When the Periphery Became More Central: From Colonial Pact to Liberal Nationalism in Brazil and Mexico, 1800-1914

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Introduction

The Global Economic History Network has concentrated on examining the "Great Divergence" between Europe and Asia, but recognizes that the Americas also played a major role in the development of the world economy. Ken Pomeranz noted, as had Adam Smith, David Ricardo, and Karl Marx before him, the role of the Americas in supplying the silver and gold that Europeans used to purchase Asian luxury goods.[1] Smith wrote about the great importance of colonies[2]. Marx and Engels, writing almost a century later, noted: "The discovery of America, the rounding of the Cape, opened up fresh ground for the rising bourgeoisie. The East-Indian and Chinese markets, the colonisation of America [north and south] trade with the colonies, ... gave to commerce, to navigation, to industry, an impulse never before known. "[3] Many students of the world economy date the beginning of the world economy from the European "discovery" or "encounter" of the "New World") [4]

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[1] Ken Pomeranz, *The Great Divergence* , Princeton: Princeton University Press, 2000:264-285*)*

[2] Adam Smith in *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776, rpt. Regnery Publishing, Washington DC, 1998) noted (p. 643) "The colony of a civilized nation which takes possession, either of a waste country or of one so thinly inhabited, that the natives easily give place to the new settlers, advances more rapidly to wealth and greatness than any other human society." The Americas by supplying silver and "by opening a new and inexhaustible market to all the commodities of Europe, it gave occasion to new divisions of labour and improvements of art….The productive power of labour was improved." p. 503.

[3] Karl Marx and Friedrich Engles, *The Communist Manifesto* (NY: 1973), p. 33.

[4] Fernand Braudel, *Civilization and Capitalism* vol. 2: *The Wheels of Commerce* trans. By Sian Reynolds (London: Collins, 1982) Dennis Flynn and Arturo Giraldez eds. *Metals and Mining in an Emerging Global Economy(* Brookfield Vt.: Variorum, 1997);, Immanuel

even though whether we should date the origins of “globalization” from 1500 is controversial. [5] For Christopher Baily and Niall Ferguson the Americas clearly played an important role in the rise of the first British Empire and had certainly been the jewel of the first French overseas empire.[6] Alfred Crosby as well as Pomeranz note the interrelationship between the Americas and the “neo-Europes.”[7] Thus the Americas played a crucial role in expanding European overseas influence, in generating global exchange, and in the accumulation of capital during the mercantilist era. They were the laboratories for developing colonial regimes and export systems and played a large role in the debates over imperialism.

However the Americas are given less attention in the study of nineteenth century imperialism by economic historians because the emphasis has been placed on colonial efforts in Africa, Asia, and Oceania. This, despite the fact that western European traders and investors at the beginning of the century salivated at the opportunity to replace Spanish and Portuguese merchants, investors and imperial officials and initially gave much attention to the western hemisphere.[8]

Wallerstein, *The Modern World System* (NY: Academic Books, 1976) . Andre Gunder Frank, *Reorient: The Global Economy in the Asian Age*,(Berkeley: University of California Press, 1998) sought to reduce the role of the Americas in the creation of the world economy because of the prior importance of Asia.

[5] Kevin O'Rourke and Jeffrey Williamson, *Globalization and History: The Evolution of a Nineteenth Century Atlantic Economy* (Cambridge: MIT Press, 1999) and Michael D. Bordo and Barry Eichengreen “Is Globalization Really Different than Globalization a Hundred Years Ago ?”, National Bureau of Economic Research, working paper 7195, June 1999 use price convergence as the measure of globalization which they find in the last part of the nineteenth century.

[6] Christpher Baily, *The Imperial Meridian* (London: Blackwell, 1989). Niall Ferguson, *Empire* (London: Penguin, 2003).

[7] Alfred Crosby, *Ecological Imperialism* (Cambridge: Cambridge University Press, 1986), *The Colombian Exchange* (Westport CT: Greenwood Publishers, 1972).

[8] Pomeranz is an exception in that he does recognize the role of American commodities—though more North than South—in the European industrial revolution by providing raw materials, food, and energy. See, however, the little attention given to Latin America in

Although the doctrines of laissez faire and free trade became intellectually fashionable in the mid-nineteenth century and had been seen as a product of the industrial revolution, it was mainly in the Americas that they were put into practice. In fact, the depression of 1873 turned the major European powers to defensive methods scrambling to secure independent parts of the world market. International commerce continued to balloon, doubling between 1870 and 1890, but free trade was abandoned for protective tariffs in France, Germany, Austria, Italy, Belgium and Russia. Lord Salisbury complained that England was suffering relative decline because of the number of protective tariffs "growing up on all sides of us constantly in the nature of protective duties limiting and, to the utmost of their ability, stifling our trade."[9]

The Age of Empire

The British version of protectionism was to increase its colonial systems as according to Eric Hobsbawm the "Age of Capital" became the "Age of Empire," or in Lance Davis' term, the period of "high imperialism"[10]. Despite the glorification of the protean action of private capital in the global market, according to Hobsbawm the Age of Empire "was essentially an age

main works such as J.A. Hobson, *Imperialism* (Ann Arbor: University of Michigan, 1972); Nikolai Bukharin, *Imperialism and the World Economy* (NY: Monthly Review Press, : *Economic Imperialism* edited by Kenneth Boulding and Tapan Mukergee (Ann Arbor: University of Michigan Press, 1972); Wolfgang J. Mommsen, *Theories of Imperialism* Trans. by P.S. Falla (Chicago: University of Chicago, 1980) and William Roger Lewis, ed. *Imperialism: The Robinson and Gallagher Controversy* (1929 rpt. NY: Monthly Review Press, 1976).

[9] *Economist*, 28 Nov. 1891, p. 1520.

[10] Lance Davis and Robert A. Huttenback, Mammon and the Pursuit of Empire (Cambridge: Cambridge University Press, 1986), p. 11.

of state rivalry".[11] For continental European Marxian theorists such as Hilferding, Lenin, and Bukharin, not only state protectionism but also the rise of "finance capital" merging bank and industrial capital in cartels and trusts led to imperialist rivalries[12]. The link between domestic protectionism and an expansionist foreign policy also can be seen in the policies of the United States Secretary of State James G. Blaine who pushed forward Pan-Americanism to exclude the Europeans. [13]New opportunities for her European competitors--and for the United States—arose as the European powers rushed to divide up the world and increase the openings to international commerce and trade. Between 1876 and 1915 about one-quarter of the globe's land surface was distributed or redistributed as colonies among the Great Powers. A French free-trading economist noted the reason and the consequences of the spread of Empire in 1889:

> "It is in the colonies, in the still unexploited markets, that one seeks to extend Europe's commerce. Africa is attacked on all sides; it is being partitioned. The rivalries between nations is equally lively on the seas. In light of the digging of the American isthmian [canal] all maritime peoples want to have rest and coaling stations there. In Indochina the English and the French are searching a route to penetrate the heart of China. Russia, which is more an Asian than a European power, regularly annexes... barbarian countries to the civilized world."[14]

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[11]Eric Hobsbawm, *The Age of Empire* (NY: Scribners, 1975)) p. 51 and *The Age of Capital* NY: Pantheon Books, 1987). .Julian Hayem ed., *Congress International de 1889*, (Paris: Imprimerie Nationale, 1890), pp. 39-47..

[12] V.I. Lenin, "Imperialism, the Highest Stage of Capitalism" in *The Essential Works of Lenin* ed. By Henry Christman (NY: Bantam, 1971), Rudolf Hilferding, *Finance Capital: A Study of the Latest Phase of Capitalist Development* (London: Routledge and Kegan Paul, 1981).

[13] A fuller discussion of Blaine's views and policies is to be found in Steven Topik, *Trade and Gunboats, The United States and Brazil in the Age of Empire* (Stanford: Stanford University Press, 1996).

[14]Report of Louis Strauss in Hayem, *Congress International de 1889* p. 79.

In this rendition, however, the Americas were a barrier to be traversed to reach colonies, rather than a site for new colonies.

In fact, the Americas, the site of the first major overseas European colonization, were also the first to decolonize. While much of the rest of the non-European world was being colonized, the Americas declared their independence. The first theoreticians of "imperialism", Hobson, Rosa Luxemburg, Bukharin, and Trotsky, concentrated on the impact of Europe on Africa and Asia, rather than on the Americas. This was not simply an oversight. It reflected a reality: in the nineteenth century: the Americas were out of step with much of the world; they followed a different trajectory. While almost all of Africa, the Middle East and most of Asia fell under formal or informal European control, the Americas led the first movements of national liberation and independence against the major European colonial powers[15]. Latin America's experience challenges some of the popular dualistic conceptualizations of the world economy: "the west versus the rest", the first world versus the third world, the north-south divergence which assume the European and neo-European worlds moved in one direction while the rest moved in another, or in the same but at a much slower pace[16]. In fact, the non-European world had a variety of experiences with dramatically different imperialist influences and systems.

But while it is clear that Latin America was freeing itself of formal colonialism, the extent to which it asserted its economic independence is strongly debated, as it the extent to which Latin America can be treated as a monolith. The Age of Empire was characterized by a frenzy of European

[15] Only the Caribbean islands (with the major exception of Hispanola) and under-populated and marginal parts of the circum-Caribbean such as the Guyanas and Belize, remained formal colonies after the 1820s.

investments abroad. Joseph Schumpeter noted that "foreign and particularly colonial enterprises and lending was the dominant feature of the period."[17] The excess of capital at home had made investments in far-off, riskier, yet potentially lucrative lands more appealing. Not only the City of London, but stock markets in Paris, Berlin, Frankfurt, Amsterdam, Vienna, and Lisbon actively traded in foreign stocks and bonds.[18] The urge to invest—as well as to trade-- brought European capitalists into increasing competition with each other. The century's high-water mark for European foreign investments came in 1889.[19] However, tighter economic relations were not necessarily predicated on stronger imperial political control since the independent Americas, not just the colonized India and the neo-Europes (Australia and New Zealand) were the primary foreign destination for European capital. [20] This apparent difference of the Americas' role in the nineteenth century world economy has been studied by proponents of theories of "dependency", "world systems", "neocolonialism" and "informal empire". Imperialism and colonialism have been conceptually separated as Robinson and Gallagher did for Africa. Certainly the literature on Latin America over the last half century has distinguished political and economic independence.

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[16] A good example of the West versus the Rest view is David Landis, "Some Thoughts on the Nature of Economic Imperialism" *The Journal of Economic History* xxi No.4 (1961):496-512.

[17]Joseph Schumpeter , *Business Cycles: A Theoretical and Statistical Analysis of the Capitalist* Process, vol. 1 (NY: McGraw-Hill, 1939), pp. 430-431.

[18] See Carlos Marichal, *A Century of Debt Crises in Latin America, from Independence to the Great Depression, 1820-1930* (Princeton: Princeton University Press, 1989)

[19] W.A. Lewis, *Growth and Fluctuations, 1870*-1913 (London: George Allen & Unwin, 1978) p.178; Mira Wilkins, *Foreign Investment in the United States,* (Cambridge: Harvard University Press, 1989), p. 151.

Why Brazil and Mexico?

This paper will discuss the place of the Americas in the world economy during the Age of Empire by examining the two largest countries of Latin America, Brazil and Mexico, in the period of intensified external relations, 1880-1918. Why Brazil and Mexico?

Not because they were typical of the countries of Latin America. As the two largest and richest colonies (in gross terms) and as vice-regal capitals, they differed distinctly from other Latin American colonies. Brazil was the only Portuguese colony and the largest slave society in Latin America. It enjoyed the closest ties to Africa of any American territory. The contrast between the historical experiences of Brazil and Mexico in the prolonged process of nation building and state modernization are striking. They therefore help to illustrate why it is unwise to think of Latin America as one, homogeneous social, economic or political whole subject to a monolithic world economy.

To begin with, their colonial legacies were fundamentally dissimilar. At the beginning of the 19th century Brazil was a rural, slave-based plantation society (over half the population being of African origin) with an agrarian export economy. Brazil was the first American agricultural exporter as it turned sugar from a rare spice to a coveted commodity and transformed coffee into a mass beverage. Brazil wound up importing perhaps four million Africans to work the export economy. The colonial administration and Church which were relatively weak insofar as they had little control over the vast territories under their nominal sovereignty. Gold mining, which had once galvanized the Atlantic economy, had fallen into decline. The relatively small

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[20] According to A.G. Kenwood and A.L. Lougheed, *The Growth of the International Economy 1820-1960* (London: Allen and Unwin, 1971), p. 43 through 1854 Latin America received a much greater share of British foreign investment than did the British Empire.

indigenous population fled to the interior where they mostly lived on the margins of the Luso-Brazilian world.

In contrast, in late-colonial Mexico both state and ecclesiastical administrations were imposing structures which held sway over a predominantly Indian population which resided in 4,000 peasant towns (called “repúblicas de indios”) with considerable indigenous autonomy and in several hundred haciendas mostly run by creoles and mestizos; paradoxically, despite the secular importance of agriculture in which almost the entire rural population worked, the monetized Mexican economy depended most heavily on its small but productive silver mining sector which made it the treasure chest of the Spanish empire. Mexico engaged in little agricultural export. By the eighteenth century Africans played a small role in Mexico’s mining. Slavery was little used, but coerced indigenous labour, forced sales, and colonial tribute drove the economy to the degree that it has been considered a tributary form of accumulation. Both Brazil and Mexico were made over by Europeans because their epidemic diseases destroyed the native population bases of the colonies and in the case of Mexico destroyed their pre-Columbian urban culture.

I focus on Brazil and Mexico despite the fact that they did not typify the Americas because as territorially the largest and, in the case of Mexico having the largest population, even after independence, Brazil and Mexico represented the experience of a large share of Latin Americans. They were also two areas most closely tied into the world economy. Mexican silver fuelled a good share of international trade, connecting Asia, the Americas, Africa and the Middle East. Brazilian sugar, gold, tobacco and African slaves generated great profits and gave birth to an intensive southern Atlantic economy that richly rewarded Europeans but also profited Africans and Indians, and later built up the Caribbean. Especially in the Early Modern period these parts of the Americas were not areas “peripheral” to global trade as is often alleged, but rather were central actors and arenas, something the pirates of the Caribbean would have cheerfully acknowledged. That they were both central did not mean they were the same. The links to the world economy and their domestic consequences were quite different in Brazil and Mexico as were their economic policies and relations with foreign powers and investors. Despite divergent colonial heritages and independence processes, policies converged over time. None the less, there remained sharp differences which demonstrated the relative freedom to manoeuvre of these post-colonial societies and the continuing legacies of their colonial heritages.[21]

In the nineteenth century, Brazil, according to some scholars, became an example of what Robinson and Gallagher termed “informal empire” or free trade imperialism. Alan Manchester claimed that Brazil was a virtual British protectorate which P.J. Cain and A.G. Hopkins seconded: “in many ways Brazil was Britain’s most accommodating and most successful satellite in South America during the first half of the nineteenth century.” [22] Ferguson says “it seems quite legitimate to speak of ‘informal empire’ in these countries [Brazil and Argentina]”[23]. Richard Graham, an eminent historian of Brazil, refers to Brazilian “sepoys” aiding the British in nineteenth century Brazil. [24]

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[21] For a broader discussion of this see: Carlos Marichal and Steven Topik, ““The State and Economic Growth in Latin America: Brazil and Mexico, 19th and Early 20th Centuries,” *Economic Change and the Building of the Nation* edited by Alice Teichova and Herbert Matis (Cambridge Eng.: Cambridge University Press, 2002).

[22] A. K. Manchester, *British Preeminence in Brazil: Its Rise and Decline* (1933 rpt. NY: Octagon Books, 1972, p. 220) and P.J. Cain and A.G. Hopkins, *British Imperialism. Innovation and Expansion 1688-1914* (NY: Longman, 1993), p.298.,.

[23]Ferguson, *Empire* , p. 244

[24]Richard Graham, “ Sepoys and Imperialists: Techniques of British Power in Nineteenth Century Brazil” *Inter-American Economic Affairs* 23 (1969): 23-37. This was quite a

Mexico, on the other hand, is seen as a potential site of colonial conquest by the French and the United States more than an arena for the spread of British informal empire. British traders and investors did originally rush to war-torn post-independence Mexico but soon found internal conditions and external competitors unsettling. The seizure of over half the territory of New Spain in 1836(Texas) and 1848 (the Mexican-American War), which is called nation building or "manifest destiny" rather than colonialism in U.S. text books, is seen as imperialism by Mexicans. The French, Spanish, and Austrian effort to establish Emperor Maximilian in 1862, on the other hand, is often denounced as colonialism by both Mexicans and North Americans because it was seeking an overseas territory rather than an adjacent one. Hobson's mention of Mexico in his treatise on imperialism (there are none of Brazil) are about Maximilian's empire and the United State's growing role. Geography dictated that Mexico would face a different experience with the world economy because the neighbouring United States coveted its territory and resources making North Americans much more important economic actors there than the British by the last decades of the nineteenth century.[25] Hobson noted in his 1904 study on imperialism that "the entrance of the United States into the imperial struggle throws virtually the whole of South America [in which he included Mexico] into the struggle." [26]

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different position than he took in *Britain and the Onset of Modernization in Brazil, 1850-1914* (Cambridge: Cambridge University Press, 1972).

[25] By "North American" I mean the United States, even though technically Mexico and Central America are part of North America.

[26] Hobson, *Imperialism*, p. 224.

Did Brazil and Mexico free themselves from colonialism just as much of the rest of the world was about to submit to European rule?

Brazil as a political entity was certainly a creation of the Portuguese. The Neolithic indigenous peoples they encountered had no political structures beyond alliances of villages and were divided by dozens of languages. Rule of the Portuguese-African society along the coast was directed from Lisbon with Coimbra-educated bureaucrats and Braganza appointed aristocrats. But the native Tupi, Ge, and Guarani-speaking peoples were able to largely remain on the margins of the Portuguese world. Over time, disease, slave-raids, and the introduction of bound Africans threw the advantage to the Luso-Brazilians. But the "conquest" took four centuries to creep in-land. Colonial Brazil was directly shaped by the Portuguese in terms of language, religion, commercial codes, marriage and inheritance laws. The idea that it was the handiwork of Portuguese design is clearly an exaggeration. Recent scholarship has returned to Gilberto Freyre's insight that the indigenous peoples, Africans and Europeans combined to create Brazil's creole culture, society, and economy.[27] Moreover, planters and miners in the colony's interior reigned as virtual independent princes who had very little contact with the scarce and port-bound Portuguese officials. Still, if Brazil was not the handiwork of Portuguese colonial officials, one cannot deny the overwhelming importance of the world economy in shaping Brazilian developments. And that *was* a Portuguese legacy.

The Portuguese colonial design, once it emerged, was to transplant to Brazil the export model devised on their African Atlantic islands in order to enrich the metropolis and turn the southern Atlantic into a Lusitanian lake. However, Portugal's small population made it difficult to truly control its vast commercial empire of entrepôts spreading from the Azores to Bahia to Goa, and Macao despite its maritime prowess. The Dutch soon replaced the Portuguese along the west coast of Africa, in South Africa, in the Persian Gulf and in the Indian Ocean.[28]

Brazil, a way-station and after-thought during the Golden Age of the Luso-African-Asian empire, became its center. Brazilians became important economic actors rather than being simply colonial subjects as Portugal fell from its glorious leadership role in the 15th and 16th century Age of Exploration to become a commercial entrepôt trading Brazilian sugar, tobacco, "tropical drugs", gold, diamonds, leather and cotton for northern European finished goods.[29] This was not simply primitive accumulation of Brazil's rich endowment of natural resources as was the early barter for *pau brasil* (Brazilwood). [30]The key activity, sugar, carried on and developed the Atlantic islands' sophisticated industrial production of sugar and rum. Indeed, some students of sugar such as Sidney Mintz regard the sugar mills as the first industrial factories.[31] Brazilians were industrialists, merchants, and bankers, not just landlords. Rather than just passively accepting Portuguese investment and trade under the command of their colonial masters,

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[27] A recent contribution to this current is James H. Sweet, *Recreating Africa* (Chapel Hill: University of North Carolina Press, 2003).

[28] See Fernando Novais, P*ortugal e Brasil na Crise do Antigo Sistema Colonial (1777-1808)* (SP: Editora HUCITEC*, 1978) i*Jobson Arruda, *O Brasil no Comercio Colonial* (SP: Editora Atica, 1980); Roquinaldo Ferreira, "Transforming Atlantic Slavery: Trade, Warfare and Territorial Control in Angola, 1650-1800" Ph.D., UCLA, 2003; Kenneth Maxwell, *Naked Tropics. Essays on Empire and Other Rogues*NY: Routledge 2003) and Joseph Miller, *Way of Death. Merchant Capitalism and the Angolan Slave Trade 1730-1830*Madison: University of Wisconsin Press, 1988) whose work has recentered Brazil in the Portuguese empire.

[29] Alexander Marchant, *From barter to slavery; the economic relations of Portuguese and Indians in the settlement of Brazil, 1500-1580,* (Baltimore: Johns Hopkins Press, 1942).

[30] Sidney Mintz, *Sweetness and Power.* Also see: Stuart Schwartz*, Sugar Plantations in the Formation of Brazilian Society, Bahia 1550-1835* (Cambridge: Cambridge University Press, 1985).

Brazilians actively developed world trade. Investing in and building ships that traversed the Atlantic to engage in an active trade with West Africa, especially São Tome and Angola, Brazilians created markets for their tobacco, cachaça (rum), and horses which they traded for African slaves and Indian textiles. Lisbon was often left out of this lucrative commerce. When gold discovered in Minas Gerais, Brazil in the 1690s sparked a flood of prospective miners, Brazil's Luso-African population came to surpass that of Portugal. Portuguese statesmen such as the Marques de Pombal recognized that the empire's future lay across the Atlantic. Portugal only held a role in this system because of its imperial political power which depended ever more on the British navy.

Even though Brazilians were building their own sovereignty as economic actors even while under the putative rule of the Portuguese crown, independence came to Brazil as a result of European geopolitics. Plans had been in the works for decades, but it took Napoleon's invasion of Portugal in 1807 to prompt a flotilla of royal ships escorted by British war ships to head for Brazil with the future Portuguese King, Joao VI and much of the machinery of the Portuguese government. Rio de Janeiro became an imperial capital for more than a decade, ratifying politically what was already an economic reality. This necessitated an end to the Portuguese mercantile system as Brazil's ports were opened to foreign trade. By 1815 Brazil was raised to the level of a co-kingdom. After the return of the king to the motherland , his son Pedro I became the first head of the now-independent imperial Brazilian government, reducing the wars that plagued most other Latin American states. A restricted, constitutional monarchy proved to be a source of political stability and allowed for the development of a relatively efficient civil administration that benefited from an expanding slave-based coffee export-economy. But it was a "macrocephalic" "hollow state" that rule the port cities and some mining fields but left political power in the interior in the hands of planters.[32]

Historians of Brazil often argue that the new country did not truly enjoy independence because of a “colonial pact.” They note that Brazil maintained the central institutions of Portuguese colonialism: monarchy (until 1889) ruled by a close relative of the Portuguese king and a nominal aristocracy; the Catholic Church, the established religion until 1889; slavery until 1888; and an export economy based on latifundia. This view, held by economic historians and sociologists such as Caio Prado Jr., Celso Furtado, Jacob Gorender, Andre Gunder Frank, Teotonio dos Santos, and Nelson Werneck Sodre laid the foundations for what became known as “dependency theory”.

This was a mix of post-colonial and imperialism theory. That is, the Brazilian economy was subjected to foreign control not only because of its Iberian mercantilist (or pre-capitalist) legacy, but also—and indeed more so—because of the rise of what Robinson and Gallagher called “the imperialism of free trade” in the nineteenth century. According to this version, rather than being under the control of the Portuguese, Brazil’s economy was dominated by the British. But it was an informal imperialism which purported to advocate free trade and an open economy which would benefit the more efficient British merchants, manufacturers, shippers, and investors.

The two schools were intertwined because the Portuguese economy was seen as an informal colony of the British ever since the treaty of 1642.[33].

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[32] See: Steven Topik, “The Hollow State: The Effect of the World Market on State Building in Brazil with References to Mexico *in Studies in the Formation of the Nation State in Latin America* James Dunkerley ed. (London: Institute of Latin American Studies, University of London,), Richard Graham, *Patronage and Politics in Nineteenth Century Brazil* (Stanford: Stanford University Press, 1990), Roderick Barman, *Brazil, the Forging of a Nation, 1798-1852* (Stanford: Stanford University Press, 1988).

The British received a privileged position in the Portuguese empire which continued on once their navy brought Dom Joao VI to Rio and protected it from French retribution. British traders received especially low customs duties and the right to extraterritoriality even after Brazilian independence when freedom of trade was declared despite the fact that the treaty was negotiated by the Portuguese colonial regime. English mercenaries, especially the famed Admiral Lord Thomas Cochrane, guided Brazilian naval forces to the defeat of the Portuguese garrisons at Bahia and Maranhao. This helped the British secure their power in the post-colonial Brazilian government by negotiating with the Portuguese the terms of Brazil's independence in 1825. In return for Portuguese recognition, the new Brazilian government had to agree to a substantial payment to Portugal (L2 million) and to refrain from uniting with any other Portuguese colonies such as Angola, breaking the Afro-Brazilian trade across the southern Atlantic. However the potentially most lucrative aspect of intervening in the Brazilian-African trade—the slave trade-- was ironically ended by religiously minded Britishers and enforced by the Royal Navy. British merchants were sufficiently flexible to take advantage of this turn of events by replacing Portuguese merchants and shippers and Portugal and British bankers lent funds to the new government.

Still, the extent of British informal empire in Brazil has been exaggerated. True, Brazil after independence was Britain's third greatest trade partner in the world and largest in the Americas. And the U.K., especially the Rothschilds, was the main source of government loans and commercial credit for the nineteenth century. This should not be taken

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[33] Rory Miller, *Britain and Latin America in the Nineteenth and Twentieth Centuries* (London: Longman, 1993), p. 32 and A. K. Manchester, *British Pre-eminence in Brazil: Its Rise and Decline* (NY: Octagon Books, 1972).

necessarily as an assertion of British imperialist might as much as evidence of London's position as Europe's banker and Brazilian success at state building and at expanding the export economy. Sugar and then coffee exports satisfied swelling demand of a Europe becoming prosperous from the industrial revolution.

Brazil's exports grew more because of the end of colonial trade restrictions, technological advances and market forces than because of imperialist pressures.[34] Accustomed for centuries to producing for overseas markets and having a relatively small monetized market at home because of the sparse, marginalized, self-sufficient indigenous population as well as the predominance of slavery, Brazilians naturally turned to the burgeoning markets of western Europe and the United States. Even under Portuguese mercantilism, production had eventually been directed to northern Europe, even if it had to pass first through Lisbon. British trade superiority was more a result of their merchant marine, than their navy, though their ability to remove Atlantic and Caribbean pirates played a significant part in stimulating trans-oceanic trade.

The special advantage in customs duties British merchants received because of diplomatic manoeuvrings became negligible as other competitors were able to win the same rate under most favoured nation clause agreements. Within four years of Portuguese recognition of Brazil's independence, the new country signed more than a dozen trade treaties.[35] Further evidence of the little difference made by trade treaties is the fact that British special standing ended in 1844 with the expiration of the 1827

[34] See D.C.M. Platt, *Latin America and British Trade, 1806-1914* (London: A&C Black, 1972) and his edited volume, *Business Imperialism, 1840-1930* (Oxford: Clarendon Press, 1977)..

[35] Paulo Roberto de Almeida, *Formação da diplomacia econômica no Brasil* (Brasilia: 1999), p. 69 and passim.

agreement. The Brazilian government refused to renegotiate another trade treaty, in part because Britain did not reciprocate with lower rates for Brazilian exports to the UK in order to protect British colonial sugar and coffee. The British Foreign Office did not apply much diplomatic pressure aside from a brief falling-out in 1861, the Christie Affair, which was tied much more to naval honour than to an attempt to force open markets for British goods or opportunities for British investors. Brazil resisted British threats.

Indeed, when Brazil finally signed another trade treaty in 1891 it was with the United States[36]. Brazilian duties on imports steadily rose and the decline in value of Brazil's *milreis* protected Brazilian producers. None the less, British trade continued to dominate Brazilian commerce until after World War I. They did not require a neocolonial relationship. The "invisibles" of British insurance, credit, and carrying charges, more than gunboats, gave them the advantage in this economy with one of the highest propensities to import in the Americas.

When the British did attempt to direct Brazilian economic policy, the Brazilian state displayed a surprising degree of sovereignty. Perhaps the single most important issue to the British government after 1808 was the abolition of the Atlantic slave trade. The Portuguese agreed in 1810 to abolish it within three years, but dragged their feet. At independence, the end of the slave trade was made a condition of British recognition of Brazil. Again, the Empire permitted slaves to enter, indeed at a record pace. Only the British royal navy's seizure of slave ships, many of them from the United States, finally convinced the Brazilian Parliament to decree the end of the Atlantic trade in 1850 which was enforced and ended within a few years. The same European power that had facilitated the African slave trade for over a century, finally found religion and forced Brazilian acquiescence, one of the rare times that imperialists were on the side of the angels.[37] But their dedication to emancipation was only partial since slavery in the Americas outlasted the end of the Atlantic chattel trade by almost four decades and at the same time slavery in Africa expanded.

Brazil also manifested its independence in diplomacy. Demonstrating that it was not a British neo-colony, Brazil sided with the United States during the 1888-89 Pan American Conference in Washington D.C.. in a failed attempt to create a Pan American customs union, rail line, and uniform weights and measures (a precursor of the current FTAA negotiations). An unwritten alliance also developed between the U.S. and Brazil which manifested itself during the 1893 naval revolt off Rio de Janeiro's shore. The British ships in the harbour sided with the rebels while the U.S. southern fleet threatened the British and sided with the ultimately victorious government forces. An American-built and largely American manned mercenary fleet sealed the rebels' fate. The change in political regime and rapprochement with the United States did not affect economic relations, however. Despite friendliness between Rio and Washington, British trade, shipping, and investments continued to predominate. A triangular trade developed. The great majority of Brazil's exports of coffee and rubber went to the U.S. in British bottoms financed by British merchants The U.S. then exported grains, cotton, lumber etc. to the U.K. which in turn sent Brazil mostly manufactured goods. The market and diplomacy were fairly

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[36] See Paulo Roberto de Almeida, *Formação da Diplomacia Econômica no Brasil* (SP;. Editora SENAC, 2001).

[37] See Adam Hochschild, *Bury the Chains,* Boston: Houghton Mifflin, 2005) for the abolition of the slave trade and specifically for the role of the British in the abolition of the Brazilian Atlantic slave trade see: Leslie Bethell, *The Abolition of the Brazilian Slave Trade, Britain, Brazil and the Slave Question1807-1869* (Cambridge: Cambridge University Press, 1970).

independent spheres in the short run. [38] Still, the British share of Brazil's imports declined from over half in 1872/73 to between 25 percent and 30 percent in the first decade of the twentieth century and continued to fall to 10 percent in 1939 while the U.S. share of Brazil's imports slowly grew from 5 percent in 1872 to 17 percent in 1914 rising to 33 percent in 1939 .[39]

Brazilian diplomatic representatives further demonstrated their sovereignty in the years from 1888 to 1904 when negotiations with neighbouring Argentine, Bolivian, Colombian, , Peruvian, Uruguayan and Venezuelan diplomats as well as representatives of the British, Dutch, and French colonies on Brazil's northern frontier led to the demarcation of borders which expanded Brazilian national territory an area greater than the size of France. Though much of this land was little explored or inhabited, it became valuable for the international community during the rubber boom that centred on the Amazon from the 1880s to World War I. Brazilian civilians, more than soldiers, captured and populated the former Bolivian province of Acre.

The stability and prosperity of the Brazilian state long stood in sharp relief to the instability and fiscal poverty of the Mexican republic. While Brazil did participate in two regional wars in South America in the first half-century of independence, these did not debilitate but rather strengthened the government, army and navy. Hence, already from mid-century the Brazilian state was able to begin promoting and financing a variety of economic development projects which were essential to subsequent expansion.

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[38] For an extended discussion of this conjuncture see: Topik, *Trade and Gunboats*. For relations with Britain and the US in the first decade of the twentieth century see E. Bradford Burns: *The Unwritten Alliance: Rio Branco and Brazilian-American Relations* (NY: Columbia University Press, 1966.

[39] IBGE, *Series Estatisticas Retrospectivas vol. 1* (Rio: IBGE, 1986), p. 79.

In contrast, Bourbon Mexico, which was similar- in institutional terms- to a European *ancien regime* society composed of estates (nobles, ecclesiastics, merchants, artisans and peasants with substantial local variation due to the pre-Columbian legacies), operated within the framework of the geographically vast but well-integrated Spanish empire. When the absolutist monarchy of Charles IV was overthrown by Napoleon, the metropolitan crisis led to the breakdown of the colonial administration of New Spain and to a prolonged civil war. The Mexican wars of independence, which lasted from 1810 to 1820, were the bloodiest in the hemisphere and eventually provoked the collapse of the wealthiest and most highly centralized vice-regal government in Latin America. Subsequently, a federalist republic was established in 1824 but regional forces almost tore the new country apart. Certainly, it would be a mistake to speak of the construction of a solid nation-state in the early 19th century in Mexico, which indeed suffered more internal and external conflicts than any other country in the Americas. In fact, a good argument could be made that Mexico was more affected by efforts at territorial colonial conquests than most any other place in the world in the early nineteenth century. The Spanish attempted re-conquest in 1829 was rebuffed ; in return Spaniards were expelled from Mexico. The French blockaded Vera Cruz in 1836, the same year that U.S. slave-owning settlers seized the northern province of Texas.. Then he United States invasion of 1847 led to loss of huge northern territories. Numerous European filibusterers launched failed attacks on northern Mexico to be followed by the French occupation (1863-67) –known as the Empire of Maximilian- which once again, painfully demonstrated the military and financial weakness of the Mexican central administration. This last adventure also showed the grand place Mexico continued to occupy in the European "*imaginaire*" ever since Alexander von Humboldt excited appetites by the peso as the international standard of wealth with his tales of Mexico's rich potential at the beginning of the nineteenth century.[40] For Napoleon III, Mexico naturally fit in his global grand imperial scheme that included Algeria and Vietnam. But Mexico's ability to resist the 30,000 French, Spanish, and Austrian expeditionary troops was a testimony to a sense of nationhood—and to the importance of the participation of a burgeoning rival imperial power, the United States whose threats and material aid hastened the exit of European troops. Only in the last third of the 19th century did the Mexican government begin to consolidate and modernize, making it possible to even think of speaking of a nation-state.

From Divergence to Convergence: External Trade Trends in the 19th Century

During the first three quarters of the 19th century the Brazilian and Mexican states faced quite different conditions in their relationship to the world economy. In 1800 Mexico--which then had a population of 5.2 million--enjoyed the highest volume of total trade of all the New World colonies with a value of approximately 60 million pesos per year or $11.54 US dollars per capita.[41] In the same year Brazil had about 3.5 million inhabitants and a trade of some 5.5 million pounds sterling (roughly $50 million dollars) or approximately 14 dollars per capita. [42] After ten years of wars of

[40] For French visions of Mexico see: Nancy Barker, *The French experience in Mexico, 1821-1861 : a history of constant misunderstanding* (Chapel Hill: University of North Carolina Press, 1979).
[41]The figure is the sum of exports and imports based on statistics provided by the Consulado de Veracruz, Balanza del Comercio Exterior, reproduced in Miguel Lerdo de Tejada *México en 1856: El comercio exterior de Mexico*, (1856, reprint Xalapa: Universidad Veracruzana, 1985).
[42]Mircea Buescu, *Evolucão econômica do Brasil* (Rio: APEC, 1979), p. 96.

independence in Mexico, trade recovered slowly and actually stagnated for more than a half a century. By 1870 Mexico's foreign trade had barely reached US$ 75 million. Meanwhile, its population had only reached 9 million inhabitants. Brazil , on the other hand, grew faster: its foreign trade had tripled by 1870 (standing at about US$ 150 million) and therefore was now twice Mexico's. The Brazilian population also grew faster, surpassing 10 million.[43]

One of the explanations for Brazil's substantial export growth as opposed to the very slow expansion of Mexican trade can be found in the type of export commodities. Throughout the first three-quarters of the nineteenth century Mexico continued to depend on its classic, colonial export, silver, for almost two-thirds of all foreign exchange income. Thus, independence brought few changes to Mexican external trade which not only stagnated because of civil wars, foreign invasions, and a surge of banditry, but also continued to depend basically on one sector of the economy (silver mining) that produced a high-unit value commodity but which employed few people.

There was not an opening to the world economy in silver because Mexican silver had already been an export for three hundred years and a motor for the growth of world trade. Mexicans had developed the most sophisticated production technologies using mostly wage labour, though they had fallen into decline by the end of the nineteenth century. Efforts by British capitalists to take advantage of the end of Spanish colonial restrictions by reinvigorating and modernizing Mexico's mines failed until British and US-financed railroads opened northern Mexico after 1880. Unfortunately, after 1873 world demand for silver slackened causing a 28

[43]Brasil, IBGE, *Séries estatísticas retrospectivas* vol. 1(Rio: IBGE, 1986), pp.3,68.

percent drop in price. By 1888 Mexico had relinquished her previously unchallenged position as the world's greatest silver producer to the United States. [44]

One of the keys to the economic success in subsequent decades would be the ability to diversify away from dependence on silver. Silver declined from 71 percent of total exports in 1880 to 29 percent in 1910 as industrial ores (such as copper and lead) and agricultural goods (such as henequen and coffee) took up the slack.[45] But this forced diversification was a mixed blessing. In the 1890s, in particular, the fall of the price of silver weakened Mexico's terms of trade, undercut foreign credit, and sharply restricted government revenues. Railroad construction ground almost to a halt, there was a combined agrarian and financial crisis in 1893, which led to restrained foreign borrowing and limited state spending. And it would not be until the turn of the century as the Mexican export economy again picked up speed that foreign investment flows and loans were renewed. At the same time, the continuing crisis of silver mining was dramatically underlined by the adoption of the gold standard in 1905.

In contrast to Mexico, in the decades immediately following independence Brazil's external sector consistently prospered through its ability to profit from growing world demand and high prices for tropical luxuries and industrial raw materials. These trends were particularly noticeable as international commerce grew with unprecedented and unimagined speed after 1840. Brazil was able to out-compete the rest of

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[44] Carlos Marichal, “The Spanish American Silver Peso: Export Commodity and Global Money of the Ancien Regime (16th-18th centuries)” in Steven Topik, Carlos Marichal, and Zephyr Frank eds*. Latin America and the World : From Silver to Cocaine: Commodity Chains and the Building of a Global Economy (1500-2000)* (Durham NC: Duke University Press, in press).

[45]El Colégio de México, *Estadísticas economicas: comercio exterior*, (Mexico, El Colégio de México, 1965), pp. 96, 154, 390, 457, 458.

the world in two of the most dynamic and sought-after products in the world economy: coffee and rubber.[46] Thus, even though all of Latin America combined provided only 3.4 percent of world commerce in 1889, Brazil dominated two important markets, furnishing half of the coffee and 90 percent of all rubber.[47] Together these two commodities accounted for three-quarters of the country's shipments abroad.[48]

The success of these two commodities cannot be directly attributed to foreign impositions, but certainly North American and European commercial and transportation capital as well as markets were fundamental to the booms. The initial explosion of demand for rubber in the last quarter of the nineteenth century stemmed from the invention of the vulcanization process and the pneumatic tire as well as the bicycle and automobile crazes in the United States. The *seringueiros* in the Amazon jungle required local knowledge, but their tapping and processing techniques constituted primitive accumulation. They and the international trade were financed by U.S. and European capital. Brazilians simply mobilized impoverished (and sometimes enslaved) labourers and gave out government concessions to rubber stands.[49] Brazil's rubber boom ended after two decades when British and Dutch colonial regimes in Malaysia, Ceylon, and Indonesia stimulated rubber plantations which dropped the price of rubber below a level at which Brazil's gatherers could compete. Warren Dean has shown that Brazil's inability to compete with European Asian colonies was due to Brazilian rubber diseases

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[46]Michael George Mulhall, Dictionary of Statistics, 4th edition (London: Routledge, 1899) pp. 129, 130.
[47]Mulhall, Dictionary of Statistics, p. 129.
[48]Diretoria Geral deEstatística. Anuário estatístico 1939/1940, (Rio: Impresa Nacional, 1940), p. 89 based on the average for 1886-1890.
[49] Zephyr Frank and Aldo Musacchio ",Brazil in the International Rubber Trade (1870-1930)" in Topik, Marichal and Frank, *Latin America and the World.*

which prevented plantations rather than because of British and Dutch manipulations of the market.[50]

Coffee, one of the two most valuable internationally traded commodities at the end of the nineteenth century, was a different story. Coffee was treated differently than sugar and rubber in the nineteenth century Age of Empire because its low technological demands meant that an independent country richly endowed with the factors of production, Brazil, could begin producing on an unprecedented scale. Cheap fertile land and slave labour allowed coffee prices to plummet after 1820 and remain low until the last quarter of the century creating supply-induced demand. Brazil's exports jumped 75 fold between independence in 1822 and 1899. World consumption grew more than 15 fold in the nineteenth century![51] No colonies could compete with Brazil in price nor meet the large new demand in the colonial powers and the U.S.. Brazil not only enjoyed unrivalled natural endowments for coffee, but Brazilians devised the most efficient planting, harvesting, and processing techniques. By 1850 Brazil was producing over half the world's coffee; in 1906 it produced *almost five times as much as the rest of the world combined*. Indeed, about 80 percent of the expansion of world coffee production in the nineteenth century occurred in Brazil alone![52] Brazil was the price maker. And this was no marginal market. At the dawn of the twentieth century the value of internationally trade coffee trailed only grains and sugar.[53] Thus Brazilian production helped to redefine the nature of

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[50] Warren Dean, *Brazil and the Struggle for Rubber,* (Cambridge: Cambridge University Press, 1987).

[51]Brazil, IBGE, *Séries Estatísticas Retrospectivas* vol. 1 (Rio: IBGE, 1986), p. 85.

[52]Calculated from Robert Greenhill, "E. Johnston: 150 anos em café" in Marcellino Martins E. Johnston, *150 Anos de café* (Rio: Marcellino Martins & E. Johnston, 1992), p. 308; Ocampo, *Colombia*, p. 303, Brazil, I.G.B.E. *Séries Estatísticas retrospectivas* vol. 1 (Rio: IBGE, 1986), p. 84.

[53]Mulhall, *The Dictionary of Statistics* 4th ed. (London: G. Routledge and Sons, 189), p. 130.

consumption by dropping prices and boosting volume sufficiently to reach a mass market.

The divergent paths followed by the two countries after independence meant that for a half-century Brazil benefited from a cosmopolitan export economy while Mexico failed to fully enjoy the commercial boom brought on by the industrial revolution. By the last quarter of the century, however, the trajectories of both economies were moving toward convergence because of Mexican export diversification. From the 1870s Mexico's exports accelerated while Brazil experienced a slump in the 1880s. Between 1888 and 1910 real exports of both nations grew rapidly; Mexico's exports expanded 150 percent and Brazil's 178 percent. Nonetheless, by 1910 the two economies were still at quite different levels. Although foreign trade represented about 18 percent of GDP in both countries, Brazil still had more than twice Mexico's total exports and 43 percent more in per capita terms.[54]

The greater dynamism of its export economy allowed Brazil's per capita income to be perhaps 40 percent greater than Mexico's in 1888. While the roughly $38 (in current prices) that the average Brazilian earned a year was tiny by United States or Western European standards, it was quite substantial compared with most of the world. It is doubtful that any other Third World country, with the exception of the three Southern Cone countries and Cuba, surpassed this figure.[55] In terms of per capita income Brazil was about at the level of some Eastern European countries such as Hungary and

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[54] John H. Coatsworth, *Economic and Institutional Trajectories in Nineteenth-Century Latin America in Latin America and the World Economy Since 1800* edited by John H. Coatsworth and Alan M. Taylor (Cambridge: Harvard University Press, 1999), pp. 31, 33, 35. Angus Maddison in *the Journal of Economic History* 43:1 (1983):27-41 also finds Brazil overtaking Mexico in the nineteenth century.

[55] Paul Bairoch, in The Economic Development of the Third World since 1900 (Berkeley: UC Press, 1975), p. 193 shows Latin America's per capita GDP two and one-half times Asia's in 1900 and almost twice Africa's 1960 figure.

Russia and considerably ahead of the Ottoman Empire and Japan. By 1910, Brazilian income per capita had almost doubled. Meanwhile, although Mexico's GDP had increased, on a per capita basis it was still 40 percent less than Brazil. This was striking testimony to the material difference the early nineteenth century had made as Mexico and Brazil now switched places in terms of wealth while converging in economic policy.

By 1910 governments in these two nations exercised large roles in the export commodity and currency markets as well as in banking, railroads and ports. Both states, fully committed to cosmopolitan capitalist development, were among the most interventionist in the Third World-- not despite their liberalism but rather because of their liberalism. But it was a liberalism that combined with nationalism, not so much because it was chauvinist but because it was concerned with national sovereignty and national security.[56] Demands of the international economy and of diverse domestic actors meant that even while committed to laissez-faire liberalism, governing elites in Brazil and Mexico-- almost despite themselves-- set the groundwork for the consolidation of the interventionist, populist state of subsequent decades.

At the same time, it is important to emphasize that while there was convergence in economic strategies of both states in the late 19th and early 20th centuries, the respective national experiences differed markedly as to origin, evolution and impact of specific policies. To examine the extent of national autonomy and foreign influence I analyze the key areas in which the state exercised a major role: international trade and commercial policy; the tax systems and tariff policies; external finance and international debt policy; foreign investment and government development strategies; and, finally,

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[56] For a fine analysis of Mexican attitudes to foreign capital and to the world economy see: Richard Weiner, *Race, nation, and market : economic culture in Porfirian Mexico* (Tucson: University of Arizona, 2004).

monetary and banking systems. It should be noted, however, that in all cases there was a reciprocal dynamic: state regulations and policies had an impact on economic actors and markets, but simultaneously economic forces influenced the development of state administrations and strategies. In fact, it could be argued that it was a particular confluence of international financial and commercial forces in the latter part of the 19th century which led states as dissimilar as Brazil and Mexico almost inevitably to adopt parallel economic strategies in various realms.

Taxation Policy: A Similar Reliance on Trade

Throughout the nineteenth century and up until 1930, international commerce provided the lifeblood of both regimes which explains their friendliness to foreign trade, capital and foreign governments. Both states had turned to taxing foreign commerce after independence because most national elites wanted to abandon Iberian mercantilist state monopolies and enterprises, which had formerly contributed large amounts to the treasury but did not want their assets taxed. For both national governments, with underdeveloped bureaucratic apparatuses, international trade was the easiest source to tax since import and export taxes merely required the establishment of customs houses in ports and on the land frontiers. Moreover, the goods assessed had knowable value (unlike much land or subsistence production), and their owners had liquid funds with which to pay and could pass the cost on to the final consumers who were in the monetized economy.

Thus, throughout most of the nineteenth century, the treasuries of Mexico City and Rio de Janeiro both earned between half and two-thirds of their revenue from import and export duties. Reliance on international commerce to pay for the machinery of government set upper and lower bounds on custom duties. Complete free trade was out of the question since the state's interest in collecting revenue was more important than its desire to maintain the purity of the principal of comparative advantage. At the same time, duties could not be prohibitively high on important commodities or else goods would cease entering and customs income would decline drastically.

In addition to circumscribing tariff policy, indirect taxes on external trade had the additional drawback, from a political economic perspective, of taxing the most economically active and efficient producers, i.e. exporters, while leaving relatively untouched subsistence and self-sufficient producers. It was a taxation policy based on convenience and fiscal exigencies, not a means of stimulating development. Indeed the respective governments' abilities to collect sufficient revenue by attaching foreign commerce allowed them to avoid measures that would have required fiscal reform and possibly significant political reforms. But, at the same time, and perhaps paradoxically, it is clear that by making public revenues rely so heavily on foreign trade, both the Brazilian and Mexican states became inextricably wedded to export-led and open economy models of growth.

The collection of customs and export duties reveals the greater extractive efficiency of the Brazilian state. The Brazilian central government in 1888 had perhaps 2.5 times the per capita income of the Mexican federal treasury and three times the global income. The comparative prosperity of the Rio treasury was not simply a result of slicing from a larger pie; tax agents took a second helping of that larger pie: the Brazilian administration absorbed about 15 to 24 percent of GNP (typically pre-industrialized states took 10 to 15 percent of the national product) while Mexico stood at only half that, 7.5 percent.[57]

The Mexican government had much greater difficulties during the first three quarters of the 19th century in fully asserting its legitimacy and capacity to collect taxes nationwide, which is, after all, one of the most distinguishing marks of sovereignty. Tax collection cost approximately 10 percent of revenues--a fairly high figure--but in addition the system had great leakage. This was closely related to the fact that Mexico also faced a greater propensity to smuggle because of porous, extended borders. The Atlantic and Pacific coasts as well as the extremely long frontier with the United States were open to contraband trade while in Brazil commerce could reach significant population centres only through the Atlantic seaboard. To discourage contraband, Mexican authorities had to charge lower duties. Consequently, Mexico's duties reached only 30 percent of imports in 1888 even though the state was in desperate need of more funds.[58] Brazil's import duties stood at 46 percent of total imports reflecting its greater ability to collect taxes and providing some protection to domestic producers.[59] Taxation levels were more set by the logic of the internal machinery of revenue collection than by imperialist imposition.

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[57] James Wilkie, in "Changes in Mexico since 1895*" Statistical Abstract of Latin American* v. 24 (L.A.: UCLA Latin American Studies Center, 1984), p. 875 using the Banco de Mexico's GDP data arrives at an even lower 4.5 percent in 1900.. For more data see: Steven Topik, "The Economic Role of the State in Liberal Regimes Brazil and Mexico Compared, 1888-1910." In Joseph Love and Nils Jacobsen eds*. Guiding the Invisible Hand. Economic Liberalism and the State in Latin America* (Westport CT.: Praeger, 1988), pp. 117-144.

[58]Calculated from El Colégio de México, *Estadistica Economica del Porfiriato: Fuerzo de trabajo y actividad economica por sectores,* (Mexico: El Colégio de México, 1965), p. 206 and *Estadistica Economica del Porfiriato: Estadisticas comerciales exterior de México, 1877-1911* (Mexico: El Colégio de México, 1965),p.

[59]Liberto de Castro Carreira, *História Financeira e Orçamentária do Imperio no Br*asil, vol.2, passim. DGE, *Anuario estatística.1939*, (reprint, Rio: Fundção Casa Rui Barbosa, 1980), p. 68.

A comparison of tariff policies suggests, however, that after the turn of the twentieth century, some broad similarities in state tariff policies emerged particularly as a result of protectionist policies applied to stimulate the burgeoning textile industries in both nations. According to Stanley Stein, in Brazil the period after the establishment of the new tariff of 1900 could be considered the "Golden Age" of protection in that country, a fact that would seem to be confirmed by the doubling of domestic, Brazilian textile production at a time of intensified international competition in that key manufacturing sector. [60] In Mexico tariff rates were raised for many manufactured goods in 1892, 1893, and 1896, although effective protection tended to decline because of the fall in value of the silver peso. However, after 1902 imports began to be appraised in their silver currency value and this - together with another customs revision in 1906 -caused the protection level to rise by one-third. By 1909 a US Congressional investigator reported that the Mexican tariff on cotton goods was one of the highest in the entire world. [61]

Overall, by 1910 real per capita federal government income in Brazil was still twice Mexico's total. Considering that the Brazilian state was decentralizing with states capturing an ever greater share of public revenues (from 19 percent in 1863 to 27 percent in 1886 to 39 percent in 1907-1910) while Mexico was centralizing, (states and municipalities went from 38 percent of total revenues in 1895-99 to 31 percent in 1903-06) it is surprising

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[60] Stanley Stein, *The Brazilian Cotton Manufacture Textile Enterprise in an Underdeveloped Area,*
(Cambridge: , Harvard University Press, 1957), p.99, and Steven Topik, *The Political Economy of the Brazilian State*, (Austin: University of Texas Press, 1987),p. 142.

[61] Daniel Cosío Villegas, *La cuestion arancelaria en México* (Mexico: 1931). Stephen Haber, *Industry and Underdevelopment. The Industrialization of Mexico* (Stanford: Stanford University Press, 1989), p. 39; William A. Graham-Clark, "Cuba, Mexico, and Central America" *in Cotton Goods in Latin America*, part 1 (Washington DC: Government Printing Office, 1909), p. 38.

to see the Brazilian federal government so much richer than the Mexican.[62] This is related to the fact that Brazil became ever more dependent on international trade. Import duties, which had supplied 52.3 percent of federal revenues in Brazil in 1890, rose to 64.8 percent in 1910 while they fell in Mexico from 55 percent to 43.7 percent over the same years. By some measures state building and export orientation were certainly compatible.

Brazilian Commodity Regulation versus Mexican Laissez Faire

The importance of international trade made both economies subject to the impact of fluctuating world prices, but Brazil was particularly vulnerable. This is reflected in the fact that far more workers, probably two to three times as many, were directly employed in Brazil's coffee and sugar plantations and rubber fields than in Mexico's mines.[63] As a result, the Brazilian government was obliged to take an interest in the regulation of the export economy's cycles.

The best known example of the Brazilian government's actions was the defence of the price of coffee. Beginning with the valorization of coffee in 1906 and ending up with the Institute for the Permanent Defence of Coffee in 1920s and finally the Departamento Nacional de Café in 1933 the Brazilian federal and state governments came to finance much of the world's

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[62]M.J.F de Santa-Anna Nery, *Le Brésil en 1889*,(Paris: Librairie Charles Delagrave, 1889) p. 450; Brazil, DGE, *Anuário estatístico, 1939-1940*, pp. 1409,1412,1418; México, Secretaría de Fomento*, Anuário estadístico, 1906,* pp. 221,222; Secretaria. de Fomento*, Cuadro sinóptico, ano de 1900,* pp 70-73.

[63]Estimate calculated from data from Alfredo Ellis Júnior*, A Evolução da Economia Paulista e Suas Causas* (SP: Companhia Editora Nacional, 1937), p. 225. Mexican data from Comision Monetária reported in its *Actas de las juntas a ellas anexos* (Mexico: Tip. de la Oficina de Estampillas, 1904), p.40. According to the Colégio de México *Estadisticas Económicas del Porfiriato* p.131 Mexico in 1898 had 89,072 miners. The state of São Paulo alone had more coffee workers than that.

coffee trade, and hold most of its visible stocks. Coffee regulation thus set the precedent that OPEC and other raw material producers would later follow. It also transformed the Brazilian state's role in the domestic economy. By the end of the First Republic in 1930 the Brazilian state was responsible for much of the finance, warehousing, transportation and sales of coffee and controlled one of the world's largest commodity markets.[64] The defence of coffee impelled the state to intervene in monetary and financial markets and oversee the transportation infrastructure. Although the arguments in favour of state intervention in coffee were made in terms of maintaining the value of Brazil's currency, servicing the foreign debt, and protecting the country's foreign credit, nationalist rhetoric also was employed. Indeed, the title of the program, the "defence of coffee" reflected this nationalist perspective. According to the architects of the defence of coffee programs, low prices were caused by merchant manipulations in the importing countries, not by the healthy free reign of supply and demand. Today one might say that state coffee interventions were often seen as stop-gap measures to correct market prices. At the time, they were often viewed as measures of national defence and trust busting.

Mexico did not intervene as effectively in export markets as did Brazil. Most of its agricultural and forest exports such as rubber, coffee, and chicle occupied either a small share of the world market or, as with vanilla and chicle, small luxury markets. The buyers in many cases were large American and European corporations with great market power. State interventions were not promising under these conditions. In the case of Mexico's other major agricultural export, henequen, the lack of coordination between

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[64]Steven Topik, *The Political Economy of the Brazilian State*, chapter 3. For a comparison of Brazilian and Mexican State roles in export markets--coffee and henequen--see: Topik,

political leaders in the nation's capital and the Yucatecan economic elite which owned the plantations, led state officials to seemingly conspire with foreign importers such as the US International Harvester Company to drive *down* the price of henequen rather than, as in coffee, prop it up.[65] This was because henequen faced much more international competition than did Brazilian coffee.

Among mineral exports, Mexican copper and lead represented a growing percentage of world production, but nothing comparable to Brazilian coffee, and any attempt to manipulate the market in these commodities was condemned beforehand to failure. Even so, there was political pressure because copper mining was controlled by U.S. mining and smelting companies which paid North American workers twice what they paid Mexican workers and used U.S. administrators who lived in enclaves. These conditions touched off nationalist responses such as the bloody strike at the Cananea mine in Sonora in 1906.[66]. But Mexico controlled a small share of world copper production and foreign capital dominated the sector.

Even in the one product in which Mexico truly competed well, silver, conditions were not appropriate for state action. The United States had surpassed Mexico as the leading world silver producer in the 1870s. Moreover, for domestic and international political reasons, the U.S. and other countries traditionally on a bimetallic standard switched to the gold standard in the last quarter of the nineteenth century. And, although Mexico

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"L'Etat sur le marché: approche comparative du café bresilien et du henequen mexicain*." Annales, Economies, Societies, Civilisations 46:2*. (mars-avril, 1991): 429-458.

[65]Topik, "L'Etat sur le Marché: 429-458. For the controversy over the role of International Harvester see: Gil Joseph and Allen Wells, *Yucatan y la International Harvester,* trad. By Donna Mellen Webking (Merida: Maldonado Ediotres, 1986).

[66] John Hart in *Revolutionary Mexico* (Berkeley: University of California Press, 1987) argues that resentment of foreign investors sparked the Mexican revolution, a position that Alan Knight, *The Mexican Revolution* (Cambridge University Press, 1986) disagrees with, citing internal political quarrels as the key incitement.

had taken back control of its mints and had joined with the U.S. and China (the world's largest silver consumer for coinage) in various international conferences designed to attempt to stabilize the world prices of silver, it had limited success. [67] A major intervention in the global mineral market had to wait for another sector, petroleum, another time, 1938 and the new political atmosphere created by the Mexican Revolution and by the rise of state capitalism and state socialism.

International Debt Policy: The State's Role in Attracting Foreign Capital

There were broad similarities in the tax policies of Brazil and Mexico but important differences in commodity regulation during the nineteenth and early twentieth centuries. The nature of the international markets in the commodities: size, dynamics, geographic spread, nationality of producing and consuming companies, and the nature of technology explain much of the difference. If we look now to their experience with regard to foreign debt we see that policies which had been radically different for decades, by the turn of the century became almost identical in strategies and discourses.

Brazil was long considered the most credit-worthy of Latin American nations by foreign bankers. From the time of independence, the imperial government of Brazil turned to London to borrow funds, beginning with two loans in 1824 and 1825, followed by additional loans in the 1860s, 1870's and 1880s.[68] The respect of European bankers for Brazil's monarchy, which

[67] It was curiously enough the United States that took the lead in proposing an international bimetallic standard as can be seen *in Proceedings of the International Monetary Conference. in Paris,* (Washington, D.C., 1887)

punctually repaid loans (largely because of the capacity of Rio's tax collectors to gather a steady and large stream of taxes), was sufficient to allow for loans even at times of distress. Brazil's prospering export economy produced impressive trade surpluses which averaged $5.8 million annually in 1886-1890. With increased trade and customs revenues, European capitalists were generous; they showered Brazil with more overseas loans than any of its Latin American neighbours, except Argentina. Consequently, its foreign debt in 1888 was one of the largest in the Third World, US$136 million. This amount seems insignificant by today's gargantuan standards. But it might have represented the equivalent of five or six years of national savings for Brazil.[69]

Following the domestic financial crisis of the early 1890s known as the "encilhamento", foreign bankers- led by N.M. Rothschild and Sons of London- decided to support the global restructuring of Brazilian foreign debt. The 1898 Funding Loan allowed the Brazilian republic- after a decade of unorthodox monetary policies and foreign discredit- to return to orthodox policies.[70] The extent to which the restructuring was voluntary is open to dispute. The Rothschild's representative threatened Brazil's President Campo Sales with the possibility of military intervention if the debt was not repaid and many Jacobin nationalists, who were just beginning to lose their

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[68] For information on Brazilian foreign loans see appendices in Carlos Marichal *, A Century of Debt Crises in Latin America: From Independence to the Great Depression,*(Princeton University Press, 1989)

[69]. For more on Brazil's foreign debt servicing see Topik*, The Political Economy of the Brazilian State*,.

[70] For more on Brazil's effort to follow developmentalist Great Bank policies at the beginning of the Republic and the debacle of the Encilhamento see: Steven Topik, *Trade and Gunboats, Brazil and the United States in the Age of Empire* (Stanford: Stanford University Press, 1996). Also see: Gail Triner, *Banking and economic development : Brazil, 1889-1930* (NY: Palgrave, 2000) and Anne Hanley, *Native Capital: Financial Institutions and Economic Development in São Paulo, Brazil (*Stanford: Stanford University Press, forthcoming.

political clout, decried the move. But most national and local political and economic leaders firmly believed in the importance of sound money and foreign borrowing. By this time export agriculture, transportation, and public utilities were largely run on foreign loans. The alternative would have been increasing taxes on the affluent and increasing the revenue collecting bureaucracy which would have been very unpopular with Brazil's oligarchy. And the moment was propitious for restructuring. Indeed, the Brazilian treasury enjoyed the double good fortune of earning greater income at home while at the same time being a welcomed guest in the financial markets of London and the continent. By 1910 the foreign debt had grown more than four fold to US$627 million. Because of a long record of meeting its debt deadlines and its close relationship to the house of N. Rothschilds of London, Brazil was able to secure loans on terms comparable to European borrowers: at 4 ½ to 5 percent interest and discount rates of only 3 to 5 percent.[71] Rather than increasing the control of British bankers, however, the 1898 loan was the beginning of diversification as many continental correspondent banks and merchants subscribed the loan. In the years leading up to World War I, increasingly French, Belgian, German and Dutch capital became involved.

The option to obtain funds abroad permitted politicians some freedom of manoeuvre vis-à-vis civil society since funds were readily available that did not require the immediate acquiescence of tax payers. Moreover for both administrative and political reasons, abruptly raising taxes internally was hardly an option. Thus overseas loans strengthened the central government's relative autonomy from civil society (before 1888 there was no

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[71]Brazil, Agency Letter Book 4, N.M. Rothschilds archive, London. Castro Carreira, *Histôria Financeira*, vol. 2, pp. 714-716. The low discount was 89 percent in 1883, but the 1875 loan was at 96.5, the 1886 at 95 and the 1888 at 97 percent.

province or municipality borrowed abroad) while at the same time increasing its dependence on foreign lenders. But rather than ceding control of Brazil's economy to European bankers, the loans allowed the federal and provincial governments to establish mixed state enterprises in commercial and mortgage banking as well assert considerable control over the exchange market.

The demands of servicing the foreign debt, however, circumscribed monetary, fiscal, and tariff policy. European capitalists' willingness to open their wallets to the Brazilian finance minister afforded him the resources for some economic innovations, but mostly permitted him to cover current administrative expenses and the servicing of previous loans. In 1890, 61 percent of the federal budget was spent on administrative costs and a quarter on debt (foreign and internal) payments. That left only 11 percent for investments and another 4 percent for transfer payments.[72] By 1910 administration had fallen a little to 51.3 percent of spending while investments grew somewhat to 18.2 percent.

In stark contrast to Brazil, the failure of debt policies in Mexico was intimately related to the fact that for half a century it was a militarily weak, politically unstable and debt-ridden state. As early as 1828 Mexico suspended payments on its early 1824 and 1825 loans and did not renew debt service for decades. In 1862 the non-payment of the old English debt and the infamous "Jecker" bonds provided the excuse for intervention by a tripartite European military force, followed by occupation of Mexico by 30,000 French and Austrian troops. After the collapse of the French-supported Mexican Empire of Archduke Maximilian in 1867, president Benito Juárez once again placed a moratorium on debt repayment as the French invasion ignited Mexican nationalist sentiment. All these events made Mexico an international pariah for foreign bankers during much of the nineteenth century.[73] This was not strange considering the fact that there was, in fact, an effective suspension of payments on the early British loans for six entire decades (from 1828 to 1886) the longest moratorium of any nation in modern history.

Only in the 1880s did the Mexican government begin to restore its credit by reaching an agreement with British bondholders in 1886 and then organizing the great 10.5 million pound sterling conversion loan of 1888. The latter loan "met with great success" by pledging considerable guarantees and granting a 21.5 percent discount.[74] Not only past history, but continuing trade deficits (which averaged US$ 3.5 million in the 1880s) tarnished Mexico's credit. Nationalist resistance in Mexico to holders of the “petits bleus” bonds Napoleon III had issued to finance his invasion, closed the Paris bourse to Mexican public issues for almost forty years. Despite attractive concessions offered by French investors, Mexico’s Finance Secretary Limantour, refused to pay off what he considered illegitimate bonds.[75]

He was able to hold firm because Mexico’s economic situation began to recover in the 1890s. In 1888 Mexico's foreign debt stood at US$70.8 million, about one-half of Brazil's. But because of lower exports, it required a

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[72]Anníbal Villela and Wilson Suzian, *Política do Governo e Crescimento da Economia Brasileira, 1889-1945* (Rio: IPEA/INPES, 1979), p. 414.
[73]On Latin American borrowing see Marichal, *A Century of Debt Crisis*.
[74]Council of the Corporation of Foreign Bondholders, *Report for 1888*, p. 112. Apparently the loan did worse in Berlin. German Minister to Mexico Wangenheim wrote to Von Bulow, Mexico Oct. 1905 (Richsamt des Innern 4384, Deutsches Zentralarchive Potsdam) that the interest rate in 1888 was 8.01 percent and the discount 58.76 percent.
[75] For a fuller version of this story see: Steven Topik, “When Mexico Had the Blues: A Transatlantic Tale of Bonds, Bankers, and Nationalists, 1862-1910,” *American Historical Review* vol. 105:3 (June 2000):714-738.

marginally larger share of national exports to service it. Debt repayment was momentarily less important for the Mexican treasury because some debts were still under negotiation and not being repaid. Hence debt servicing only consumed 11 percent of the budget. That total jumped to one-quarter of the budget once debt servicing was normalized two years later and remained at about that level the next two decades, approximately the same share as in Brazil. Increasingly after 1890, foreign loans were contracted not just to refinance former debt but to finance building projects for international trade such as the Tehuantepec railroad and port and the port at Veracruz, and the showpiece draining of Mexico City. Thus while they were not listed as capital investments, in good part they truly were and therefore reflected growing state participation in the economy. But that participation continued to be outwardly oriented and dependent on western European and U.S. capital.

The State-led drive to attract foreign direct investment

Both countries adopted debt policies consistent with the interests of large scale foreign investors and bankers and which were also essential to attracting foreign direct investments. In this regard, the financial policies of the states were important instruments for attracting foreign capital not only for the public but also for the private sectors. Foreign investors preferred to lend to strong governments with strong economies, even if that potentially afforded the borrowers greater autonomy. Supine, troubled governments might offer lenders neo-colonial possibilities of greater interest guarantees and concessions, but they far less sure to actually repay loans and investments. Brazil and Mexico became more attractive as they became healthier. This can be judged by reviewing some data on foreign direct investment in both countries.[76]

Brazil and Mexico would become two of the largest recipients of foreign capital in the world. Estimates for foreign investment are notoriously unreliable. Foreign long-term investment in Brazil was probably between $300 and $400 million in 1888, probably five-sixths of it coming through London (though often held by continental investors). Different estimates for Mexico put the total at between $250 million and $500 million.[77] North Americans and Englishmen controlled most of Mexico's major railroads and a great number of its mines. Wholesale commerce fell to German, French and Spanish merchants who soon exercised a dominant role in the first banks. The French and Spanish dominated Mexico's largest bank, the Banco Nacional de México while British and later French investors held major stakes in the Banco de Londres y México. Foreign capital also began to be invested in agriculture, land and public utilities, although not yet on a large scale. By applying to Mexico in 1888 Simon Kuznet's calculation of the ratio gross national product to gross domestic capital stock in developing countries, before they industrialized, of maybe only 2 percent we can estimate foreign capital's share of total capital at quite possibly greater than one-third.[78]

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[76] For a compilation of recent studies on the history of foreign investments in Latin America in this period see Carlos Marichal, ed*., Las inversiones extranjeras en América Latina, 1850-1930*, (Mexico, Fondo de Cultura Económica, 1995).

[77]Irving Stone, "British Direct and Portfolio Investment in Latin America before 1914" *Journal of Economic History* 39 (Dec. 1979):695; J. Fred Rippy, *British Investments in Latin America, 1822-1949* (Hamden Ct.: Archon Books, 1959), pp. 25,37,68; J.Fred Rippy*,The United States and Mexico* (NY: Crofts, 1926); *New York Times* Jan.7, 1888 and Sept. 5, 1888. Nicolas D'Olwer, “Las inversiones extranjeras”, in Daniel Cosío Villegas, ed., *Historia Moderna de México*, (Mexico, 196 pp. 1161-63.

[78]Simon Kuznets, “Capital Formation in Modern Economic Growth (and some implications for the past) in *Population, Capital, and Growth, Selected Essays* (NY: W.W. Norton and Company, 1973), pp. 126, 162.

In the years 1897-1910, more interventionist, nationalistic state policy transformed the nature of foreign investment in Mexico. After 1900 European investments continued but were dwarfed by the inflow of what Mira Wilkins calls “spill-over” North American capital.[79] Mexico, together with Canada and Cuba, was the main destination for US foreign investments as North Americans shifted their focus abroad. The new funds were placed mostly by large corporations in direct investments, being impelled by the banking and industrial cartels that came to dominate the United States economy. Rather than “free-standing” companies, they were the progenitors of nascent multinational corporations. Until the depression of 1907, Mexico became a major battleground for international finance capital, receiving half of all US foreign portfolio investment and trailing only Argentina as the largest recipient of foreign investment in the Third World with between US$1.7 and $2 billion. [80] Mexico was able to take advantage of this prosperous moment to play off competing British, U.S., French, and German interests and carve out diplomatic space to manoeuvre. [81] Nowhere else in this period did such prominent members of the haute bourgeoisie as the French and British Rothschilds, the Gugenheims, the Speyers, J.P. Morgan, Bleichroeder, and John D. and William Rockefeller invest risk capital on a large scale. Now, state policy privileged national and international financiers and large-scale

[79] Mira Wilkins, *The emergence of multinational enterprise: American business abroad from the colonial era to 1914* (Cambridge: Harvard University Press, 1970) and co-editor of *The Free-standing company in the world economy, 1830-1996* (Oxford: Oxford University Press, 1998)

[80] *Mexican Herald*, 5 September 1897, p.1; Barbara Stallings, *Banker to the Third World* (Berkeley: University of California Press), p. 125; Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1895-1904* (Cambridge: Cambridge University Press, 1985), p.1; W. Arthur Lewis, *Growth and Fluctuations, 1870-1913* (London: George Allen & Unwin, 1978), p. 163; Jean Bouvier and Rene Girault eds. *L'imperialisme francais d'avant 1914*(Paris: Mouton Editeur,1976), pp. 9, 309.

corporations rather than merchant entrepreneurs and adventurers as formerly and sought, at the same time, to increase central control of the economy. [82]

Foreign investors also took great interest in Brazil, although they were almost exclusively European, principally British, French, German and Belgian. Government borrowing was the largest single share of external investment, comprising more than a third but less than half of the total which reached almost 350 million pounds sterling by 1914 ($1.7 billion).[83] Railroads were the major recipient of foreign risk capital but most of the main coffee-carrying lines belonged to Brazilians or to the government. There were several sizable British-owned mines, but nothing on the scale of Mexico.[84] French and English capitalists initiated several ill-fated central sugar mills as well. British and Portuguese investors controlled several of the leading banks and together with Germans and French dominated wholesale commerce. Indeed, although foreigners were instrumental in financing exports through commercial credit, they rarely invested directly in export production.[85] At the turn of the century foreign direct investment in Mexico was somewhat greater than in Brazil (and much more important in relation

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[81] For an excellent account of the diplomatic intrigues in late Porfirian Mexico see: Friedrich Katz, *The secret war in Mexico : Europe, the United States, and the Mexican Revolution* (Chicago: University of Chicago Press, 1981).

[82] Steven Topik,"The Emergence of Finance Capital in Mexico" in Virginia Guedea and Jaime Rodriguez eds*. Five Centuries of Mexican History/México en el medio milenio*. Mexico: Instituto Mora, 1992: 227-242.

[83] For a detailed analysis see "Tableau des Principales Valeurs Brasiliennes" (1914), Paribas Bank Archives, Conteneur 368, vol.5.

[84] For a monograph of the largest British mining company in Brazil see Marshall Eakin, *British Enterprise in Brazil: The St. John D'el Rey Mining Companyand Morro Velho Mining Company Limited, 1830-1960* Durham N.C.: Duke University Press, 1989).

[85]Stone, "British Investment":695; Rippy, *British Investment*, pp. 25,37,68; Marshall Eakin,*British Enterprise in Brazil; The St. John d'el Rey Mining Company and the Morro Velho Gold Mine, 1830-19960* (Durham N.C.: Duke University Press, 1989), pp. 17-19.. It has been estimated that in 1888 $200 million of British commercial credit was extended to people in Brazil.

to GDP) and would remain so until 1910 when the Mexican revolution erupted. Hence foreign investment in Mexico created powerful corporations that pressured the state while in Brazil they supplied loans which gave the state some relative autonomy from civil society.

The State, Railroads and National Economic Integration

So far we have argued that in the last quarter of the nineteenth century it is possible to observe a noticeable convergence in the economic roles of the central government in Mexico and Brazil with regard to integration into the world economy, including the promotion of export economies, the negotiation of public loans with foreign bankers and the attraction of a growing stream of foreign direct investment. But national political elites also clearly also had the goal of promoting national integration and economic development. Another way to put this is that politicians and bureaucrats sought to defend national sovereignty and the country's position in the world economy while at the same time encouraging increased and inter-linked capital accumulation without jeopardizing the functioning of a specific class-based social system. By the last part of the nineteenth century state building, nation building, economic development, and an internationally open economy had become complementary projects. Brazilian capitalists, with a few exceptions, found European and U.S. investment complemented their projects rather than competing with them. Nationalist campaigns were directed mostly at foreign merchants or utility and transport providers who were blamed for price gouging. Only occasionally were foreign companies so large and evident that they aroused anti-trust sentiment. The companies with which the North American entrepreneur Percival Farquhar was associated, the Brazil Railroad, Amazon Steamship Line, Itabira Mining

Company, and Brazilian Light and Power provoked outrage in the press and sometimes in the streets. But in the years before 1930 the Brazilian government took no measures to please these nationalists.

The primary assertion of national economic sovereignty came in the rail system though orthodox budget and monetary concerns were more important than the national defence. Brazil's first line was, by international standards, quite early. It was built in 1854, about the same time British capitalists began investing in India’s first rail line. The 1880s saw the most intense railroad building of the nineteenth century and the second greatest decade of construction in Brazil's history. By 1888 Brazil had the largest rail system in Latin America. Its 9,583 kilometres of track ranked it twelfth in the world behind nine European and North American countries and two colonies: India and Australia. It had a larger rail system than all Africa combined and twice the size of all of Asia outside of India.[86]

Surprisingly, fully one-third of the Brazilian system was state owned. The lines were often initiated and planned by the central government but more to service the export economy than to defend or people the country’s vast interior. In 1888 nowhere had rail moved more than two hundred miles from the coast. The various regions of the country also had not been integrated. The unplanned and dispersed nature of the network was mitigated by the fact that the various hubs were ports (or in the case of São Paulo connected to the port of Santos). Consequently coastal shipping lines, which also expanded enormously in the 1880s, linked them. As a result, total Brazilian shipping, coastal and overseas, grew over 400 percent between 1843 and 1883 while exports fell from one-quarter of that freight to

[86]Mulhall, *Dictionary of Statistics*, pp. 495, 496.

16 percent.[87] Domestic maritime trade was growing faster than international shipping.[88]

After 1889 railroads grew rapidly so that in 1910 the national total was 21,325 kilometres. Initially that growth was due to foreign companies which not only built new lines, but also leased some important state lines. Federal and provincial financial distress in the 1890s forced government agencies to rent out public lines to private—mostly British—companies. They received generous profit guarantees, tax exemptions and rights of way because of their privileged positions in European capital markets and their technical expertise. But economic crises in the beginning of the twentieth century, provoked by the fall of the price of coffee, led the federal government, and to a lesser degree, provincial governments, to take over and run bankrupt companies. By 1930 two-thirds of the national system was publicly owned and half publicly run.[89] By some measures the public lines ran more efficiently than the foreign-owned ones. [90] The system integrated the country as the great majority of the traffic was for internal consumption, not exports and ran through the population centres.[91] Some lines were built into uneconomic interior provinces for nation-building purposes as telegraph lines were strung up in their rights-of-way. Ticket and freight rates were set by the federal and provincial concession-granting agencies with a mind to

[87]Calculated from DGE, *Anuário Estatístico, 1939/40*, pp. 49, 86,87.
[88]I arrived at this conclusion by assuming that imports, whose value accompanied that of exports, also had a relatively steady ratio in terms of weight. It is true that as the price of coffee doubled, the same bulk of coffee purchased twice as much imports. However, sugar fell 30 percent in price and imports contained ever greater labour so that their ratio of weight to value declined.
[89]Julian Duncan, *Public and Pricate Operations of Railways in Brazil* (NY: Columbia University, 1932), p.87.
[90] Topik, *The Political Economy of the Brazilian State*, pp. 112,113.
[91] "The State's Contribution to the Development of Brazil's Internal Economy, 1850-1911," *Hispanic American Historical Review*, 65;2(May,1985): 203-228.William

social utility, not just immediate profit. Soldiers and mail travelled at a discount and foods "of prime necessity" also enjoyed low fares as did urban trams to prevent urban riots.

Mexico was slower to create a modern transport system. Before 1880 only one important line was built, connecting Mexico City and Vera Cruz; begun under Maximilian by Mexican and British capitalists it was concluded in 1873 and facilitated the prosperous import/export trade conducted through Vera Cruz but did not contribute markedly to the expansion of internal markets. This changed in the early 1880s as furious building of track from the United States south led to the establishment of three great trunk lines linking Mexico to the dynamic economy of its northern neighbour. Thus, by 1888 Mexico had almost as large a railway system as Brazil. But the lines were constructed according to the corporate logic of the enormous U.S. networks rather than primarily with Mexico's needs in mind and most of the employees were North American.

This was because in contrast to Brazil, none of the early railroad lines in Mexico were owned by the government. With terrible foreign credit in lending markets, the Mexican authorities preferred to adopt a system of state financial subsidies to stimulate foreign investors (North American and British) to build the principal lines. The complex and expensive system of subsidies- among other factors -led to repeated fiscal and financial crises in 1885, 1890 and 1893, but they did contribute to the completion of a broad and modern transport network which stimulated both foreign trade and the expansion of domestic markets. In a classic study, John Coatsworth calculated that half of the freight on the major railways was international

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Summerhill, *Order Against Progress* (Stanford: Stanford University Press, 2003), pp. 126,127, 137.

commerce but recent studies have shown that a greater share was in fact for domestic purposes. [92]

In the 1890s the Mexican government began to participate more directly in the promotion of railroads and in other major infrastructure projects. Large contracts were signed preferentially with one great British engineering firm, headed by the entrepreneur Sir Weetman Pearson, which took charge of constructing the railroad across the Isthmus of Tehuantepec, the modernization of the port of Vera Cruz and the huge drainage works in the Central Valley of Mexico City. [93]In all these cases, the Mexican government issued a steady stream of silver bonds to the contractors in order to guarantee the work and thereby ended up holding a major stake in these great public works projects.

Thus despite an initial preference for indirect participation in railroads, the Mexican state gradually came to take a more direct interest, the most important event being nationalization in 1908 of several of the principal trunk lines connecting Mexico to the United States. Historians have debated the reasons for this early nationalization and have placed emphasis on the financial distress of foreign companies, which apparently drove the state into rail ownership. But concern with US rail trusts impinging on national sovereignty and the need to integrate the country to quickly mobilize troops were also key motives in the nationalization.

Despite a similar increase in the role of the state in railways, a sector which –it should be emphasized- contained the largest modern enterprises in both Brazil and Mexico, by 1910 there were important contrasts between

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[92] John Coatsworth *Growth Against Development: The Economic Impact of Railroads in Porfirian Mexico,* (Dekalb, Northern Illinois Press, 1981). But see Sandra Kuntz*, Empresa extranjera y mercado interno. El Ferrocarril Central Mexicano, 1880-1907*, (México: El Colegio de México, 1995).

the two national rail systems. Although being close to the same length, Brazil's companies carried twice as much freight and had four times the gross profits.[94] This was because Brazil's railroads were built to attend to the dense population of export zones. Mexican railways, on the other hand, were high-debt and low-profit enterprises intended to tie into U.S. lines and to tap the minerals of Mexico's sparsely populated north. Despite the increasingly activist economic role of the Mexican government particularly in railroads and port works, it should also be noted that difficulty in collecting revenue and borrowing on favourable terms severely hindered the state's activities. [95]In a vicious cycle, fiscal poverty undermined the institutional foundations necessary for restoring prosperity. The relatively small cadre of state employees that he could afford to employ shortened Porfírio Diaz's reach from the capital into the distant corners of Mexico. It appears that Mexico had only half Brazil's number of public employees on the national, provincial, and local level. And, because of the tradition of violence, over half of the smaller public staff in Mexico were members of the armed forces; in absolute numbers Mexico's soldiers and sailors doubled Brazil's military contingent (33,226 to 16,800) leaving a civilian bureaucracy one-quarter the Brazilian number.[96] These proportions were reflected in the budgets. The

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[93] Priscilla Connolly, *Weetman Pearson: el contratista de Don Porfirio*, (Mexico, Fondo de Cultura Económica, 1998).

[94]Mulhall, *Dictionary of Statistics*, p. 496.

[95]. See Marcello Carmagnani, *Mercado y Estado, historia de la hacienda publica en México, 1857-1910*,(Mexico, Fondo de Cultura Económica, 1994)s.

[96]. Peter Smith, *The Labyrinths of Power*, (Princeton N.J.: Princeton University Press, 1979) p. 41 which gives 71,834, something more than the 63,777 found in the *Resumen del censo de 1900,* p. 61 and the 59,553 in 1895 in *Fuerza de trabajo*, pp. 54,56. For Brazil, I arrived at 129,000 Contadoria Geral da República, *Resumo do Orçamento da Receita e Despeza para o Exercício de 1893*; the Estrada de Ferro Central do Brasil, *Relatório, 1893* (Rio: Imprensa Nacional, 1893), table D1 and Topik, *Political Economy,* p. 21. The ratio between the two was probably closer in 1888 because the Brazilian state bureaucracy grew by probably one-third in the subsequent twelve years while there is evidence that the Mexican staff stagnated. The Brazilian armed forces in 1888, according

Mexican armed forces consumed 38 percent of the 1888 federal budget while their Brazilian counterparts took just 18 percent. This situation, however, reflects the greater tranquillity in Brazil rather than a different style of governance since the Brazilian military had previously also dominated spending; it had been responsible for fully 56 percent of all expenditures between 1835 and 1888.[97] It comes as no surprise, then, that only 5 percent of the Mexican central government's budget was dedicated to fixed investments in 1888. That translated, in absolute terms, to only one-ninth the amount of central government funds invested in Brazil.[98] That amount almost doubled to 9.2 percent in 1910, but Brazil's fixed investments' share grew at a similar rate so that the Brazilian state was investing twice as large a share of revenues which, on a per capita basis, were already twice as large.

The Role of the State in Domestic Monetary and Banking Systems

While it is clearly our argument as elaborated so far that the role of the state in Brazil and Mexico became increasingly important from the late 19th century in the fields of trade, taxes, debt and economic integration, attention should also be directed to its influence in the realms of the respective

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to José Murilo de Carvalho, "As Forças Armadas na Primeira República" *Historia Geral da Civilizaçaõ Brasileira*, vol. 9, p. 201, was 16,800 while Mexico's in 1895 was 33,226.

[97] Castro Carreira, *História Financeira* vol. 2, pp. 614, 657; Carlos San Juan Victoria and Salvador Velásquez Ramírez, "El Estado y las políticas económicas en el Porfiriato" in Ciro Cardoso ed., *México en el siglo XIX (1821-1920); historia económica y de la estructura social* (México:Editorial Nueva Imagen, 1980), p. 308.

[98] El Colégio de México, *Estadísticos económicos del Porfiriato, Fuerzo de trabajo* pp. 305, 311, 323.Michael J. Twomey, "Patterns of Foreign Investment in Latin America in the Twentieth Century" in *Latin America and the World Economy since 1800*, edited by John H. Coatsworth and Alan M. Taylor (Cambridge: Harvard University Press, 1999), p. 123 shows that Brazil not only had substantially more foreign investment than did Mexico in 1913-1914, but a much greater share of it was portfolio capital.

monetary systems and early banking structures. Once again, it seems worthwhile emphasizing that while divergence was marked in the first three quarters of the nineteenth century, convergence gained strength by the turn of the century both with regard to the establishment of similar monetary and exchange policies as well as in the field of banking regulation.

It is often affirmed that money is the emblematic symbol of national sovereignty. Insofar as this is true, it would appear that to trace the history of monetary systems can provide an important guideline to political history, or more specifically the history of states. In the case of Latin America this is certainly true but it should be noted that each of the nations of the subcontinent experienced quite different monetary trajectories after independence. The cases of Mexico and Brazil reflect the diverging trends in the early part of the century.

The monetary system of post-independent Mexico was virtually identical to that which had been current during three hundred years of colonial rule. As the leading silver producer in the world, the basis of monetary circulation in Mexico was quite simply silver coin, with a small, complementary volume of copper coin for small transactions. During the colonial period, the minting of silver was a royal privilege, which could only be exercised by the royal mint at Mexico City. After independence, this mint remained important and was under control of the central government, but there also emerged regional mints which were under the administration of state governments. None the less, the fundamental determinants of the volume of circulating currency were not government (central or local) but rather the cycles of silver mining production because silver was exported as a commodity more than as a coin. Thus the “state” could not effectively regulate monetary circulation despite its claim to monetary sovereignty. Its monetary openness meant that foreign demand for its silver set the stock of

Mexican silver in circulation. And this situation would become increasingly complicated in the 1880s when, at long last, a banking system emerged in Mexico, which meant that apart from silver coin, paper currency- in the shape of bank bills- also began circulating.

The struggle among various banks in the last decades of the nineteenth century forced the Mexican government to begin to regulate monetary and financial markets, beginning with the Commercial Codes of 1884 and 1889, followed by the National Banking Law of 1897. This law established common rules for the entire banking system and reduced the privileges of the most powerful bank, the Banco Nacional de México- that had served as virtual banker to the government since 1884. Hence, by regulating, the state helped domestic financial markets operate more freely and efficiently.

Brazil offers a noticeable contrast to Mexico with regards to its early monetary history. During the first half of the nineteenth century, the Brazilian economy suffered from a pronounced scarcity of metallic currency except for the small amounts of gold produced in the region of Minas Gerais and the foreign currency obtained from foreign trade. As a result, there was a strong demand for alternative monetary instruments. It was logical that paper money should begin to circulate from an early date, beginning with the creation of the first Latin American bank, the Banco do Brasil in 1808. After the failure of this early bank in 1828, however, paper currency did not disappear: rather, the government continued to print paper money and also allowed the first private, commercial banks to circulate notes. As a result, Brazil had a rather more complex monetary system than most other Latin American nations at the time.

In the 1860s and 1870s there was a considerable debate in Brazil on the virtues of free banking versus a state monopoly of issue. [99] In fact, the Brazilian state allowed for a curious combination of both insofar as in some years commercial banks were encouraged to issue their bank bills to meet commercial demand, while at other times the state took the dominant role- in conjunction with the new Banco do Brasil- in the issue of paper money to finance public deficits.

In the 1880s and early 1890s an extraordinary economic expansion, accompanied by a banking boom, led to increased monetary expansion and, finally, to a major financial crisis. As a result, by the end of the century the Brazilian political and financial elites had resolved that it was necessary to institute a series of reforms in order to counteract the effects of monetary instability, inflation and unbridled banking rivalry. With the support of British bankers, plans were put into practice to consolidate the public debt (accomplished through the Funding Loan of 1898) and to stabilize and regulate the banking system, basically through the establishment of the reformed Banco do Brasil in 1905. It should be added that although the government participated directly in the bank, this did not conflict with liberalism, as it did not receive any specialized legislated privileges. [100]

As can be seen, broadly similar policies came to be adopted by both the Brazilian and Mexican governments with respect to banking and financial policies. But in addition it should be noted that shortly after the turn of the century, both states decided to adopt a *gold exchange standard*, which was

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[99] For a discussion of banking debates in Brazil and other Latin American nations at mid-century see Carlos Marichal and Pedro Tedde, eds., *La formación de la banca central en América Latina,: Antecedentes Históricos,* (Madrid, Banco de Espana , 1994), vol.1., pp.131-150.

[100] Steven Topik, *The Political Economy of Brazil*… p. 40.

as close as they could get to a full-fledged gold standard. [101] The Mexican government ratified a monetary reform (1905) which officially recognized the 50 percent depreciation of the price of silver and effectively demonetized silver to prevent further declines. At the same time, to insure the repayment of foreign loans taken out to prop up the price of coffee, the Brazilian government established the Caixa de Conversao (1906) that issued convertible notes at better than market rates in return for gold-backed currency.[102] It was thus, at this same point in time, that in both Brazil and Mexico the liberal state affirmed its monetary sovereignty by adopting that pre-eminent symbol of the free market system at the turn of the century, the gold standard.

Conclusion

During the first half of the nineteenth century, the direct role of the state in the respective economies of Brazil and Mexico was relatively limited except in the realms of fiscal and public debt policies, but subsequently- in the late 19th and early 20th centuries- governments (on national, provincial and even municipal levels) began to take a more active participation in a large number of areas. This was related to the increased capacity of the states to act because of a rise in revenues available as the export economies expanded and as a result of access to a larger volume of international capital. However, care should be taken to note that a more

[101] For a brief discussion see Carlos Marichal and Daniel Diaz, “The Origins of Central Banking in Latin America, 1900-1930” in Jaime Reis ed., *The Origins of Central Banking: Essays in Comparative Economic History*, (Cambridge: Cambridge University Press, in press).
[102] Steven Topik, "Los lazos que ataron: Brasil y Méjico en la economia mundial, 1880-1910" *in America Desarrollo y Dependencia* Diputación Provincial de Granada and the Sociedad de Historiadores Mexicanistas (Granada, Spain: Imprenta Provincial, 1990).

activist state, which simultaneously promoted political and economic modernization, did not imply an abandonment of liberal ideology. On the contrary, from the second half of the 19th century down to 1930 (even after the Mexican Revolution), liberalism and the ideal of the parliamentary state were the predominant guideposts of elites in Brazil and Mexico as well as the rest of Latin America.

In summary, states in Brazil and Mexico, while guided by the theory of liberalism, in fact played central roles in economic development. Links to the international economy paradoxically forced some interventionist policies such as participation in commodity markets, tariff protection, and nationalization of the railroads. Though professing faith in laissez faire and free trade principles, the states did intervene to strengthen national interests and did affect commerce. Officials were not driven simply by ideology, and their actions changed over time. National sovereignty and political peace were as compelling as the balance of payments and per capita GNP. Markets did not run on their own, they required states' guidance. But the state operated to secure the reigning class system. Because the export oligarchy and commercial/financial bourgeoisie depended to such a considerable extent on foreign commerce and capital, government interventions—even when they were nationalizing foreign railroads or supporting the international price of coffee—were intended to sustain the position of foreigners. Brazil and Mexico, over time, came to assert liberal nationalism which anchored state and nation-building as well as outward-driven growth. They were not neo-colonies but rather creatures of the capitalist world economy.