Native Capital: Financial Institutions and Economic Development in São Paulo, Brazil, 1850-1920

By Anne Hanley

In the late nineteenth century, São Paulo, Brazil experienced a period of fortune that transformed it from a sleepy agricultural backwater to the nation’s industrial center. Booming demand for coffee from Europe’s industrial workforce fueled a dramatic growth in coffee consumption at the very moment that Rio de Janeiro, Brazil’s original coffee growing region, was suffering from soil exhaustion and declining productivity. Enterprising São Paulo planters, who until the 1870s and 1880s had grown middling quality sugar and cotton, brought coffee trees into their province where fertile soils, an open frontier, and construction of a railroad network allowed plantations to spread and planters to prosper. Labor shortages due to the impending abolition of slavery caused planters to turn to immigrants from Italy to work the plantations. These wage laborers, in turn, consumed a variety of goods produced by rudimentary domestic factories. Some of the immigrants who had a background in industry moved from plantation to city to develop businesses to satisfy this new demand. Planters, too, engaged in urban commercial and industrial enterprises to diversify their assets in order to protect their wealth from the uncertainties endemic to agricultural production. In this manner, the São Paulo coffee boom generated the wealth, consumer demand, and thriving entrepreneurship that lay the foundation for the region’s phenomenal industrialization.

The story of São Paulo’s economic transformation, rare among Latin America’s primary product exporters of the nineteenth century, is relatively well-known thanks to the research of Warren Dean (1969), Wilson Cano (1981), Sergio Silva (1978), and others. While this research produced general agreement that a link between coffee and industry was responsible for São Paulo’s development, it did not investigate how the link was able to form in the first place. Researchers assumed that some investment capital came from wealthy clans active in export agriculture and the rest from foreign interests attracted by the coffee boom. Many of the ventures that planters engaged in, however, were far too big to finance through personal wealth; the industrial companies that helped transform São Paulo’s economy were very large, valued at millions of dollars. Moreover, the vast majority of these companies were domestic, not foreign, companies. Where, then, did this money come from? How was funding mobilized to pay for these big, new, commercial and industrial businesses?

The answer lies in native capital market institutions. Capital markets are institutions that provide a place where people needing capital can find it, and where people who have surplus capital can make it available for others to use. We routinely use these institutions when we invest our salary in retirement accounts and bank accounts or when we borrow money to pay for a car or an education. Capital market institutions gather the savings of individuals like us whose resources, in their scattered form, would be insufficient to finance a large loan, but when consolidated by a bank or invested in the stock market help finance acquisitions from our cars and educations to an industrialist’s machinery and factories.

Capital markets are critical to an economy’s ability to grow and develop. Without them, economic activity is constrained by the size of the resources available in a community, provided its members are willing to lend them out. Personal savings or private financiers provided much of the money that financed economic activity before the Industrial Revolution, when technology was rudimentary and capital requirements were small. Technological advances of the nineteenth century required greater levels of capital investment; however, strangling these personal capital markets. The demand for great amounts of capital created the need for larger, better funded institutions to finance industry. These institutions tended to be formal, breaking the personal ties that bound financier and entrepreneur, thereby granting financial access to the less well-connected. The countries that developed such institutions had a distinct advantage over those that did not in financing their industrialization and attendant infrastructure development, because these institutions—banks, brokerages, and stock and bond exchanges—were capable of summoning capital on the scale that these ventures required.

Brazil did not have any significant financial institutions when international trade accelerated around mid-century. The country had very little currency in circulation, and much economic activity took place through barter or trade. Coffee planters, who operated in what was the most advanced sector of the economy, relied on middlemen from the port cities to advance them money to pay for their tools and supplies until harvest time made them solvent. This relationship, like the personal financial arrangements of pre-industrial Europe, was strained by the coffee boom and demanded some institutional solution. The answer to Brazil’s financial needs came in the form of a series of laws passed by the government to promote banking and to institutionalize business practices. These laws included regulations about how banks and other companies could form; the activities in which they could engage; the responsibilities company directors had to their investors; and the rights of investors should something go wrong. More laws created a class of brokers entrusted with trading financial instruments like stocks, bonds, bills of exchange, and precious metals. Together, these regulations clarified the rules for doing business and generated the great innovation that paid for much of São Paulo’s economic diversification: the ability of companies to sell shares to the public to finance a business.

The response by Paulistas to these innovations in company law was to form capital market institutions that were critical to the long-term transformation from an agricultural to an industrial economy. Domestic banks, brokers, and two stock and bond exchanges formed over the second half of the nineteenth century to provide two important services to the São Paulo economy: liquidity and investment capital. Liquidity is the ability to readily turn an asset into cash. Banks accepted the types of papers common to international trade—bills of exchange—at a discounted value, allowing planters to turn a future promise to pay on a shipment of coffee into immediate cash. The banks then presented that bill of exchange when the final transaction took place, making money...
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by receiving full price for a bill that it bought at less than face value. Banks also accepted valuables, such as precious gems, stocks and bonds, and even slaves before it became clear that abolition would take place, as collateral against a secured line of credit that operated much like our modern day checking accounts.

The second important service São Paulo’s financial institutions provided to the economy was investment capital. Here, brokers and the stock and bond exchanges were more important than banks, as very few banks lent money long term. Because of the inherent riskiness involved in agriculture, most banks steered clear of long-term agricultural credit. Droughts, freezes, insects, bumper crops all caused the harvest to fluctuate wildly, with immediate impact on coffee prices, which made it impossible to forecast the market five years ahead, much less the thirty years of the typical mortgage loan. Banks were equally reluctant to lend long term credit to industry because the Brazilian government’s own ambivalence about domestic economic development often caused it to create policies that harmed domestic industry. The solution for both agriculturists and industrialists was the stock and bond exchange. Planners and entrepreneurs incorporated businesses as joint-stock companies selling shares to the public. Because stocks do not require repayment, they act as a long term credit from the perspective of the entrepreneur. Long term credit is critical for economic development because it often took several years—far longer than the 12-month credit lent by banks—before new companies made enough profit to repay a loan. Once the capital was raised through the initial public offering, São Paulo businesses were able to invest in their property, plant, and equipment. If they fared well, they often returned to the market to issue new shares to finance their expansion. These joint-stock companies engaged in activities ranging from building transportation and utilities networks to brewing beer, manufacturing textiles, fashioning shoes, and publishing newspapers. Hundreds of them formed in the 1890s and early 1900s to create a dynamic urban commercial and industrial economy in São Paulo.

While we do not know much about the individuals who invested in these corporations, we do know that it was increasingly common in the late nineteenth century for people to purchase stocks and bonds. Stocks had initially been an investment of the rich, but research by Zélia Cardoso de Mello (1985), working through the postmortem inventories of Paulistas, found that stocks comprised an increasing share of personal fortune at all income levels in the second half of the century. Her sample included planters, merchants, and industrialists, but it also captured artisans, public servants, and laborers. Shareholder lists from the major railroads show a similar trend; thousands of individuals invested in the Paulista and Mogiana Railroads in the late nineteenth century. The number of shareholders in each enterprise grew faster than the population at large, indicating that an increasing proportion of São Paulo residents were investing in stocks. This boom in stock holding was stimulated by a company law passed in 1890, on the heels of a political coup that replaced the conservative Empire with a pro-business republican regime. This new company law introduced limited liability for investors, meaning that investors were shielded from responsibility for fraudulent or corrupt activity on the part of company directors. Under the Empire there had been no such protection and new company formations were relatively few. This new benefit stimulated a dramatic increase in company formations.

The importance of domestic capital markets to São Paulo’s economic transformation was profound. The liquidity provided by banks eased the circulation of goods and services, which stimulated the economy. The secured lines of credit turned valuable possessions into capital and freed up the savings of established agricultural, commercial, and industrial entrepreneurs for investment because they now had recourse to bank loans for short term needs. The long term investment capital provided by the stock and bond exchange underwrote hundreds of corporations engaged in a broad range of urban commercial and industrial businesses in addition to businesses more closely aligned with the agricultural economy, such as those manufacturing farm implements and insecticides or providing warehousing facilities at the port cities. Utilities companies formed on the domestic stock exchange electrified scores of hinterland cities in the state.

Foreign capital that was accorded a central role by other scholars certainly was significant in its volume, but I found it was narrowly targeted to utilities companies operating in São Paulo’s capital city. In terms of São Paulo’s industrialization it was not foreign capital but rather the São Paulo stock market that created some of the largest industrial ventures in Brazil. The average industrial company listed on the São Paulo stock exchange was more than twenty-five times larger than the average industrial company in all of Brazil. Some of these—Votorantim, Antártica, Melhoramentos—exist today and are among Brazil’s best known corporations. This capital formation and the dynamic economic diversification it fostered were done with native capital raised from Brazilian investors and channeled to Brazilian entrepreneurs.

Works Cited

Anne Hanley is Associate Professor of History. Her book, Native Capital: Financial Institutions and Economic Development in São Paulo, Brazil, 1850-1920, will be published this fall by Stanford University Press.
Gender Quota Laws in Latin America: Explaining Cross-National Diffusion

By Adriana M. Piatiti-Crocker

During the 1990s a growing number of countries, particularly in Latin America and Europe, made significant progress in reducing the gender gap in public life. Women in Argentina have consistently participated in government and politics, and despite the recent changes in administration, the role of women in political life has not diminished. The implementation of gender quota legislation during the 1990s was mostly a Latin American phenomenon, with the exception of Argentina being the first country to adopt a mandatory gender quota law in 1991. Even with this innovative policy, however, Argentina did not have a strong political party that advocated for gender equality, and the law was not widely enforced.

The introduction of the Argentine gender quota law was a result of the 1990s, and led to regional conferences organized by the Encontros de Mujeres Latinoamericanas, ECLAC/CEPAL, Parlatino, and Inter-American Development Bank to discuss ways to increase women’s participation in political life.

The Argentine gender quota law mandated that at least 15% of candidates be women in all political parties. This led to a significant increase in women’s representation in Congress. The law also required that at least 30% of candidates be women in all political parties. This led to a significant increase in women’s representation in Congress. The law also required that at least 30% of candidates be women in all political parties.

In summary, the adoption of gender quota laws in Latin America has been largely driven by the desire to increase women’s participation in political life. The success of these laws varies across countries, but the adoption of gender quota laws is a promising development for women’s empowerment in Latin America.
Faculty Publications and Activities

Karen A. Carrier  
Assistant Professor, Literacy Education

Publications  

Papers Presented  

Work in Progress  
(under review) “Using MM1-O to Improve Comprehension and Assessment of English Language Learners.” *Classroom Leadership*.  
(under review) “Transitions from Spanish to English: Supporting Students’ Language and Literacy Constructions in the Classroom.” *Reading Research & Instruction*. (With Francine Falk-Ross)

Professional Activities  
Lead investigator of a study focusing on the listening tasks required of English language learners in math, science, and language arts entitled *Second Language Listening Tasks in Content Area Classroom* at Rochelle Twp. High School (Rochelle, IL).  
Implementing a school-wide professional development plan for elementary teachers at Nelson Elementary School (Rockford, IL) with Myra Daniel.  
Coordinator of Project QUILL, a professional development grant for preparing teachers to work with English language learners (Grant No. T95N021239-03)  
Conducted the second Project QUILL Teacher Educator Academy, for faculty, university supervisors, and mentor teachers to enhance the skills of teachers in pre-K-12 who teach English language learners.

Louise Ciallella  
Assistant Professor, Foreign Languages and Literature

Publications  

Winifred Creamer  
Professor, Anthropology

Publications  

Papers Presented  

Professional Activities  
Member of a joint team of Peruvian and US archaeologists and students performing on-going excavations of six pre-ceramic period pyramid mounds at Cabalaite, along the coast, 200 km north of Lima, June-August, 2004.  
Recipient of a Fulbright Postdoctoral Research and Teaching Fellowship in the Program for Environmental Sciences, Universidad Peruana Cayetano Heredia, Lima, Peru.

Appointed Visiting Professor at Universidad Peruana Cayetano Heredia. Organized the Third Annual PANC Workshop: Computers Enhancing Our Understanding of the Past, in Pativilca, Peru, August, 2005.

Mayra Carrillo-Daniel  
Assistant Professor, Literacy Education

Publications  

Ibis Gomez-Vega  
Associate Professor, English

Publications  

Michael J. Gonzales  
Presidential Research Professor, History, and Director of the Center for Latino and Latin American Studies

Publications  


Work in Progress (under review) "A Meta-Analytic Evaluation of the Effectiveness of School-Based Suicide Prevention Programs," Journal of Clinical Child and Adolescent Psychology. (With Lisa C. Konick and L. Friedman)

(under review) "Indicators of Suicide Risk among Self-Injuring Adolescents." Suicide and Life-Threatening Behavior. (With Jennifer J. Muenkelkamp and Jenny Swanson)


Professional Activities


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Anne Hanley
Associate Professor, History

Publications


Papers Presented


Professional Activities

Awarded an Undergraduate Research Apprenticeship Program (URAP) grant to fund research into the historiography of municipal finance and taxation policy, College of Liberal Arts and Sciences, Northern Illinois University, Spring 2005.

Awarded a Faculty Summer Research Grant to investigate commercial and business legislation at the Library of Congress, Center for Latino and Latin American Studies, Northern Illinois University, Summer 2004.
Addressing the Latino Healthcare Crisis: An Update on the Center's Outreach Initiative

By Michael J. Gonzales and John R. Alexander

For the past few years, the Center for Latino and Latin American Studies has addressed the need to increase the number of bi-lingual, bi-cultural healthcare professionals in Illinois. With funding from Illinois Board of Higher Education HE.CA grants, the Center has successfully recruited Latino high school students into college programs designed to train healthcare workers. The nexus of the project is healthcare clubs established at several regional high schools with large Latino populations. With the cooperation of teachers and healthcare professionals, students learn about career opportunities in nursing, paramedical services, nutritional sciences, medicine, and the like; all fields where demand is especially high for Spanish speakers. Students also have the chance to visit hospitals, county health departments, and other job sites.

Students are also encouraged to learn about the specific healthcare needs of the Latino community, and to develop a healthcare project designed to address a specific problem. These service projects have focused on issues such as teenage pregnancy, domestic violence, diabetes, and nutrition. The results of these studies are shared with the Latino community, as well as with a faculty panel from the College of Health and Human Sciences at Northern Illinois University.

At the end of the year, students visit NIU and regional community colleges to learn about educational programs in healthcare fields, and to receive information about admission requirements, financial aid, campus life, and other topics. Since May of 2004, 16 of the 20 students who have completed the program have enrolled in college, and 15 of them have declared a healthcare-related major.

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Frances Jaeger
Assistant Professor, Foreign Languages and Literatures

Publications


Papers Presented


Work in Progress (forthcoming) “Procesos de transculturación en El diario que a diario de Nicolás Guillén.”

JefKowalski
Professor and Head of Art History Division

Publications


Eugene Perry
Professor, Geology

Publications

Papers Presented
(2005) “Hurricane Isidore precipitation as a groundwater tracer, Yucatan, Mexico,” to be presented at the 7th IAHS Scientific Assembly, Foz do Iguaçu, Brazil. (With Bianca Pedersen, Pedro Morales Puente, Edith Cifuentes, Alvarado Booth, and Colin Booth)

Work in Progress
Enhancing Diversity Track I: Intensive Field Experience in Northern Illinois and Central Mexico for Junior and Senior High School Teachers Serving Large Hispanic Populations, Pending NSF Proposal; Co PIs Eugene Perry and Kathy Kitts (NIU).


Professional Activities
(2004) External reviewer for one doctoral and one master’s candidate in the Instituto de Geofisica, and appointed to the PhD review committee for another student in the Instituto de Geología, both at the Universidad Nacional Autónoma de México.

Gregory D. Schmidt
Professor, Political Science

Publications


Papers Presented
CLLAS Activities

Robert Marcellin Memorial Scholarship

The Robert Marcellin Memorial Scholarship was endowed by employees of Ameritech Corporation, led by Mrs. Alison Thomson, to honor Mr. Marcellin, a former co-worker and friend who graduated from Northern Illinois University. The scholarship is awarded annually to an outstanding student of Latino heritage.

Pictured below are, left to right, Alison Thomson, Professor Gonzales, and 2004 Marcellin Award winner Rosalba Sánchez.

On November 4, 2004 the Center for Latino and Latin American Studies hosted a culture night in Douglas Hall featuring an independent documentary entitled “Discovering Domini.” The film explored the quest of Denese Becker, a Guatemalan orphan raised in rural Iowa, to rediscover her identity and roots. Becker had fled the devastating civil war that killed over 200,000 individuals, mainly innocent peasants, between 1966 and 1996. Following the film, a discussion addressed the causes and consequences of the conflict.

On April 26, 2005 the Center for Latino and Latin American Studies hosted visiting professor Greg Beyer from NIU’s School of Music for an entertaining lecture-performance. Professor Beyer is an expert on the berimbau, a gourd-resonated musical bow instrument that African slaves brought to Brazil. He lectured on the African origins of the berimbau and traced its development as a staple instrument in popular music since the early nineteenth century. He also discussed contemporary Brazilian berimbau artists who have gained international recognition. Professor Beyer also led NIU’s berimbau assembly, which performed both previously composed music and a newly created piece.

Speakers Sponsored by Center

On March 30, 2005 the Center co-hosted a lecture by Professor Louis Charbonneau-Deutsch, from SUNY-Stony Brook, on “Lessons Not Learned from the Spanish-American War.” Her lecture used literary and visual representations to analyze U.S. and Spanish rhetorical arguments for the conflict. She also presented a seminar on “The Status of the Portrait as Object of Desire.” Both events were well attended.

On April 12, 2005 the Center also co-sponsored a lecture and seminar by Professor Christopher Boyer from the University of Illinois-Chicago. Professor Boyer’s lecture, entitled “Communities, Science, and Commerce in Mexican Forests from 1880 to Today,” focused on the interaction between peasant villagers, environmental scientists, and the state in the exploitation and preservation of woodlands. Boyer’s seminar, “Naranja Revisited: Agrarian Caciques and the Making of Campesino Identity in Post-Revolutionary Michoacán,” discussed the formation of campesino identity within the community of Naranja. The talk detailed the struggle over land within the village and its environs, the political divisions among caciques, and the emergence of a collective campesino identity.

On April 19, 2005 the Center sponsored a lecture by Daryle Williams from the Department of History at the University of Maryland. Professor Williams lectured on “The Blackness of Beauty: Brazilian Fine Arts under Slavery and Emancipation, 1816-1914.” Williams explored the depiction and meaning of the image of Afro-Brazilians in paintings during the Empire and the early Republican era.

CLLAS Research and Travel Awards:

Grants Awarded to Faculty in FY 2005

Anne Hanley (History) – To research the development of business in São Paulo, Brazil during the years 1880-1920.

Eloy Merino (Foreign Languages and Literatures) – To research the writer Benito Pérez Galdós’ perspectives on Cuban revolutionary movements.

Gregory D. Schmidt (Political Science) – To present a paper concerning the 2000 Peruvian election at a conference in Lima, Peru, and to conduct further research on Peruvian elections.

Grants Awarded to Faculty for FY 2006

Karen Carrier (Literacy Education) – To research the acquisition of second languages by primary age school children.

Mayra C. Daniel (Literacy) – To conduct surveys and give workshops in Guatemala on bi-lingual education.

Gregory D. Schmidt (Political Science) – To research the 2006 Presidential Elections in Peru.

Grants Awarded to Graduate Students in FY 2005

Eric Digman (Political Science) – To study the effect of adminis-

trative and political decentralization on municipal governance in Bolivia.

Gerald Floyd (Adult and Higher Education) – To examine cultural and social changes among rural migrant construction workers in Paraíba, Brazil.

Patty Garcia (Psychology) – To research acculturation and acculturative stress and suicide risk among Latino young adults.

Mathew McCloskey (History) – To research the treatment of Mexican detainees at Fort Bliss, Texas, during the Mexican Revolution.

Bianca Pedersen (Geology) – To investigate water quality in the Yucatán aquifer.

Alvaro Ruiz (Anthropology) – To survey the nature and distribution of Late Pre-Ceramic archeological sites in the Huaura Valley, Peru.

Grants Awarded to Graduate Students for FY 2006

Bianca Pedersen (Geology) – To research water quality in northern Yucatán, Mexico.
Faculty Publications and Activities

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Association and the Instituto de Estudios Peruanos to celebrate the latter’s 40th anniversary, Lima, Peru.


Professional Activities
Co-Chair of the Peru Section of the Latin American Studies Association, May 1, 2003-November 1, 2004.

Public Lectures
“All the President’s Women: Fujimori and Gender Equity in Peruvian Politics.” Invited lecture, Center for Latin American Studies and Caribbean Studies, University of Illinois at Urbana-Champaign, March 12, 2004.


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Francisco Solares-Larrave
Assistant Professor, Foreign Languages and Literatures

Publications


Papers Presented

Work in Progress
(under review)”El panteón alterno: marginalización y productividad en Los raros, de Rubén Darío (1896),” Revista de Crítica Literaria Latinoamericana

Professional Activities