding by the 1850s

⁴ LEVY, Maria Barbara. Dívida externa brasileira 1850-1913: empréstimos públicos e privados. **História Econômica & História de Empresas**. Vol. IV, nº 1(2001), p. 50. Levy returns to the study of foreign capital in the Brazilian banking system in LEVY, Maria Barbara. The Banking System and Foreign Capital in Brazil. In: CAMERO, Rondo and BOVYKIN, V. I. (Eds). **International Banking 1870-1914**. New York/Oxford: Oxford University Press, 1991, pp. 351-370. See also BORN, Karl Erish. **International Banking in the 19th and 20th Century**. Great Britain, Berg Publishers Lim., 1984.

⁵ ABREU, Marcelo de Paiva. A dívida pública externa do Brasil, 1824-1931. **Estudos Econômicos**, vol. 15, nº 2, p. 168.

⁶ ZSMRECSÁNYI, Tamás. A French Free-Standing Company in Brazil’s Sugar Industry: A Case of the Societé de Sucreties Breziliennes, 1907-1920. In: WILKINS, Mira and SCHROTER, Harm (eds.). **The Free-Standing Companies in the World Economy, 1830-1996**. Oxford: Oxford University Press, 1998, pp. 279-290.

⁷ WILKINS, Mira. The Free-Standing Company, 1870-1914: An Important Type of British Foreign Direct Investment. **The Economic History Review**, New Series, Vol. 41, No. 2 (May, 1988), p. 262. This concept was further explored by the author in “The Free-Standing Company Revisited.” In: WILKINS, Mira and SCHROTER, Harm (eds.). **The Free-Standing Companies in the World Economy, 1830-1996**. Oxford: Oxford University Press, 1998, pp. 3-64. On other concepts such as “investment groups” or “multinational firms” see CHAPMAN, Stanley D. British Free-Standing Companies and Investment Groups in India and the Far East. In: WILKINS, Mira and SCHROTER, Harm (eds.). **The Free-Standing Companies in the World Economy, 1830-1996**. Oxford: Oxford University Press, 1998, pp. 202-217; JONES, Geoffrey. **British Multinational Banking, 1830-1990**. Oxford: Clarendon Press, 1993.

and 1860s in industrialized countries, and about to occur in peripheral regions across the globe—a process that intensified with the Great Depression in the latter part of the nineteenth century (1873-1895).⁸ These transformations facilitated an increase in novel organizational structures of FDI, principally through the development of anonymous limited-liability companies (called in Portuguese *Sociedades Anônimas de Responsabilidade Limitada, S/A Limitada*).⁹

During the Brazilian Empire (1822-1889), the increasing presence of foreign capital was related to the Imperial State's political stability after 1850,¹⁰ and to the adoption of contractionary metals-based¹¹ monetary policies. These factors provided the macroeconomic conditions that could foster the establishment of new direct investment, particularly British investment, in such areas as banks and railroads.¹²

⁸ KINDLEBERGER, Charles P. and ALIBER, Robert Z. *Manias, Panics, and Crashes. A History of Financial Crisis*. 5th Ed.. New Jersey: John Wiley & Sons, Inc., 2005.

⁹ On the interplay of institutional change and foreign investment see LANDES, David. *Prometeu Desacorrentado. Transformação Tecnológica e Desenvolvimento Industrial na Europa Ocidental desde 1750 até a nossa época*. Translated by Vera Ribeiro and revised by Cesar Benjamim. Rio de Janeiro: Nova Fronteira, 1994 (Chapter 4, “Eliminando a defasagem”); DAVIS, Lance E. and GALLMAN, Robert E. *Evolving Financial Markets and International Capital Flow. Britain, the Americas and Australia, 1865-1914*. Cambridge: Cambridge University Press, 2001.

¹⁰ On the consolidation of the Brazilian Imperial State see CARVALHO, José Murilo de. *A Construção da Ordem: a elite política imperial; Teatro de Sombras: a política imperial*. 2^a ed. Rio de Janeiro: Ed. da UFRJ/Relume Dumará, 1996; MATTOS, Ilmar H. de. *O Tempo Saquarema*. São Paulo: HUCITEC, 1987.

¹¹ For more on metals in Brazil and the Quantitative Theory of Currency see VILAR, Pierre. *Ouro e Moeda na História (1420-1920)*. Translated by Philomena Gebran. Rio de Janeiro: Paz e Terra, 1980; TEIXEIRA, Arilda Magna Campanharo. *Determinantes e Armadilhas da política monetária brasileira no II Império*. Niterói, 1991, 120 p. Masters Dissertation (Economy), University Federal Fluminense.

¹² The history of foreign enterprises in Brazil is explored by CASTRO, Ana Célia. *As Empresas Estrangeiras no Brasil 1860-1913*. Rio de Janeiro, Zahar Ed., 1979. On foreign banks in Latin America, TRINER, G. *Banking and Economic Development: Brazil, 1889-1930*. New York: Palgrave, 2000; VILLELA, André and BRIONES, Ignacio. European bank penetration during the first wave of globalisation: Lessons from Brazil and Chile, 1878-1913. *European Review of Economic History*, 2006, 10, 329-359.

Actively participating in the Commercial Plaza in the city of Rio de Janeiro¹³ since the 1820s and 1830s, English businessman Edward Johnston, principal director and manager of the firm Edward Johnston & Co. (London, Rio de Janeiro, New Orleans and others cities), organized the “oversea bank” in association with bankers and entrepreneurs in London.¹⁴ Johnston founded the London and Brazilian Bank Limited. The rise of this international institution raises several key questions: What was the principal motive for creating bank in London with braches in Brazil? What types of enterprises and strategies did the English bank pursue in the Brazilian marketplace? And what was the reaction of Brazilian banks to this new English one?

1. The 1860 Barriers Act and Circumstances Favoring FDI

The historiography of the Brazilian economy has long emphasized the significance of Law no. 1.083, of 02 August 1860, which restored to the Bank of Brazil the monopoly on issuing paper currency.¹⁵ This law, mono-metallist in its economic and political essence, reintroduced a monetary regime rooted in precious metal—specifically gold, “with free and unlimited coinage so long as exchange value is fixed between metal

¹³ The city of Rio de Janeiro was the capital of the Empire of Brazil, and also known as the Neutral Municipality of the Court.

¹⁴ The creation of commercial and investment banks in 1860s London is examined in COLLINS, Michael. *Banks and industrial finance in Britain, 1800-1939*. Cambridge: Cambridge University Press, 1991; NEAL, Larry and DAVIS, Lance. The evolution of the structure and performance of the London Stock Exchange in the first global financial market, 1812–1914. *European Review of Economic History*, 2006, 10, 279-300 (Cambridge University Press). Concerning “overseas bank” operations in colonies of French and English empires see JONES, Stuart. The Apogee of the Imperial Banks in South Africa: Standard and Barclays, 1919-1939. *The English Historical Review*, vol. 103 no. 409 (October 1988), pp. 892-916; BONIN, Hubert. **French overseas banking as an imperial system: A background for Asian developments.** www.hubertbonin.com

¹⁵ PELAEZ, Carlos Manuel e SUZIGAN, Wilson. *História Monetária do Brasil*. 2ª ed. Brasília: UNB, 1981; NOGUEIRA, Denio. *Raízes de uma Nação*. Rio de Janeiro: Forense Universitária, 1988; LEVY, Maria Barbara. *História da Bolsa de Valores do Rio de Janeiro*. Rio de Janeiro: IBMEC, 1977.

and money.”¹⁶ This law, characterized in the historiography as the Barriers Act (*Lei dos Entraves*), not only reintroduced the gold standard that had been instituted in Brazil once before, during the monetary reforms of 1846,¹⁷ but also brought about an end to the liberal banking and lending practices espoused by Bernardo de Souza Franco (future Viscount of Souza Franco), Finance Minister in the 9th Cabinet. This likely pleased the Cabinet’s president of the Counsel of Ministers, Pedro de Araujo Lima, recently the Marquis of Olinda,¹⁸ who endorsed more conservative philosophies.¹⁹

Analyzing the effects of the new economic policies implemented by Angelo Moniz da Silva Ferraz (Baron of Ururuguaiana), Finance Minister and President of the 11th Cabinet, we verified that in the period 1859-60 to 1861-2 “stock of currency fell 15 percent, prices decreased by 8.5 percent, and the value of currency increased from 25 pence/*mil réis* to 26.5 pence/*mil réis*.”²⁰

The Barriers Act was deeply restrictive with respect not only to the activities of existent banks and banking houses, but to the creation of new ones.²¹ Between 1851 and

¹⁶ The generalized use of gold as a monetary base is traced by EICHENGREEN, Barry. *A Globalização do capital: Uma História do Sistema Monetário Internacional*. Translated by Sérgio Blum. São Paulo: Ed. 34, 2000.

¹⁷ PELAEZ & SUZIGAN, op. cit; pp. 64-69.

¹⁸ President of the Conservative cabinet (05/04/1857 to 12/12/1858), who succeeded the previous Conservative cabinet under the presidency of Marquis of Caxias (09/03/1856 to 05/04/1857). Regarding the Conservative Party see NEEDELL, Jeffrey D.. *The Party of Order: the Conservatives, the State, and Slavery in the Brazilian Monarchy, 1831-1871*. Stanford: Stanford University Press, 2006.

¹⁹ GUIMARÃES, Carlos Gabriel. *A presença inglesa nas Finanças e no Comércio no Brasil Imperial: os casos da Sociedade Bancária Mauá, MacGregor & Co. (1854-1866) e da firma inglesa Samuel Phillips & Co. (1808-1840)*. São Paulo: Editora Alameda, 2012; SUZIGAN e PELAEZ, op. cit.

²⁰ NOGEIRA, op. cit, p. 373. According to this author the valorization of the *mil réis* derived also from Brazil’s recent foreign loan (type 90) of an amount equivalent to 1,373, 000 *lira* at a rate of 4.5 percent and term of 30 years, with an immediate discount on its face of 10%. Brazil’s period foreign borrowing is analyzed in ALMEIDA, Paulo Roberto de. *A Formação da Diplomacia Econômica no Brasil: as relações econômicas internacionais no Império*. São Paulo: SENAC; Brasília: FUNAG, 2001 (especially chapter 11).

²¹ The principal features distinguishing a banking house from a bank were its lower volume of capitalization and different organizational structure. A banking house was also regarded as a commercial, not anonymous, corporation, and it had fewer legal responsibilities than banks that were structured as LLCs.

1860, 16 Brazilian banks had opened in the city of Rio de Janeiro, ten of them appearing between 1857 and 1860. But after passage of the Act, from 1861 to 1863 only five new banks were opened in the principal financial and commercial center of the Brazilian Empire, and two of these were of English origin—the London and Brazilian Bank Limited and The Brazilian and Portuguese Bank Limited. Further detrimental effects of the Barriers Act can be traced in the startling number of bankruptcies of commercial houses in Rio's financial district, reaching 105 individual cases in 1862 alone.²²

However, the stability of the exchange rate after 1860 (annex 1) and the recovery of Europe after the 1857 crisis increased demand for Brazilian coffee exports and the peak happened in 1862²³. In the opinion of Antonio Delfim Netto, "the increase in coffee prices caused a ponderable improvement of our foreign exchange".²⁴

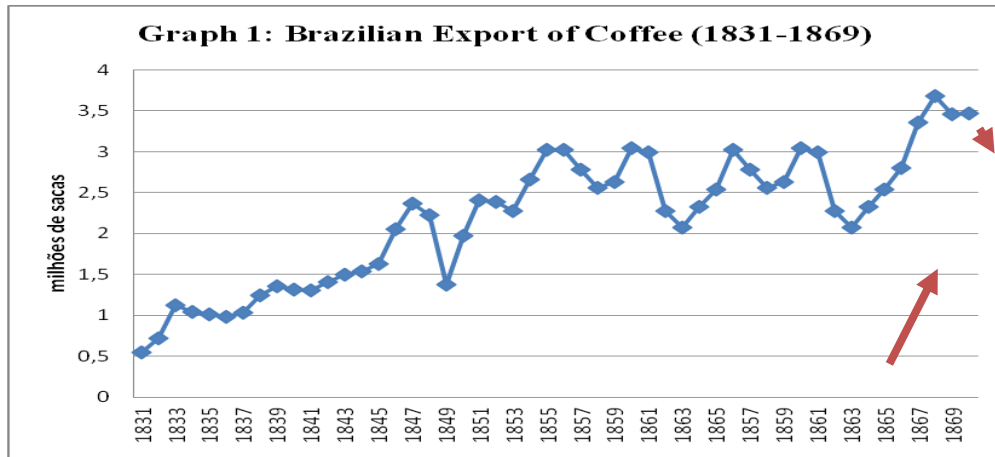
Analysing the graphic 1, after the fall of exports in 1859-1861, 1862 was the year that the coffee exportation increased again. Therefore the new monetary and banking legislation and favorable conditions of coffee exports created conditions of market to English bank because of the ease in converting currencies, at the same time that Brazilian banks declined. The development of this locus of English capital investment with the rise of novel forms of business in the sectors of finance and infrastructure (railroads, et cetera) became tightly interwoven with export activities.²⁵

²² To put this number in perspective, in 1858, one year after the crisis of 1857, a total of 90 commercial houses became insolvent. GUIMARÃES, op. cit., p. 199.

²³ PELAEZ, Carlos Manoel. Análise econômica do Programa Brasileiro de Sustentação do Café -1906-1945: Teoria, Política e Medição. *Revista Brasileira de Economia*, Rio de Janeiro, 25(4): 5/211, out/dez.1971. Available at: <http://bibliotecadigital.fgv.br/ojs/index.php/rbe/article/viewFile/65/6230>

²⁴ DELFIM NETTO, Antônio. O Problema do Café no Brasil. 3ª Ed. São Paulo: Ed. UNESP, 2009, p. 18.

²⁵ CASTRO, op. cit, p.12. Important works on the London and Brazilian Bank include JOSLIN, David. *A century of banking in Latin America*, London, Oxford University Press, 1963 (especially Chapter 4 - "British banking in Brazil 1863-1880"); GRAHAM, Richard. *Grã-Bretanha e o início da modernização no Brasil 1850-1914*. Tradução de Roberto Machado de Almeida. São Paulo: Brasiliense, 1973.



Source: Fonte: BACHA, op. cit, pp. 324-325 (Apêndice estatístico, tabela 1.6)

2. Brazil's First English Bank: the London and Brazilian Bank

The London and Brazilian Bank (LBB) was created in London on 13 May 1862, and incorporated four days later. According to its Memorandum of Association, a document that was also translated into Portuguese, the bank was an anonymous limited-liability company boasting nominal capital of £1 million which was divided into ten thousand shares of £100 each.²⁶

Among the signatories to the Memorandum of Association was Edward Johnston, director and organizer of one of the largest coffee export firms in Brazil;²⁷ his name lay alongside those of an illustrious selection of London's private bankers (see Table 1). That original Memorandum includes a list of 320 shareholders, among the largest of which were directors Henry Louis Bischoffsheim, Edward Moon and John Bloxan Elin, with 500, 200, and 200 shares respectively. Although the majority of shareholders was British, there were such notable exceptions as Robert A. Brenam, local agent of the Ottoman

²⁶ AHMOP. **O Banco de Londres e do Brasil Sociedade Anônima (London and Brazilian Bank Limited)**. Memorandum of Association and Articles of Association. Incorporated 17 May 1862. The orthography of the era has been maintained.

²⁷ For more on Johnston's career see BACHA, Edmar e GREENHILL, Robert. *Marcelino Martins & Edward Johnston. 150 anos de café*. 2ª ed.. Rio de Janeiro, Salamandra Cos. Ed., 1992.

Bank (20 shares), New York businessman Watts Sherman (50 shares),²⁸ Rio de Janeiro businessman João Baptista Lopes Gonçalves²⁹ (20 shares). But perhaps the most surprising member of this group was the Brazilian Francisco de Sales Torres Homem, who succeeded Bernardo de Souza Franco as Finance Minister and devised the package of conservative policies that became the Barriers Act (20 shares).³⁰

Table 1: Directors of the London and Brazilian Bank Limited (1862)

Name and Address	Profession	Shares Held
James Alexander, 10, Kings Arms Yard, London	—	50
Henry Louis Bischoffsheim, 10, Angel Court, London	Banker (Merchant Bank in London and Paris – Bischoffsheim & Goldschmidt)	50
John White Cater, 11, Mining, Lane, London	Commerce (Merchant Bank – Robert Benson and Co.)	50
Philip Charles Cavan, 29, Finsbury Circus, London	Businessman	50
Pascoe Charles Glyn, 62, Gresham House, Old Broad Street, London	Banker (Private Bank – Glyn, Halifax, Mills & Co.)	50
Edward Johnston, Liverpool	Businessman (Trading Firm _ Edward Johnston & Co)	50
John Bloxan Elin, 34, Abchurch Lane, London	Businessman (Merchant and agent in Liverpool; esquire of Kingston, Jamaica*)	50
Edward Moon, Liverpool	Businessman	50
William Freer Schönfeld, Aldborough, Boroughbridge	Banker (Accepting House - Meyer & Schönfeld)	50

Source: BRASIL. *Collecção das Leis do Império do Brasil* 1862, op.cit., p.325.

AHMOP. *O Banco de Londres e do Brasil Sociedade Anônima (London and Brazilian Bank Limited)*.

Memorandum de Associação e Artigos de Associação. 1862; GUMARÃES, op. cit.

**The Law Advertiser for the Year 1830*. Vol. VIII. London: John W. Paget

The LBB was authorized to conduct business in Brazil, more specifically in the city of Rio de Janeiro, by Decree no. 2.979 of 02 October 1862. Comparing the text of

²⁸ Watts Sherman, the father of William Watts Sherman, was a partner of the banking firm Duncan, Sherman, & Co. of New York and the treasurer of Newport Casino.

²⁹ Gonçalves, who bore an honorary distinction from the government, worked as Brazilian agent for a Portuguese wine company (Alto Douro Company) and cosigner of the Commissions House of Imports and Exports. *Almanak Administrativo, Mercantil e Industrial da Corte e Provincia do Rio de Janeiro para o anno de 1862*. Decimo nono anno. (segunda serie XIV). Rio de Janeiro: Eduardo & Henrique Lemmert, 1862, p. 489 e 517. <http://brazil.crl.edu/bsd/bsd/almanak/al1862/00000001.html>.

³⁰ AHMOP. *O Banco de Londres e do Brasil*.... Memorando de Associação...

this decree with the bank's Memorandum of Association, two points call our attention: the nature of the LLC, and the question of emitting debt.

The Finance Section's determination further emphasized that, with respect to such functions as currency exchange, credit, and deposits, this new type of bank would have to act according to the rules that then defined a Brazilian commercial bank.

It is our determination that the Imperial Government would provide a genuine service to the industries of Brazil by permitting the founding of the *London and Brazilian Bank* in the capital of the Empire, under the following conditions:

1° That this bank, beyond the basic operations of exchange, will expressly limit itself only to those which are permitted to the banks of deposits and credit issuance created within the Empire by authorization of the Imperial Government...

2° That the company *London and Brazilian Bank* as well as any other establishments of the same form, founded by joint stock companies, will submit itself to the dictates of the laws and regulations that reign in Brazil now and those that may reign in the future...³¹

The LBB opened for business in Brazil on the first day of February, 1863. Its address, as advertised in a notice in the newspaper *Jornal do Commercio* on 20 January that year, was number 49 on the Rua da Direita (a thoroughfare in downtown Rio presently known as First of March). The offices were led by John Saunders, comptroller; Thomas Jones Tenet, Manager; and Joseph Levi Montefiori, chief cashier.³²

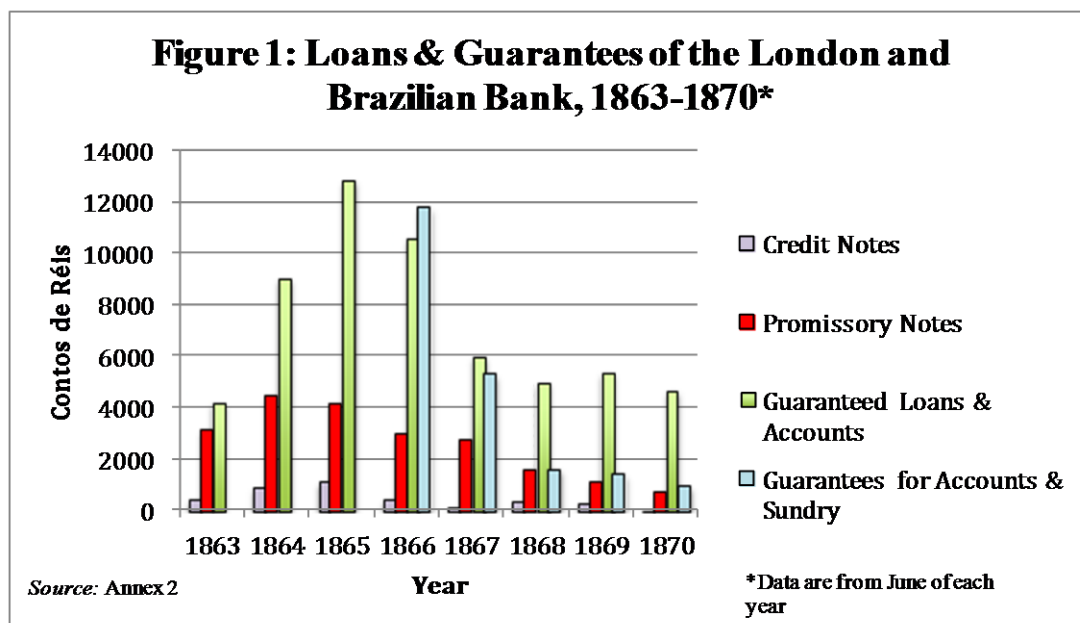
Even with all the complexity of analyzing historical data that was not recorded according to a consistent accounting standard, we can observe that the balance of assets from the first full year of operations (displayed with subsequent years in Figures 1 and 2, and in Annex 2) includes a remarkable increase of 100% over time in cash loans and notes of credit, and growth of 40% in promissory notes. Cash on hand decreased by 19%

³¹ N° 714. Resolution of 27 September 1862. In: BRASIL. Conselho de Estado. *Consultas da Secção de Fazenda do Conselho de Estado*. Vol. 5. Rio de Janeiro, Typ. Nacional, 1860-1865, p. 309

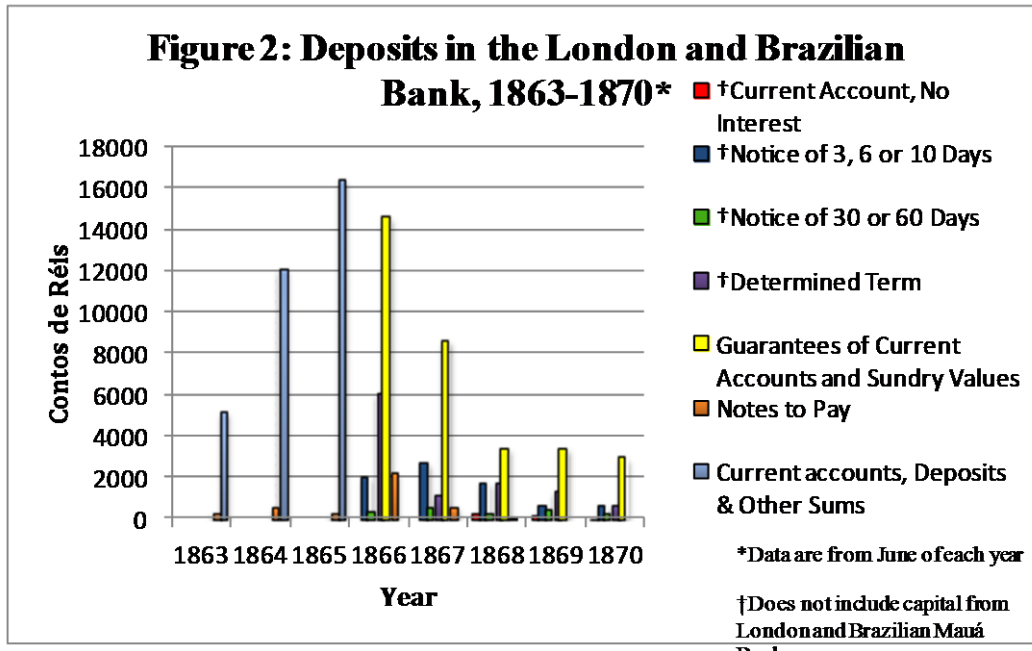
³² London and Brazilian Bank Limited. Declarações. *Jornal do Commercio*, 20/01/1863, p. 1, column 6.

while the LBB's account at the Bank of Brazil increased by 40%. With respect to liabilities, the capitalization of the LBB grew by half from £1 million to £1.5 million, and deposits increased by over 100%. The bank was rewarded for such impressive expansion and overall growth with the Imperial Government's permission to open branches in the states of Pernambuco (decreed 01 September 1863) and Rio Grande do Sul (decreed 01 December 1863). Still in 1864 the LBB announced the possibility of withdrawals, through the emission of letters of credit (bills of exchange), at the following national and international locations:

- Pernambuco
- Rio Grande do Sul
- Lisbon
- Porto
- London, through London & Brazilian Bank
- Paris, through Bischoffsheim Goldsechimdt & Co.
- Hamburg, through J. H. Schroeder & Co.
- Montevideo and Buenos Aires, through London, Buenos-Ayres & River Plate Bank
- New York, through Aymar & Co.³³



³³ London and Brazilian Bank Limited. "Declarações." *Jornal do Commercio*, 20/03/1864.



The 1864 annual report, prepared for shareholders by the directors in London, demonstrated how the LBB’s capital had grown through issuing of more than 5,000 new shares at £100 each. 2,800 of these were purchased by “shareholders of the Anglo-Portuguese Bank, which has merged (*“fez fusão”*) with the London and Brazilian, and 200 were sold at a premium.”³⁴ Details of that merger were not included in the report. Nonetheless, the burgeoning capitalization of the LBB—and the ensuing impacts on the bank’s profits and dividends—likely derived more from the number of branches opening in Brazil and Portugal than from this one consolidation, however notable it was.³⁵

In September that year, Brazil experienced a crisis in its financial sector. The Antonio Alves Souto & Co. Banking House, an institution at the heart of Rio’s

³⁴ *Assembleia Annual do London and Brazilian Bank Limited. Correspondencia Commercial*. Lisboa, 29/01/1864. See VIEIRA, António Lopes. A política da Especulação – uma introdução aos investimentos britânicos e franceses nos caminhos-de-ferro portugueses. *Análise Social*, vol. XXIV (101-102), 1988 (2º e 3), p. 731; *The Banker’s magazine, Journal of the Money Market and Commercial Digest*. Vol. XXIII, January to December 1863. London: Groombridge & Sons, 1863. pp.54, 451-452 & 535-7.

³⁵ *Assembleia Annual do London and Brazilian Bank Limited. Correspondencia Commercial*. Lisboa, 29/01/1864.

Commercial Plaza, went bankrupt. The weakened banking sector was soon sent reeling deeper into instability with the expansion of Brazil's war with Paraguay, an expensive and psychologically demanding conflict for the nation (and indeed much of the Southern Cone). The repercussions of that war for English banks in Brazil, and the solutions the bankers devised to navigate them, are addressed in the next section.

3. The Souto Crisis (1864) and the War with Paraguay (1864-1870): Reactions and Strategies from the English Banks

The commercial and financial predicament of late 1864, which came to be known as the Souto Crisis due to the insolvency of the Souto banking house that heralded it, really represented the culmination of deeper problems that had been brewing in Rio's Commercial Plaza since at least 1860.³⁶ In the face of such insecurity in the financial sector, the Society of Plaza Underwriters, a corporation dedicated to protecting the interests of high commerce—i.e., the largest national and international banking, import-export, and supply firms headquartered in Rio de Janeiro³⁷—quickly organized a special task force. On 12 September 1864, its leader, Society president and banker José Joaquim

³⁶ Details and analysis of the Souto Crisis can be found in SOARES, Sebastião Ferreira. *Esboço ou primeiros traços da crise comercial da cidade do Rio de Janeiro em 10 de setembro de 1864*. Rio de Janeiro: Ed. Laemmert, 1864; ANDRADE, Ana Maria Ribeiro de. *Souto & Cia*. In: LEVY, Maria Barbara (coord.). *Anais da 1ª Conferência Internacional de História de Empresas*. Rio de Janeiro: Div. Gráfica da UFRJ, 1991; GUIMARÃES, 2012, op. cit., chapter. 4; PELAEZ, e SUZIGAN, op. cit, pp. 104-115; VILLELA, André Arruda. *The Political Economy of Money and Banking in Imperial Brazil, 1850/1870*. London, 1999, 328 p. Ph.D. dissertation (Economic History). London School of Economics and Political Science. (chapter 4).

³⁷ The Society of Plaza Underwriters reorganized into the Commercial Association of Rio de Janeiro in 1867. See RIDINGS, Eugene. *Business interest groups in nineteenth century Brazil*. Cambridge: Cambridge University Press, 1994; MATHIAS, Herculano Gomes. *Comércio, 173 anos de desenvolvimento: história da Associação Comercial do Rio de Janeiro, (1820-1993)*. Rio de Janeiro: Expressão e Cultura, 1993; PIÑEIRO, op. cit.

de Lima e Silva (Viscount, later Count of Tocantins), formally directed an appeal to the Emperor to intervene.³⁸

The Imperial government's chief executive, liberal statesman Zacarias de Goes e Vasconcelos, responded promptly with a series of measures. Notable among these were Decree no. 3306 of 13 September 1864, which authorized the Bank of Brazil to elevate its emission to triple the available funds; Decree no. 3307 of 14 September 1864, establishing mandatory issuing of notes by the Bank of Brazil; and Decree no. 3308 of 17 September 1864. The latter included 5 articles creating extraordinary dispositions, among them the directive to regulate insolvencies of banks and banking houses at a term of 60 days, backdated to take effect on the 9th of that month.³⁹

The bank involvement and expansionist policies were reflections of the magnitude of the crisis. As a result of events from September 1864 through March 1865 there were 95 bankruptcies “with a total loss of 115,000 *contos* more than all the money circulating in Brazil at the time, which was somewhat more than 100,000 *contos*.”⁴⁰ During September many national banks and banking houses, including Souto & Co., resorted to discounts and bonds provided by the Bank of Brazil because of panicked runs on their

³⁸ BRASIL. Ministério da Justiça. *Comissão de Inquérito sobre as causas da crise na praça do Rio de Janeiro. Relatório da comissão encarregada pelo governo imperial por avisos do 1º de outubro a 28 de dezembro de 1864 de preceder a um inquerito sobre as causas principaes e accidentaes da crise do mês de setembro de 1864*. Rio de Janeiro: Typ. Nacional, 1865. Documentos anexos ao Relatório da comissão de Inquerito (...), serie A, p.4. Period spelling has been maintained.

³⁹ BRASIL. Ministério da Justiça. *Comissão de Inquérito sobre as causas da crise na praça do Rio de Janeiro, 1864. Relatório da comissão encarregada pelo governo imperial por avisos do 1º de outubro e 28 de dezembro de 1864 de proceder um inquerito sobre as causas principaes e accidentaes das crise no mes de setembro de 1864*. Rio de Janeiro, Typ. Nacional, 1865. p. 4 (Representações). pp. 11-33.

⁴⁰ NOGUEIRA, op. cit, p. 377.

customer accounts (Table 3).⁴¹ The English banks also turned to the Bank of Brazil, but received lower levels of assistance.

Table 3: Amounts Furnished by the Bank of Brazil Between 10-30 September 1864

Institution	Discount (<i>contos de réis</i>)	Bond (<i>contos de réis</i>)
Rural & Hipotecário Bank	1.240:000\$000	4.630:000\$000
Mauá, MacGregor & Co. Bank	5.246:440\$136	-
London & Brazilian Bank	382:766\$240	500:000\$000
Brazilian and Portuguese Bank	-	1.013:300\$000
Gomes & Filhos	3.222:239\$512	1.934:000\$000
Bahia, Irmãos & Co.	8.207:831\$061	1.804:600\$000
Montenegro, Lima & Co.	2.108:507\$274	1.088:000\$000
Oliveira & Bello	22:250\$000	-
D'Ilion & Marques Braga	682:349\$604	-
Portinho & Moniz	850:895\$569	63:000\$000
Silva Pinto, Melo & Co.	337:458\$220	-
João Baptista Vianna Drummond	254:233\$971	-
Manoel Gomes de Carvalho	183:343\$282	-
Lallemant & Co.	347:884\$570	-

Source: Brasil. Ministério da Justiça. *Comissão de Inquérito sobre as causas da crise na praça do Rio de Janeiro de 1864*, op. cit., p. 204.

The political and economic context grew even more complicated after December 1864, when international tensions among Brazil, Argentina, Uruguay, and Paraguay triggered military actions. The so-called Paraguayan War⁴² pitted the triple alliance of Brazil, Argentina, and Uruguay against Paraguay, and brought fundamental challenges to the Imperial government.⁴³ Noted Brazilian writer and statesman Joaquim Nabuco observed that the war “divided the waters,” bringing the Empire itself to a crisis point.⁴⁴

⁴¹ On the experience of the banking crisis for Bank Mauá, MacGregor & Co. and the Bank Rural & Hipotecário, see GUIMARÃES, 2012, op. cit.; GUIMARÃES, Carlos Gabriel. “A Guerra do Paraguai e a atividade bancária no Rio de Janeiro no período 1865-1870: o caso Banco Rural e Hipotecário do Rio de Janeiro.” *HEERA*, Vol. 1, 2007, pp. 1-27.

⁴² The conflict was initiated on 11 November 1864, when Paraguayan forces captured the Brazilian steamship *Marquês de Olinda*, and lasted until the death of Paraguay’s leader Solano López on 01 March 1870. At nearly six years, the Paraguayan War was the lengthiest conflict on the American continents.

⁴³ On the Paraguayan War see COSTA, Wilma Peres. *A espada de Dâmocles: o exército, a Guerra do Paraguai e a crise do Império*. São Paulo: HUCITEC/Ed. da UNICAMP, 1996; MARQUES, Maria Eduarda C. Magalhães (ed.). *A Guerra do Paraguai: 130 anos depois*. Rio de Janeiro: Relume Dumará,

Certainly the war was very expensive. According to calculations made by Pelaez and Suzigan, total expenditures reached 614,000 *contos de réis*⁴⁵ and “generated a deficit of 387,397 *contos*, or 6.5% of all revenue.”⁴⁶ Principal sources of financing were domestic and foreign loans, and the levying of various taxes (Table 4). Brazil’s borrowing included “a foreign type-74 loan in 1865 in the value of £6,693,000 with liquidity of £5,000,000 (around 49,000 *contos*), at a rate of 5% with a 30-year term. There was also an internal loan of 27,000 *contos*, and the issuance of treasury notes (at 6% annually) in the sum of 171,000 *contos* during the war. The rest of the amount, roughly 120,000 *contos*, was issued as paper currency.”⁴⁷

The war affected exports of Brazilian coffee which declined after 1864_ Graph 1. For Antonio Delfim Netto, “coffee prices in the international market were already declining, not only due to reduced U.S. demand (related to the Civil War), as well as due to the growth of the Brazilian production and production of other producers” in America and Asia.⁴⁸

Table 4: Financing the Paraguayan War (1822 values, in 1,000s of *contos*)

Year	Customs Duties	Export Fees	Provincial Contributions	Other Tributes	Total Income
1864/65	5.9	1.7	1.6	0.4	9.6
1865/66	4.7	1.6	1.3	0.4	8.0
1866/67	4.7	1.4	1.5	0.2	7.8
1867/68*	4.1	1.8	2.0	0.1	8.0
1868/69	4.4	1.9	1.9	0.5	8.7
1869/70	5.3	1.8	2.3	0.1	9.5

1995; SALES, Ricardo. *A guerra do Paraguai: escravidão e cidadania na formação do exército*. Rio de Janeiro: Paz e Terra, 1990.

⁴⁴ NABUCO, Joaquim. *Um Estadista do Império_ Nabuco de Araújo, sua vida, suas opiniões, sua época*. Rio de Janeiro: Garnier, 1897/98, 3 vols., pp. 189-190.

⁴⁵ PELAEZ e SUZIGAN, op. cit., p. 114.

⁴⁶ BUESCU, Mircea. *História Administrativa do Brasil. Organização e Administração do Ministério da Fazenda no Império*. Coordenação de Vicente Tapajós. Brasília: FUNCEP, 1984, p. 93.

⁴⁷ NOGUEIRA, op. cit., p. 378.

⁴⁸ NETTO DELFIM, op. cit, p. 19.

* Starting in 1867, 15% of the import-export tax was required to be paid in gold.
Source: NOGUEIRA, op. cit., p.379.

During the middle of the war, funding got a boost from an 1867 requirement that 15% of all import-export taxes were to be remitted in gold, as well as from an increase in the obligatory payment of tributes to the central government from Brazil's provinces. Dênio Nogueira found that "the latter source of income displayed the highest growth rates, increasing from 15% of total income to 25% between 1864 and 1869."⁴⁹

The LBB was impacted by the economic crisis, as its period balance sheets and London directors' reports demonstrate. Declines in the bank's activities were felt as early as 1865, and intensified in 1867 with the new state measures to generate revenue for the war. On the asset side, in 1865, loans (notes and current accounts) and cash on hand reached a high of 18.189:898\$370 Rs and 1.621:567\$020 Rs respectively, but these numbers would decline from 1866 through 1870. Loans in 1866 came to 14.883:992\$970 (-18,2%), and by 1870 had plummeted to 5.417:313\$980 (-71%). Similarly, cash on hand fell, albeit with a slight bounce, going from 1.244:017\$620 Rs (-15%) in 1866 to 1:969:257\$740 Rs (+20%) in 1867, finishing down at 607:530\$110 (-66%) in 1870. However, it is important to note the presence of two new accounts among the assets. One, in 1865, referred to a one-time deposit of 500:000\$000 Rs made by the LBB to the Bank of Brazil. The other was listed from 1866 to 1870 and described guarantees for current accounts and sundry values, although the actual amount declined over time. It had started in 1866 with the substantial sum of 11.826:642\$820 Rs.

In liabilities, there was an increase in capitalization in 1867. One-time deposits were made as well as deposits with different terms and interest structures (with notices of

⁴⁹ Idem, p. 380.

3, 6, 10, 30, or 60 days). Even while this was contrary to what seemed to be mandated in the bank's statutes regarding the payment of interest for deposits, this diversified strategy indicates how the LBB was maneuvering to grow its deposits during the financial crisis. In 1865 the deposits (LBB of London and branches, plus notes payable) came to 1.830:137\$890 Rs. The following year deposits (LBB of London and branches, plus notes payable) grew dramatically by a factor of 9, to 10:869:260\$287. Most of this came from the interest-paying deposits and notes payable, with a marked decline in holdings in the London office and the branches.

LBB directors, concerned with how the situation in Brazil might generate negative consequences in Great Britain, sought to fortify their position by merging with the Bank of Mauá, MacGregor & Co., one of Brazil's most important commercial banks.⁵⁰ To the LBB's branches in London, Rio, Lisbon, and Portugal were joined the Bank of Mauá, MacGregor in Rio de Janeiro and the Bank Mauá & Co. in Montevideo, São Pedro do Rio Grande do Sul and elsewhere. This new overseas bank was named The London, Brazilian and Mauá Bank Limited (LBMB), and authorized to function by Brazil's government through Decree no. 3,587 of 20 December, 1865. Its board was composed of Mauá himself and LBB directors (Table 5), who hoped to continue all the previous activities of their various institutions on a more secure footing.

⁵⁰ GUIMARÃES, 2012, op. cit, chapter 4.

Table 5: Board of Directors of the London, Brazilian and Mauá Bank Limited

Names, Addresses, and Occupations of Directors	# Shares Held
Irineo Evangelista de Souza, Baron of Mauá. Banker, Rio de Janeiro	100
Henri Louis Bischoffsheim, 10 Angel Court, Banqueiro (Merchant Bank – Bischoffsheim & Goldschmidt). Businessman	100
Philip Charles Cavan, 16 Leadenhall Street, London. Businessman	100
Pascoe Charles Glyn, 67 Lombard Street, Banker (Private Bank-Glyn, Mills Currie & Co*)	100
Edward Johnston, 6 Great St. Helen's, (Edward Johnston & Co.). Businessman	100
Edward Moon, 3, Cook Street, Liverpool. Businessman	100
William Freer Schönfeld, 22, Sussex Square, Londres, Banker (Accepting House – Meyer & Schönfeld), Esquire**	100
Total shares	700

*This resulted from the merger of Glyn, Mills & Co. with Currie & Co. in 1864.

** Esquire is a term of nobility just under that of knight.

Source: GUIMARÃES, 2012, op. cit, chapter. 4, Table 15.

The LBMB was launched with an impressive capitalization, estimated at £5 million. This was three times the capital of the LBB and twice that of Mauá, MacGregor & Co. and all its affiliates. Potentially the LBMB could have been a competitor even to the formidable Bank of Brazil, yet it failed to prosper. In light of the precarious financial circumstances it was imperative for the new board to unify and cooperate, but it was riven by internal suspicions and distrust. Directors from the LBB began to perceive that some Mauá enterprises in both Rio de Janeiro and Montevideo⁵¹ were not as successful as they had first appeared.⁵² For his part the Baron of Mauá grew deeply concerned about exposure to the financial instability in London, which had recently brought about the

⁵¹ GUIMARÃES, 2012, op. cit., chapter 4.

⁵² JOSLIN, David. *A century of banking in Latin America*. London: Oxford University Press, 1963. pp. 71-72. Unfortunately the *Jornal do Commercio* newspaper did not carry information on the 1867 Shareholders Meeting.

bankruptcy of English investment bank Overend & Guerney and resulted in the LBB raising fees on deductions and withdrawals.⁵³

The light at the end of the tunnel for these English banks, and indeed for the entire economies of Brazil and Portugal, came with the end of the Paraguayan War early in 1870. In its 1869 official report to LBB shareholders, the board of directors both reminisced and looked forward, affirming:

The directorship earnestly hoped that the shareholders would not continue to sacrifice their interests by selling their shares for a pittance, as some had done. We judged it fair and proper to assure that those shares were worth more than the market's asking price. The elements of prosperity for any bank are its actual condition and the strength of its credit; those shares convey the fortitude of the LBB in these very same elements. It was only natural that their value would rise significantly with the cessation of the Paraguayan War, which seems finally well at hand. And in any case Brazil is a country blessed with many resources that offer fertile ground for profitable banking operations, especially if we can rely on the government honorably fulfilling its commitments.⁵⁴

Final Considerations

The LBB was one form of FDI in Brazil, constituted as commercial deposit and credit banks that privileged short-term transactions with import-export businesses. Given the macroeconomic and political contexts of Brazil, and the significant factor of inexpensive credit in the city of London, the growth of these banks was frankly vertiginous compared to the contemporary profile of national banks and banking houses.

However, with the insolvency of the Antônio José Alves do Souto & Co. Banking House in Rio de Janeiro's Commercial Plaza in 1864, and the rapidly ensuing Paraguayan War—both of which impacting the Brazilian—the LBB was affected and it experienced difficulties and reorganized toward the end of the crisis years.

⁵³ *Idem.*

⁵⁴ Assembleia Annual do London and Brazilian Bank Limited. **Jornal do Commercio**. Correspondencia Commercial. Lisbon, 19/02/1869.

It should also be emphasized that the English bank was able to adapt to its new Brazilian habitat, engaging in practices uncommon to London such as the interest-paying deposits—a form of interest-paying current account that was routinely offered by Brazilian banks. This case demonstrates that “foreign” banks could assimilate to business practices in the milieu where they operated, much as the writings of Maria Barbara Levy suggest. Nonetheless, while both a recuperation and a broad-based expansion of English banks in Brazil were optimistically anticipated by directors and investors in the years following the Paraguayan War, reality would not live up to their hopes.

Annex 1

Brazilian Fiscal, Monetary and Exchange Policies, 1860-1870

Year	Index (1822=100)		Exchange Rate (1,000 réis / £1)	Fiscal Policy (1,000s of réis)								
	Cash in Circulation	Prices		Income					Expenditure			Balance (+ or -)
				Total	Type			Total	Type			
					Customs Duties	Export Taxes	Provincial Contribution		Military	Debt Service		
1859/60	1,053	600.0	9.57	43.2	27.2	5.6	8.3	52.6	22.2	5.2	-1.9	
1860/61	985.9	578.1	9.30	49.2	30.0	7.3	7.1	52.4	19.4	5.2	-1.5	
1861/62	891.3	549.2	9.39	51.4	31.4	8.2	9.4	53.0	18.9	5.3	-2.6	
1862/63	958.7	568.1	9.06	47.0	27.4	8.3	8.9	57.0	19.8	5.4	-10.0	
1863/64	1,016	495.5	8.81	51.7	30.8	9.1	9.5	56.5	21.2	5.2	-4.8	
1864/65	1,204	580.4	8.97	55.7	34.5	9.7	9.3	83.3	40.6	5.1	-27.6	
1865/66	1,392	703.4	9.60	56.1	33.4	11	9.3	121.9	80.3	8.9	-65.8	
1866/67	1,479	800.7	9.90	62.4	37.6	10.8	11.7	120.9	72.1	10.4	-58.5	
1867/68	1,627	873.6	10.70	69.7	35.9	15.4	17.1	166.0	98.8	11.2	-96.3	
1868/69	1,982	1,035	14.11	83.5	45.3	18.6	19.4	150.9	81.3	14.8	-67.4	
1869/70	2,371	988.3	12.76	92.9	52.4	17.8	22.3	141.6	76.8	13.1	-48.5	

Notes: 1) Since 1828, the fiscal year began in July; 2) in 1846, with Monetary Reform, the government depreciated the official exchange rate to 27 d/mil réis or 8\$889/£1; 3) starting in 1833, 50% of customs duties were collected in gold; 4) starting in 1837, 100% of customs duties were collected in gold, as were export taxes; 5) starting in 1853, the export tax was reduced 5% *ad valorem*.

Source: NOGUEIRA, op. cit., pp. 332, 375

Annex 2

Balances of London and Brazilian Bank, 1863-1870 (in June of each year)

	1863	1864	1865	1866	1867	1868	1869	1870
Total capital*			13.333:333\$330	13.333:333\$330	13.333:333\$330	13.333:333\$330	13.333:333\$330	13.333:333\$330
Capital in cash			2.711:111\$110	8.711:111\$110	8.133:333\$330	8.333:333\$330	8.133:333\$330	8.133:333\$330
ASSETS								
Capital at branches and agencies		2.400:000\$000	2.400:000\$000	2.400:000\$000	2.977:777\$780	2.977:777\$780	2.977:777\$780	2.977:777\$780
London and Brazilian Bank, London and local affiliates		445:235\$260		703:654\$080				
Accounts payable	423:686\$480	912:309\$720	1.137:041\$790	453:242\$860	150:408\$410	322:365\$040	259:690\$410	45:183\$570
Promissory notes & accounts	3.172:134\$800	4.476:390\$790	4.162:845\$010	2.993:841\$670	2.752:176\$290	1.615:846\$150	1.144:243\$190	739:845\$870
Loans & guaranteed current accounts	4.166:641\$420	9.004:161\$860	12.890:011\$570	10.636:858\$440	6.023:488\$410	4.978:893\$070	5.332:248\$770	4.632:284\$540
Guarantees for current accounts & sundry values				11.826:642\$820	5.330:886\$580	1.638:613\$490	1.422:420\$010	972:841\$330
Cash on hand	1.121:732\$630	913:394\$140	1.621:567\$020	1.244:017\$620	1.969:257\$740	1.603:957\$740	520:139\$130	607:530\$110
Buildings, furniture, office equipment	10:181\$390	16:991\$500	214:928\$000	314:707\$390	351:346\$030	335:000\$000	333:620\$000	49:000\$000
Deposits in current accounts:								
Cash account at Bank of Brazil and others	238:502\$510	335:270\$630						
Demand deposit at Bank of Brazil			500:000\$000					
Foreign gold coins		27:899\$160						
TOTAL	9.132:879\$230	18.561:623\$060	22.926:393\$390	30.572:964\$880	19.555:341\$000	13.472:453\$270	11.990:139\$290	10.024:763\$220

LIABILITIES								
Capital	3.111:111\$110	4.622:222\$220	4.622:222\$220	4.622:222\$220	5.200:000\$000	5.200:000\$000	5.200:000\$000	5.200:000\$000
London and Brazilian Bank, London and local affiliates	549:668\$070	1.192:812\$130	1.497:584\$450	451:011\$700	1.174:049\$930	645:456\$770	585:754\$630	52:969\$750
Deposits:								
* Current account						281:274\$110	191:173\$280	70:490\$670
* With notice of 3, 6, or 10 days				2.081:896\$450	2.778:727\$590	1.800:915\$250	671:545\$970	674:017\$380
* With notice of 30 or 60 dias				379:407\$260	547:177\$810	311:369\$560	460:880\$690	225:624\$360
* With determined term				6.104:468\$740	1.147:145\$970	1.809:111\$860	1.406:321\$330	659:376\$200
Guarantees for current accounts & sundry values				14.708:466\$820	8.696:568\$680	3.468:793\$720	3.474:463\$390	2.990:061\$120
Notes to pay	274:580\$040	606:863\$130	332:553\$530	2.231:503\$990	611:671\$020	5:630\$000		
Current accounts, deposits & other values	5.197:520\$010	12.139:725\$580	16.474:036\$190					
TOTAL	9.132:879\$230	18.561:623\$060	22.926:393\$390	30.572:964\$880	19.555:341\$000	13.472:453\$270	11.990:139\$290	10.024:763\$220

*Note: Does not include capital from the London and Brazilian Mauá Bank, which was authorized by official decree but did not get off the ground.

Source: Commercio. Balanço do London and Brazilian Bank. **Jornal do Commercio**, 1863-1870.