

. . .

Inglorious Revolution: Political Institutions, Sovereign Debt, and Financial Underdevelopment in Imperial Brazil. *By William R. Summerhill.* New Haven: Yale University Press, 2015. xiv + 342 pp. Illustrations, figures, tables, appendixes, bibliography, notes, index. Cloth, \$85.00. ISBN: 978-0-300-13927-3.

Reviewed by Zephyr Frank

William Summerhill's long-anticipated study of Brazilian financial history has arrived. It was well worth the wait. This powerful book has much to teach economists and historians alike. In the course of eight tightly organized chapters, Summerhill takes readers through two major lines of financial history: first of public finance, then of private lending. In the end, these lines cross and interweave, explaining Brazil's financial underdevelopment more completely and convincingly than any previous study of the problem. Along the way, the book also engages with two broad literatures: one historical, focused on the political institutions of Brazil's constitutional monarchy (1822–1889); the other economic, with reference to long-standing debates and theoretical positions. This engagement is deep and usually framed in an elegantly reciprocal manner. The political history and economic theory speak across what is too often a chasm of indifference or incomprehension in terms of sources and methods. For readers comfortable in both historical and economic analysis, this blend represents a triumph of careful triangulation. For some historians, however, the presence of economic jargon and complex mathematical equations may lead them to put the book aside. That would be a mistake, as the historical component in Summerhill's hands is at least as rich as the impressive overlay of economic

theory and method. The author notes the dilemma himself. He writes for two audiences yet has but one book to offer.

Chapters 2 through 5 center on the question of government borrowing. The initial puzzle that motivates the analysis in *Inglorious Revolution* is this: How did nineteenth-century Brazil, among all the Latin American nations, manage to borrow as much and at such good terms? The answer, Summerhill argues, is that Brazil's political framework and strong central government (growing stronger after mid-century) were able to credibly commit to repaying creditors abroad and, equally importantly, at home. Foreign borrowing took place in London, with the Rothschilds serving as Brazil's bankers in most instances. After a rocky start in the 1820s, Brazil's borrowing costs tracked downward in a secular decline to an enviable 6 percent, give or take, by the decade of the 1880s. Summerhill's analysis shows how this happened as the result of the Brazilian state's institutional framework, including, crucially, the role of the parliament in overseeing budgets and committing to the servicing of loans. In essence, this was Brazil's version of the Glorious Revolution. Sovereign borrowing was made accessible and relatively cheap by reducing the risk of default and providing a framework for tax collection and repayment.

These institutional strengths, however, proved to be Brazil's Achilles' heel when it came to other critical dimensions of financial development. The strength of the central government and its commitment to servicing its debts also created a capacity to intervene in other capital markets as well as a perverse incentive toward financial repression in periods where sovereign debt was most acutely required. Rather than leading to the expected path toward development adumbrated in the model of the Glorious Revolution, Brazil's political institutions did not liberalize capital markets and the banking sector (at least not rapidly or consistently) nor did they lower other barriers, such as those involving the creation of joint stock companies (at least not until very late in the century). Thus, the good performance in terms of sovereign debt did not spill over into other forms of financial development. Interest rates to borrowers remained cripplingly high, nearly always above 10 percent and sometimes much higher still. Few joint stock companies were chartered, although bursts of activity took place in the 1850s and 1880s. Banking remained stunted and concentrated in a few firms.

Chapters 6 and 7 provide a convincing explanation for this failure to develop. With respect to joint stock companies, Summerhill shows how the political and bureaucratic barriers to entry restricted the growth of this important organizational form. Companies required charters to operate and the process by which charters were granted could be onerous and uncertain. These costs inhibited the formation of new

companies and limited capital formation. Summerhill employs the Bai-Perron approach to time series analysis in order to identify breakpoints in the history of joint stock company chartering. This approach—also used in his analysis of Brazil’s sovereign debt and risk premium in London—allows the author to go beyond simple trend analysis to identify key points of rupture in order to investigate their connection to other factors, including, crucially, changes in the political sphere and the institutions governing the economy. As with joint stock companies, so too with banks, the heavy hand of the central government impeded financial development. Two factors were at play: first, the same restrictive chartering process erected an explicit barrier to entry for new banks; second, the incumbent banks were intertwined with the political and administrative power structure through a web of cronyism. Summerhill’s historical research shines in this analysis, as he tracks his quarry in archival collections and family histories, showing how bank directors served concurrently in government and how more occult ties can be discerned in long-standing personal relationships and family alliances. The results of restricted entry and cronyism were concentration and rent seeking. Brazil’s financial development represented an Inglorious Revolution because it was Janus-faced. Success in one dimension led to limitations in the other. Yet, it could have been worse. Indeed, it did get worse.

The final chapter of the book shows how Brazil lost its footing as an international borrower. Nearly a century of fastidious debt service was undone in the span of the 1890s. In 1889, the regime collapsed in the aftermath of the abolition of slavery (1888). The new republican government experimented with loose credit and inflationary policies—which, to be fair, were also undertaken in the last years of the empire. Results from these experiments were mixed at best. Brazil remained financially underdeveloped into the twentieth century. As the author notes in conclusion, “the consequences of the fall from grace linger in the present” (p. 227). Today, Brazil’s borrowing costs are among the highest of any country of similar economic development.

*Zephyr Frank is the Barbara Finberg Fellow in Undergraduate Education and professor of history at Stanford University. He is the author of Reading Rio de Janeiro (2016) and Dutra’s World (2004), along with articles on the economic and social history of Brazil.*