

WILLIAM R. SUMMERHILL. *Inglorious Revolution: Political Institutions, Sovereign Debt, and Financial Underdevelopment in Imperial Brazil*. (Yale Series in Economic and Financial History.) New Haven, Conn.: Yale University Press, 2015. Pp. xiii, 342. \$85.00.

William R. Summerhill begins this engaging book by presenting readers with a puzzle. In the early nineteenth century the newly independent, slave-holding empire of Brazil and its neighboring Spanish-American republics shared several challenges to economic development: poverty, low productivity, and a predominantly agricultural

economy. Yet, in contrast to these republics that quickly gained reputations as serial defaulters, Brazil's government, beginning in 1824, was able to borrow money repeatedly from both foreign and domestic lenders. This creditworthiness resembled that of the rapidly developing economies of Europe and the U.S. Unlike these economies, however, at the end of the nineteenth century Brazil's "relative financial backwardness" persisted (3).

Inglorious Revolution: Political Institutions, Sovereign Debt, and Financial Underdevelopment in Imperial Brazil, based on extensive research in archives and printed sources, deciphers this puzzle by showing how the empire achieved a revolution in public finance and why a revolution in private finance did not come to pass. As the title suggests, Summerhill argues that "in financial terms" Brazil's break with absolutism was not as complete, or "glorious," as that which occurred in England in 1688 and that ushered in a commitment to honor sovereign debt, the protection of rights in financial property, and access to incorporation (11).

This book is also "a case study that works across the boundary between social science and history" and therefore has two readerships: "specialists in political economy who work on problems of sovereign debt, financial development, and political institutions" and historians (13–14). Nineteenth-century Brazil should be of interest to economists because it challenges the theory that "institutional changes that credibly commit government to honor its obligations necessarily result in the financial development needed to attain modern economic growth" (5). Summerhill tests this claim and other theories in econometric analyses in the main body of the book and in theoretical and technical appendixes. For historians, the book is also instructive in several ways. Its account of Brazil's public finance corrects claims that the nineteenth-century state suffered from persistent fiscal problems. According to Summerhill, the point of departure for Brazil's exceptional financial trajectory was the Constitution of 1824, the political-legal consolidation of the rupture with Portugal in 1822. To prevent the writing down of loans and forced borrowing, habitual under Portuguese rule, the constitution limited the authority of the emperor and his cabinet over budgets and borrowing. Because an elected lower chamber of the parliament held veto power in taxation, spending, and the debasing of the currency, it could respond to threats of extra-constitutional default by refusing to sanction requests for new taxes. This authority was affirmed in practice when the chamber rejected a proposal for external default in 1831. Although Brazil's record on amortization was not pristine, it never failed to pay interest on loans. Creditworthiness gave Brazil access to new borrowing in the form of bonds issued through the Rothschilds in London, which were then used to retire old loans and cover shortfalls in expenditures, including those related to civil and foreign conflict. Following the passage of a national debt law in 1827, creditworthiness also extended to domestic borrowing in treasury bills and bonds called *apólices*. Indeed, contrary to claims that the empire was excessively reliant on external sources of finance, Summerhill shows

that Brazil was "a rare case in which a government with a fiat currency did not have to rely mainly on foreign loans to meet its borrowing needs" (119).

Examining Brazil's credit risk, Summerhill finds evidence of overall but not uniform decline. Moreover, it was not reputation alone that determined risk premia but also foreign and domestic lenders' assessments of ongoing and developing challenges. If "markets looked forward rather than backward when pricing default risk" (150), it was the case too that the overall decline in risk premia did not reduce interest rates. Before the commercial code of 1850, Brazil lacked legal provisions for incorporation as well. With the new code in effect, incorporation required the authorization of the emperor's council of state. The banking sector also remained small, concentrated, centrally regulated, and marked by cronyism. The disjuncture between undeveloped private finance and successful public finance was not accidental. Regulations that limited incorporation allowed the government to ration access to capital markets. Entrepreneurs then turned to domestic bonds and in the process filled government coffers. Lawmakers did reform corporate law in 1882; however, the effect was blunted by a downturn in coffee export earnings. Then, beginning in 1889, a new Republican government failed to maintain creditworthiness and less than a decade later defaulted on its debt.

This book will be of great interest to scholars of Latin American economies past and present, especially those who study the roles of institutions in economic development. For scholars of Brazil, its insights about the relationship between politics and the economy raise questions about how ideas of authority, representation, property, and wealth took shape in society where, as late as the 1880s, collateral for mortgages could consist of thousands of enslaved men and women.

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