
RESEARCH REPORTS AND NOTES

ROTHSCHILDS AND BRAZIL: An Introduction to Sources in The Rothschild Archive¹

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Abstract: N. M. Rothschild & Sons (NMR), the banking house which the Frankfurt-born Nathan Mayer Rothschild (1777–1836) began operating from New Court in London in 1809 and which is continued to this day by his descendants, has a long history of involvement in Brazil. Extensive documentation of this history is preserved in The Rothschild Archive in London, where material up to 1930 is available for consultation. The firm's initial business with Brazil was in merchant banking activities and bullion dealing, but in 1855 it became the Brazilian government's financial agent in London and went on to handle the government's borrowing in the London capital markets and to be closely concerned with the country's fiscal, commercial, and exchange rate policy. With the bank at the heart of the development of Brazilian public finance, The Rothschild Archive is an important resource for an understanding of this aspect of Brazilian economic and political history, as well as the history of British informal imperialism and emerging patterns of globalization.

PRIVATE BUSINESS 1812–1900

NMR's business in Brazil dates back to the early nineteenth century and to the firm's earliest years: the first letter from Brazil in the Archive

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dates from 1812.² The bank carried out merchant banking activities for firms based in Brazil or having business in Brazil, accepting bills of exchange, trading in specie and bullion, and arranging shipment and insurance of goods. A feature of the bank's *modus operandi* was its assiduous information gathering, building up networks of firms prepared to act as correspondents and agents to supply intelligence about political developments as well as financial and commodity markets.

There are a large number of firms from whom correspondence survives: although outgoing copy correspondence exists, most of it was produced using a wet copy process, and quality varies enormously, with legibility being often extremely poor. Whilst much of this correspondence concerns small pieces of routine business, there are a number of "correspondent" firms whose letters can be of wider interest. The principal firms are: Finnie Brothers, Leuzinger & Co., Naylor Brothers, and Samuel, Phillips & Co. of Rio de Janeiro and Buschek & Co. of Bahia.³ The bulk of this correspondence is for the first half of the nineteenth century: it is unclear whether the reduction in correspondence for the latter half of the century is a reflection of the changing nature of the bank's Brazilian business.

Correspondence with firms typically records the remittance and acceptance of bills of exchange, one of the foundation stones of the bank's early business. Amounts are listed, but less often the names of parties. Some of the correspondence concerns the management of the bank's accounts, management of accounts held with the bank, and the supply of credit to clients having business in Brazil. Payments, credit, and insurance for shipments of commodities such as sugar and coffee from Brazil to Europe are other features of the correspondence. Occasionally the actual bills of exchange and bills of lading remain with the cover letters. In addition to correspondence files, series of ledgers for foreign accounts run from 1806 and include the accounts of businesses in Brazil.⁴ This type of documentation can yield information about commodity and capital markets, their movements, and the type of players involved.

The bullion and specie market was of great interest to the bank, operating on its own account. At various times the bank bought large amounts of gold in Brazil, exporting it to London, and it also participated in the diamond business. These transactions were often conducted with

2. That this first correspondence is with Samuel, Phillips & Co. in Rio de Janeiro (Rothschild Archive London [RAL] XI/112/32B), and that Samuel Moses Samuel was Nathan Rothschild's brother-in-law, suggests the importance of family networks in this early stage of the relationship between the bank and Brazil. See Roderick Barman "Nathan Mayer Rothschild and Brazil: The Role of Samuel Phillips & Co" in *The Rothschild Archive: Review of the Year April 2002–March 2003* (London: The Rothschild Archive, 2003), 38–45.

3. RAL XI/38/107; XI/38/167; XI/112; XI/38/215; and XI/112 and XI/114/6.

4. RAL.1/0.

assistance from—and in partnership with—Samuel, Phillips & Co. and Leuzinger & Co.

The information transmitted by the “correspondent” firms accumulates to form a running commentary on the commercial and political situation of the time, given from the perspective of the—mainly British—mercantile interests. A letter from Stockmeyer, Gracie, Hobkirk & Co. suggests that NMR may have been unusual in its attention to intelligence:

Though we are not in the habit of communicating our private ideas regarding the march of this market so freely as we have herein done, yet to meet your wishes as expressed by our Mr S., we have now deviated from this rule.⁵

The *quid pro quo* for this special treatment for the bank is not explicit, but it is clear that correspondents hoped to get pieces of business from the firm.

Correspondents from Rio de Janeiro and Bahia sent regular updates on prices for commodities: notably coffee, sugar, cotton, and metals, but also hides, tallow, rum, and foodstuffs. Information on exchange rates and interest rates on government stocks also features in the correspondence, and the effect of the coffee crop on the exchange rate appears to be an already noteworthy aspect of the Brazilian economy. Coffee would come to be a major preoccupation of the bank—a reflection of the power and influence of the coffee interests in Brazil—in a way that other products such as sugar and rubber would not.

Business information concerning transactions carried out by other firms was also supplied, in addition to estimates sent of the amount of bullion and specie being carried on European-bound vessels. Government loan operations were reported, indicative of the bank’s early interest in this type of finance, with the bank’s concern being as much in the anticipation of the effects these loans might have on markets as for their interest in participating in the business itself. The local perspective of the correspondents is still illuminating; Samuel, Phillips & Co. describes one government loan—on the very eve of the declaration of Brazilian independence by the prince in question—thus:

Our govt. have nearly raised a loan here for 400 contos at 6 percent interest payable in 10 years consecutively with Interest. It’s called a loan but we may think it may be called a forced loan being made in the name of the Prince & all wishing to be looked upon well by Him [affected?] it. We have been obliged to subscribe to be *in fashion*.⁶

Letters report on Brazilian political developments from the uncertainties surrounding independence; the surprise of the Emperor’s abdication in 1831; to regional and military rebellions such as those in Pará

5. Stockmeyer, Gracie, Hobkirk & Co. to NMR, Rio de Janeiro, 15 July 1834, RAL XI/112.

6. Samuel, Phillips & Co. to NMR, Rio de Janeiro, 19 August 1822, RAL XI/38/215.

and Rio Grande do Sul in 1835 and Bahia in 1837, right through to later civil wars and revolutions.⁷ Information was also sent concerning other South American governments. Naylor Brothers in 1836, for example, reported the presence of a Chilean agent on the packet, presumed to be coming to London to make arrangements to pay an installment on a Chilean loan.⁸

GOVERNMENT BUSINESS: 1822–1854

Nathan Rothschild in London, although otherwise cautious about South American investments, took an early interest in the new state.⁹ The involvement of the bank in Brazilian government finances dates virtually from the moment of Brazilian independence and came fully into force with British recognition of the new state in 1825. There is evidence in the archive that as early as 1823, Nathan Rothschild was considering a loan with Samuel, Phillips & Co. to the Brazilian government. An admirably concise draft contract makes it clear that the loan would be contingent on British recognition, and under clause six, the security desired for the loan was: “Diamonds Brazil Wood & certain Revenues to be Hypothecated for the Annual Redemption & payment of Dividends.”¹⁰ This particular loan never materialized but could still be seen as an early sign of the potential influence of creditors on the economic and fiscal policies of developing nations, and the reach of the British informal empire.

The first loan to the Brazilian government in 1824 was managed by a group of smaller contractors consisting of Baylett, Farquhar & Co.,

7. The financial effects of suppressing these rebellions were obviously of concern to the bank, although as Alphonse de Rothschild wrote to his English cousins, 16 January 1894: “Nous sommes heureux de voir que le Brésil continue à vous faire des remises. Il faut que ce pays soit bien riche pour pouvoir à la fois supporter la guerre civile et payer ses dettes.” RAL XI/101/25.

8. Naylor Bros. to NMR, Rio de Janeiro, 11 November 1836 RAL XI/112/122. “We mention for your information that an accredited Agent from the Chilian [sic] Government goes to England by this conveyance, with full powers to make the best arrangement he can for the payment, by yearly instalments of the Chilian Bonds. If the threatened rupture with Peru should not again cramp their resources, from all we can learn Chili [sic] is in a situation to give full effect to any arrangement that may be come to.”

9. It has been suggested that the Rothschilds were wary of doing business with the newly independent republics in Latin American for fear of offending the antiliberal sentiments of important European client states. Brazil, of course, was a monarchy. See Frank Dawson, *The First Latin American Debt Crisis: The City of London and the 1822–1825 Loan Bubble* (New Haven and London: Yale University Press, 1990), 93.

10. RAL 000/401A. Samuel, Phillips & Co. were suggesting a joint loan with NMR to the “Rio Government” of Dom João VI, king of Portugal and Brazil, as early as October 1820: Samuel, Phillips & Co. to NMR, 2 October 1820. RAL XI/38/215A. João VI returned to Portugal in 1821, but Samuel, Phillips & Co. continued to urge loans: see Barman, “Nathan Meyer Rothschild and Brazil,” 40.

Alexander & Co., and Wilson, Shaw & Co. Nathan Rothschild may well have discreetly supported this group, because in 1825 he managed a second, larger, tranche of the loan, amounting to £2,000,000.¹¹ It should be noted that the bank acted as brokers for loans to Brazil, lending their reputation to an issue rather than their own funds. Correspondence from Samuel, Phillips & Co. in 1824 certainly suggests that Nathan Rothschild was closely involved from the start. The importance of the bank and the loan of 1824–1825 to the emergent new state was acutely recognized by Samuel, Phillips & Co., who discuss it at length, not least because they hope for some related business from the bank and indeed any pieces of high-level diplomatic information concerning Great Britain's support or otherwise for Brazil's independence from Portugal, believing that:

your friends at the West End have the business in their hands to decide between Portugal & Brazil & an early intimation from you may serve us materially.¹²

The 1824–1825 loan was secured on customs revenues, and in this set a precedent that was often followed in future loans to Brazil, although the true legal and administrative model for Rothschild bond issues was their 1818 loan to the Prussian government. The bond for the Brazilian loan states under clause 3d that:

This debt being contracted under the authority of His Imperial Majesty, and for the service of His People, all the resources of His Empire are applicable to its discharge. But in order to secure the utmost punctuality, in the fulfilment of the engagements hereby entered into, His Majesty specially pledges the revenues derived from His customs.¹³

Import taxes were the principal source of income for the Brazilian government, and in order not to damage this vital income stream, the government—even after the expiry of the 1827 trade treaty with Britain in 1844—still could not implement truly protectionist tariffs.¹⁴ It should perhaps be noted

11. "This loan, taken by N. M. Rothschild, formed the remainder of the original sum of £3,000,000 proposed to be raised by the Brazilian Government in 1824 and of which only £1,000,000 was issued . . . at 75. These terms being considered by the Brazilian Government far below those which the credit and resources of the country justified, induced the Government, at that time, to issue only so much as was called for by the existing wants of the country." Jules Ayer, *A Century of Finance 1804–1904: The London House of Rothschild* (London: Wm. Neely, 1905), 25. The second tranche was issued at 85. The profit to Rothschilds from the 1825 loan has been estimated to consist of £40,000 commission and £59,000 of backdated interest. Dawson, *The First Latin American Debt Crisis*, 93–94.

12. Samuel, Phillips & Co. to NMR, Rio de Janeiro, 14 August 1824, RAL X1/38/215.

13. RAL 000/337.

14. See, for example, Stephen Haber and Herbert S. Klein, "The economic consequences of Brazilian independence" in *How Latin America Fell Behind: Essays on the Economic Histories of Brazil and Mexico, 1800–1914*, ed. Stephen Haber (Stanford: Stanford University Press, 1997), 253.

that Britain got a double benefit from the non-protectionist tariffs: its exports could be maintained at sufficiently competitive prices; and the holders of Brazilian bonds, overwhelmingly issued in London, generally had first call on the reasonably healthy revenue from the import tariffs.

Part of the price of Portuguese recognition of Brazilian independence, secured in 1825, was that Brazil should take over repayment of the principal and interest on a £1,500,000 loan made to the Portuguese government in 1823 by NMR. The arrangement was managed through the bank, the loan finally being paid off through a further loan of £1,040,600 to the Brazilian government in 1852. This complicated administrative task is documented in the archive.¹⁵ The loan was not without its dramas, leading to the rare circumstance during the nineteenth century of the Brazilian government being in default—albeit more for political than economic reasons. Dom Pedro I, emperor of Brazil until his abdication in 1831, suspended dividend payments in 1828 following his brother's seizure of the Portuguese throne, and payments were only resumed in 1834 when the reign of Pedro's daughter, Maria was restored.

By late 1825 the speculative boom in Latin American shares that had begun in 1822 was coming to a dramatic end. Almost alone among the government borrowers, and against the expectations of the London markets, Brazil managed to continue to pay the dividend on its debt. This was in large part due to Nathan Rothschild's financial innovation in raising a loan of £769,000 at 5 percent interest in 1829, specifically to service Brazil's existing debts. This bond is thought to be the first—but not the last—of its kind. The loan was contracted together with Thomas Wilson & Co. and was, unusually for the bank, not offered for public subscription. The amount was sufficient to pay the interest on Brazil's pre-existing debt until the end of 1830.¹⁶

The Brazilian government entered the London capital market again in 1839 and 1843 for modest amounts, the City having become very cautious about Latin American investments. The bank did not participate in these loans, and its next involvement would be the 1852 loan to clear the Portuguese debt.

Some documentation for the bank's business with the Brazilian government between 1822 and 1852 has survived in the archive and consists almost exclusively of three types: ledgers, loan documentation, and government correspondence. Loan documentation for this period is not extensive but includes: examples of bonds, scrip and coupons; notarial acts; and terms of agreements, contracts, and some administrative records.¹⁷

15. RAL 000/40¹. Dawson, 67, suggests that the loan to Portugal might have been intended to "be used to finance an expedition against Brazil."

16. Dawson, 181–2.

17. RAL XIII/206/1 and 000/337; XIII/208; 000/336 and 000/401.

The Brazilian government correspondence series¹⁸ is an amalgamation of two distinct sets of correspondence. The first section, covering 1825 to 1834, consists of letters from members of the Brazilian legation in London, giving instructions for the management of the government's account with the bank, and the management of government loan operations. Typical business recorded includes drawings on the government account, processing of checks and bills of exchange, and interest and sinking fund payments on bonds. These letters are mostly in English with a significant proportion in Portuguese. The second section, covering 1840 to 1920, consists of letters from the Finance Ministry in Rio de Janeiro and again largely concerns the management of the government's account in London and its loan operations. It is in Portuguese with significant documents often accompanied by a contemporary translation into English.

GOVERNMENT BUSINESS: 1855–1930

Financial Agency

On 20 June 1855, NMR replaced Goldsmid, King & Thompson as exclusive financial agents in London to the Brazilian government. The contract, signed by Francisco Inácio de Carvalho Moreira, the Brazilian Minister in London and future Baron do Penedo,¹⁹ stated that the bank was:

First: To receive all and any funds the Brazilian Government may remit to this country for the payment of dividends, salaries or any other expenses on account of the said Government in bills of exchange, gold in bars or dust, diamonds, money or any goods whatever.

18. RAL XI/65.

19. Penedo's close relationship with the Rothschilds, which included receiving advice on his private investments and some £200,000 in gifts during his time as Minister in London between 1855 and 1889, is discussed in Richard Graham, *Britain and the Onset of Modernization in Brazil 1850–1914* (Cambridge: Cambridge University Press, 1968), 101–2. Penedo (1815–1906) is mentioned on several occasions in the correspondence of Charlotte de Rothschild (1819–1884), wife of Lionel (1808–1879), head of the London bank following the death of his father, Nathan, in 1836. Charlotte de Rothschild to her son Leopold, 20 August 1866: "In the early part of the day, Baron Penedo called to take leave. It really grieves me to see the poor man, so downcast, nay broken-hearted did he appear at the thought of leaving London and Europe.—He positively cried—and though it seems absurd to see men embracing each other, I could not help being deeply and painfully touched when the departing traveller . . . his tear-stained face on Papa's forehead.—He really is very much attached to your father; probably he has every reason to be grateful, but not every one fulfils with feelings of regard and affection the great duties of gratitude" (RAL 000/84).

On this occasion Penedo was being recalled in disgrace as a result of his financial dealings, although he was reinstated five years later and remained in post until 1889.

Second: To make all purchases in England and execute all orders required by the Imperial Government excepting however those which may be entrusted to their Minister in London, to any of their Consuls or Vice-Consuls or to any employee specially commissioned for the purpose.

Third: To pay the dividends on such part of the Brazilian debt contracted or to be contracted in London, the payment of which is not already or may be entrusted to others by contract [or] otherwise.²⁰

From this point onwards the volume of records concerning NMR's business with the Brazilian government increases substantially. As well as correspondence with the government, there are ledgers, which cover the several government accounts with the bank; payments for the Brazilian legation in London; and invoicing for goods shipped to Brazil for the government and sales of Brazilian timber and other products.²¹

Government Loans

All the loans negotiated in Britain by the central government between 1852 and 1914 were handled by NMR,²² an arrangement which gave the bank a certain amount of influence over government policy. The nature, extent, and limits of the influence of a lender institution on a developing nation can be traced through the archive holdings. The Brazilian government correspondence includes material indicative of the bank's role—sometimes self-appointed—as advisor to the government on matters of financial policy, although this advice was generally presented as the necessary means of marketing loans to investors.²³ Nathaniel, first Lord Rothschild, in a letter to his "cousins" at de Rothschild Frères in Paris gives his own perspective on the influences operating on the Brazilian government:

As a matter of course the views of foreigners and the advice they may be called upon to give have little or no weight with a Government and a Legislature who are bent on carrying out a policy which they think will be of advantage to the leading private interests and also beneficial to the Country [at large?] but I have

20. RAL 000/401.

21. Correspondence: RAL XI/65. Ledgers: I/23, I/24, I/26 and I/231; I/162; and I/25, I/232 and XI/7.

22. For example, compare the table "Brazilian public loans raised in England before 1918" in Graham, *Britain and the Onset of Modernization*, 100, with the information in Ayer's *A Century of Finance* and RAL 000/401. Every loan listed in Graham can be found in the Rothschild documentation.

23. See, for example, Carlos Marichal and Gail D. Triner "European Banks in Latin America in the Late Nineteenth and Early Twentieth Centuries: The Cases of Brazil and Mexico: A Story of Diversity," in *A Century of Banking Consolidation in Europe: The History and Archives of Mergers and Acquisitions*, eds. Manfred Pohl, Teresa Tortella Casares, Herman van der Wee, 258–98 (Aldershot: Ashgate, 2001).

always noticed that when once a policy has been decided upon, there is a certain advice which one can give and very often does give with excellent results. A great disturbance of the money market will certainly be financially very disagreeable, that perhaps is a consideration which might not weigh much with those at Rio, but if you can show them that a disturbance of the money market might and would almost certainly interfere with the price of Coffee and other produce, you may have a considerable effect upon their deliberations and policy.²⁴

These remarks were made at the time that Brazil was returning to the gold standard (1906–1914), to the surprise and concern of NMR as to the timescale and methodology of the return, if not necessarily to the principle of gold standards. Without the leverage of a prospective loan, and at a time when banking competitors such as Schrodgers were entering the arena, the bank's advice could more easily be ignored, as the Banco do Brasil made clear:

we regret very much we cannot agree with your views as regards subject your remarks would be partly founded if Brazil are [sic] trying to arrange for the issue of a loan . . .²⁵

The total amount of public loans issued through NMR between 1855 and 1914, including for government supported railway development, was in the region of £173,000,000. Just over £37,000,000 was for the railways, of which £16,600,000 was for railway nationalization. Some £7,000,000 was issued in 1865 for the “extraordinary expenses of the empire”²⁶ or, rather, the Paraguayan war. Around £52,750,000 was for repayment of earlier loans, consolidation of floating debt, and interest payments on existing loans.

The funding schemes of 1898 and 1914, involving loans of £10,000,000 and £14,000,000 respectively, were the most significant operations to consolidate existing debt in order to avoid default. The 1898 loan was negotiated with NMR in London—who delicately referred to the 1892–1895 civil war following the fall of the monarchy as “une crise tant politique que financière”²⁷—by the president-elect, Campos Salles. The

24. Lord Rothschild to de Rothschild Frères, 22 November 1906, RAL XI/130A/0C. The regular letters from the Rothschilds at the bank in London to their “cousins” at the bank de Rothschild Frères in Paris at this time, series XI/130A, are a fascinating summary of developing events and Rothschild opinion of those events. The business papers of the Paris bank are held at the Centre des Archives du Monde du Travail at Roubaix.

25. Telegram Banco do Brasil to NMR, [November 1906], RAL XI/111/34. This file contains telegrams between NMR, the Ministry of Finance, and the Banco do Brasil on the subject of the Caixa de Conversão, the mechanism by which the gold standard would operate. The file also includes information on this subject sought from various sources including August Belmont in New York and the Brasilianische Bank für Deutschland. Brazil was on the gold standard for the years 1888–1889, 1906–1914, and 1926–1930.

26. Ayer, *A Century of Finance*, 51.

27. NMR to Campos Salles, 2 June 1898. RAL 000/73 (128) and see also note 8. The French Rothschilds, less involved in Brazil than the English house was, seem to have

scheme gained a certain notoriety from Campos Salles's ensuing policies of deflation and austerity. The 1914 funding scheme operated on similar lines: interest payments on outstanding loans were to be paid not in cash but in funding bonds, and the interest on these bonds was secured on the customs revenues.²⁸

Following the First World War the pattern of borrowing changed. Of the £40,000,000 credit issued through NMR in London between 1921 and 1930, £27,000,000 was issued in syndication with Barings and Schrodgers, a practice virtually without precedence for NMR's Brazilian business in the pre-war era,²⁹ but consistent with the type of international loans from the City of London in the interwar years. By this time a new pattern of globalization was emerging and the United States was challenging Britain's preeminent role in Brazil's economy, both in trade and finance, although the cooperation between NMR and Dillon, Read & Co. in New York belied the sense of Anglo-American rivalry evident elsewhere.³⁰ When Dillon, Read & Co. in was appointed U.S. financial agents to the Brazilian government in 1921, NMR entered into a collaborative relationship with the American firm to coordinate Brazilian loan issues in the two financial centers.³¹

Another development in the pattern of lending in this later period was the growth in borrowing by the municipalities and federal states. The end of the monarchy in 1889 had had some decentralizing effect, but both the bank and the Brazilian government generally disapproved

been more phlegmatic than the London house about the fall of Pedro II in 1889: Alphonse de Rothschild to his English cousins, 19 November 1889: "Puisque tout le monde même l'Empereur est satisfait en Brésil, nous ne voyons pas pourquoi vous [deviez] être plus royaliste que le Roi et ne pas être satisfait vous-mêmes. L'exemple est certainement dangereux pour les autres monarchies. La facilité avec laquelle l'Empereur s'est laissé expédier comme un coli[s] postal, avec laquelle il a accepté lui même comme compensation de son trône une somme d'argent ne saurait qu'encourager les autres pays à se débarrasser de la même façon de leurs souveraines." RAL XI/101/20.

28. Material concerning the 1898 funding scheme can be found in RAL 000/73 (128); 000/401; and 000/1108 (260/77/1). For the 1914 funding scheme see RAL XI/111/29; XI/111/61; XI/111/64; XI/111/65; 000/492; 0000/1099 (250/562); and 000/1108 (260/77/2).

29. There were rare exceptions, notably the 1829 loan of £800,000 to the Brazilian government issued with Thomas Wilson & Co., and P. Cazenove & Co.'s participation in the 1859 loan for £2,000,000 to the São Paulo (Brazilian) Railway Company.

30. American encroachment is a minor but recurrent theme of Edwin Montagu's diary of his time as chair of the financial mission to Brazil, 1923–1924, sponsored by Rothschilds (RAL XI/111/220 [h]); Henry Lynch, NMR's representative in Brazil is a vigorous supporter of British interests; and see also Eugenio Vargas Garcia, "Anglo-American Rivalry in Brazil: The Case of the 1920s," Working Paper, CBS-14-00(P) (Oxford: University of Oxford Centre for Brazilian Studies, 2000).

31. Correspondence between the two firms can be found in a number of RAL files covering the period 1921–1930, but the principal location is XI/111/409.

of borrowing by states without central government approval, fearful that a single state defaulting on a loan could jeopardize the creditworthiness of the nation as a whole. Indeed, in 1908 the central government asked the bank to make it known that they were not associated with a loan being proposed by the state of Espírito Santo,³² and one of the recommendations of the 1924 Montagu financial mission to Brazil was greater central control over borrowing by the states.³³ In the pre-war years NMR had issued no loans to the federal states, although the £3,000,000 loan to central government in 1907 was a fig leaf for funds destined to São Paulo to support the price of coffee. Between 1921 and 1930 however £16,000,000 was issued to São Paulo and just over £2,000,000 to the state of Minas Gerais. The 1922 coffee security loan of £9,000,000, although issued to the central government, was to finance coffee stockpiling funds, which would go overwhelmingly to São Paulo.

Documentation in the archive for the Brazilian public loans includes contracts, notarial acts, and examples of bonds, scrip, and coupons; prospectuses; and stock account books.³⁴ Transactions concerning Brazilian stock—such as dividend payments, sales of bonds, and sinking fund operations—are recorded in a number of places, reflecting the notorious complexity of the bank's accounts. In 1908 Charles Rothschild carried out a review of the bank's accounting practices in an attempt to speed up the process by which the balance sheet was drawn up. He found a lack of systematic organization, a proliferation of series without any controlling schema, and a duplication of work.

The report that Charles Rothschild produced provides some comfort to the archivist who tries to understand an accounting system that was, in part at least, unintelligible to those working within it.³⁵

Correspondence concerning loans can be found with ministers of finance, with the other banks and parties involved in issuing loans, and with Henry Lynch, NMR's agent in Brazil for the post-war years.³⁶ Together, this documentation is an indisputably rich source of information about the development of Brazilian public finance and the relationship between the government and its most important suppliers of foreign capital.

32. RAL XI/111/87.

33. RAL XI/111/220(c).

34. See note 17, with additional notarial acts at RAL XIII/215-222; XIII/230; and principally I/52, I/68, I/85, I/96, IX/198, IX/202, IX/203, IX/208, IX/212, 000/73 and 000/97.

35. Melanie Aspey (ed.), *The Rothschild Archive: A Guide to the Collection* (London: The Rothschild Archive, 2000), 5.

36. In addition to the correspondence series for the Ministry of Finance (RAL XI/65), material about loans and proposed loans can be found in a large number of files in the special correspondence series XI/111. See note 59 for Lynch's correspondence.

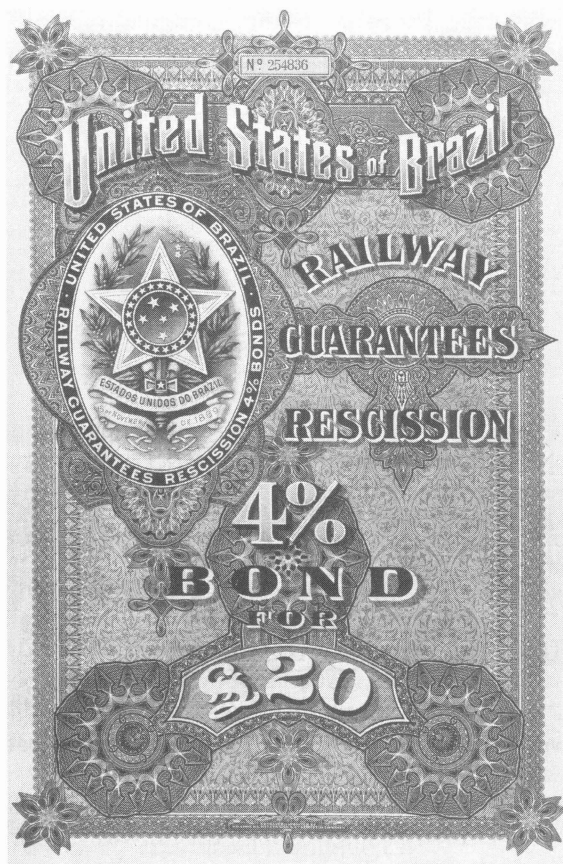


Figure 2 A United States of Brazil Railway Guarantees Rescission 4 percent Bond for £20, 1902. Printed by Bradbury, Wilkinson & Co. Ltd, London. RAL 000/337. These bonds were issued by the Brazilian government, through N.M. Rothschild & Sons, in order to purchase a number of privately-owned railways for which the government had decided to rescind its guarantee to pay the interest due on their loans.

and elsewhere. The first train track was laid in 1854, covering just fifteen kilometers. By 1884, 6,240 kilometers had been laid, and by 1914 the length of track had reached 26,060 kilometres.³⁸

Brazil diminished the relative importance of the export sector, if anything reducing the degree of foreign economic 'dependence'." William Summerhill, "Transport Improvements and Economic Growth in Brazil and Mexico" in Haber, *How Latin America Fell Behind*, 113.

38. Nathaniel Leff, "Economic Development in Brazil, 1822–1913" in Haber, *How Latin America Fell Behind*, 45.

Nevertheless the bank began issuing Brazilian railway loans, with interest guaranteed by the government, as early as 1858. Between 1858 and 1899 loans were issued to the Bahia and San Francisco Railway Company, the Dom Pedro Segundo Railway Company, the São Paulo (Brazilian) Railway Company, and the Western of Minas Railroad Company. Documentation covering the period of these loans in the Archive is patchy. Its main constituents are documents concerning the 1893 loan of £3,710,000 to the Western of Minas Railroad Company; documents concerning a 1913 dispute between the Brazilian Great Southern Railway Company and the government over interest payments; prospectuses, often incorporating maps; and the accounts for the Bahia and San Francisco Railway Company (1858–1908) and the São Paulo (Brazilian) Railway Company (1860–1930).³⁹

In 1900 the Brazilian government passed legislation enabling it to purchase those railway companies whose interest payments on loans had been guaranteed by the state. Railway revenues had been constrained by government tariff setting—a tactic thought by, for example, the São Paulo (Brazilian) Railway Company to be in part to depress the price for appropriation⁴⁰—and for those companies in difficulties nationalization was a better option for the government than subsidizing the interest payments. The purchase of these companies was effected by railway guarantees rescission bonds, issued by NMR in London between 1901 and 1905. At 4 percent, the rate of interest on these bonds was lower than the government guaranteed interest on the earlier loans taken by the companies.

The process of nationalization is documented in the Archive through contracts and other materials concerning the railway guarantees rescission bonds,⁴¹ and correspondence from several railway companies concerning the terms of government appropriation of their assets. The companies concerned are the Espírito Santo & Carvello Railway Company and Brazilian Great Southern Railway Company, and the Porto Alegre and New Hamburg (Brazilian) Railway Company.⁴² NMR's involvement with Brazilian railways continued in the interwar years, in particular through a close relationship as advisor and advocate for the British-owned São Paulo (Brazilian) Railway Company, documented in several files of correspondence and other materials.⁴³

39. RAL 000/401; XI/4/95; XIII/230; 1/62.

40. See: RAL XI/111/157 and Leff, 48 "This rate-setting policy led to government subsidies for the railways and, eventually, to nationalization."

41. RAL 000/401.

42. RAL XI/111/30 and XI/111/84.

43. RAL 1/62, XI/111/157, XI/111/204, XI/111/215, XI/111/247, XI/111/383, XI/111/385, XI/111/390, XI/111/398, XI/111/434, XI/111/570, XI/111/571, and 000/573/5.

COFFEE

First NMR had helped to finance the railways, which opened up the coffee-growing areas of Brazil. Although reluctant, the bank would then become involved in the schemes to support the price of coffee when the huge quantities reaching the market repeatedly threatened its collapse. The coffee planters and the coffee producing states—principally São Paulo but also Minas Gerais and Rio de Janeiro—exercised a huge influence on Brazil's economy and economic policy. The bumper crop of 1906 prompted the first major coffee valorization scheme, which intended to protect the price of coffee by artificially withdrawing supplies from the market through official purchases destined for stockpiles. Alfred de Rothschild of the London bank initially refused to get involved, describing it as “an artificial & mad speculation” and a “damned swindle.”⁴⁴ However, in 1907 the bank loaned the central government £3,000,000, in advance of issuing a publicly subscribed loan for that amount, in order to prevent the scheme from an ignominious collapse.⁴⁵ A number of files, covering 1906–1908, reflect this episode, containing information gathered about the scheme from various sources, and correspondence with the Minister of Finance in his pursuit of a loan.⁴⁶ This correspondence sets out the bank's views on valorization quite clearly and is careful to ensure that the bank's name is not associated with the scheme. The bank suggests that the government should:

make an issue of Treasury Bills or short dated Bonds by the Government itself, the proceeds of which to be used for any purpose the Government may decide on. If the Government decide on that course we shall be glad to give our assistance, but this issue of Bills or Bonds would as far as we are concerned be in no way connected with the valorisation scheme . . .⁴⁷

Despite the 1907 loan, São Paulo was still in trouble following the breakdown in loan negotiations with Schrodgers, which would force the state to precipitously sell its stocks and depress the price.⁴⁸ NMR did not become involved in the subsequent loan to the state in 1908.

The next coffee crisis in which NMR became involved began when coffee prices fell in New York in 1921. The federal government decided

44. Niall Ferguson, *The World's Banker: The History of the House of Rothschild* (London: Weidenfeld & Nicolson, 1998), 871.

45. This was the first instance of the central government openly supporting coffee valorization: see Winston Fritsch, *External Constraints on Economic Policy in Brazil, 1889–1930* (Pittsburgh PA: University of Pittsburgh Press, 1988), 19.

46. RAL XI/111/34, XI/111/37, and XI/111/38.

47. Draft telegram NMR to the Minister of Finance, Rio de Janeiro, 19 February 1907. RAL XI/111/37.

48. Telegram the Minister of Finance, Rio de Janeiro to NMR, 29 September 1908. RAL XI/111/37.

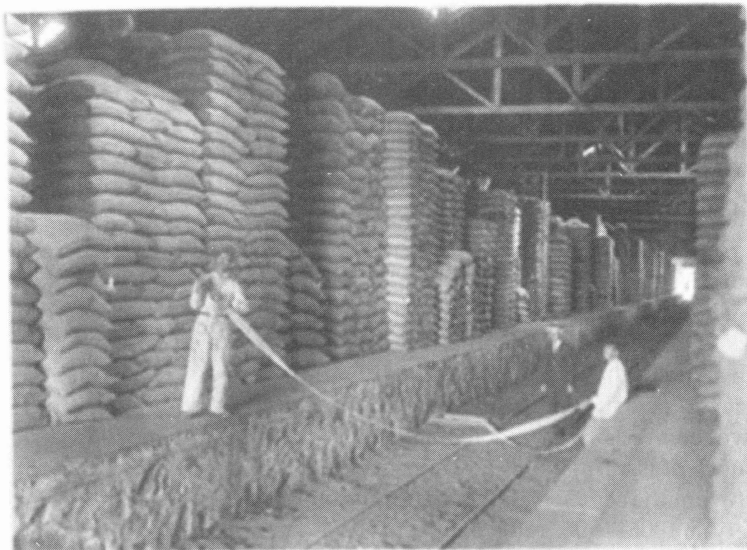


Figure 3 In 1922 N.M. Rothschild and Sons, in syndication with Barings and Schroders, issued a £9,000,000 loan secured on 3,000,000 sacks of coffee which had been stockpiled by the government to try and protect the price of this economically vital commodity. In 1924, as agents for the Brazilian government, Rothschilds sought out insurance for the coffee, gathering information about fire protection in the warehouses across the state of São Paulo. RAL XI/111/234

to support stockpiling as, with a critically low exchange rate, coffee export earnings were crucial to enabling Brazil to service its external debt. Monetary problems loomed when it became clear that the 1922 harvest, together with the 1921 stocks, would far exceed annual demand, and coffee bills issued by the Banco do Brasil to purchase the stocks would not be liquidated. NMR and Barings and Schroders issued the 1922 £9,000,000 coffee security loan to the Brazilian government to enable it to redeem the coffee bills and meet its foreign liabilities. The loan was secured on the stockpiled coffee, and the bankers were given authority to manage the sales of this coffee, through a committee set up in London, to which NMR appointed one of the five members. The federal government also had to relinquish any future coffee defense purchasing, although this stricture was circumvented by transferring responsibility to the São Paulo Coffee Institute.⁴⁹

The final act in the bank's involvement in the defense of coffee was the 1930 São Paulo coffee realization loan of £8,000,000 in consortium with Barings and Schroders, part of a £20,000,000 package arranged in

49. Fritsch, *External Constraints on Economic Policy*, 62–69.

several financial markets on both sides of the Atlantic. In 1929 the government of President Washington Luís abandoned coffee defense, hoping that increased foreign exchange earnings would result from allowing increased exports. The coffee price collapsed, as did earnings: planters could not meet their obligations and bank liquidity was threatened. The loan to São Paulo was issued on condition that the stockpiled coffee would be released on to the market in an orderly manner and was secured by a tax on its sale.⁵⁰

The coffee loans and coffee business are documented in the special correspondence files, in correspondence with the Brazilian government, and in information specially gathered on the subject. Insurance for the warehoused coffee became an issue for the bank following the 1922 loan and generated its own file of correspondence and documentation.⁵¹

BRAZILIAN BANKING

The archive contains a number of files of largely routine account management correspondence with Brazilian banks: Banco Internacional do Brasil (1886–1888); Banco Nacional Brasileiro (1892–1904); Banco da Republica do Brasil (1892–1904); Banco do Commercio e Industria do São Paulo (1894–1917); and the Banco do Brasil (1905–1916).⁵²

Who won and who lost from Brazilian exchange rate policy was a political issue of some contemporary importance, and the Banco do Brasil's correspondence with NMR may help illuminate some aspects of policy formation in this area. After the fall of the empire in 1889, periods of weakness in the Brazilian currency, the *milreis* made the external debt more difficult to service and increased the cost of imports. Exchange rate management was a key feature of the economic policy of governments in the first decades of the twentieth century, and was one of the factors leading to the government taking a controlling interest in the Banco do Brasil in December 1905. NMR gave advice on the funding for this move. The concern with exchange rates is apparent from the files of the Banco da Republica do Brasil, the predecessor of the Banco do Brasil, as early as 1903, when the government gives it credit with NMR specifically in order to resist currency speculation.

Correspondence with the Banco do Brasil broadens from the routine to include discussion of exchange rate policy and indeed many other issues.⁵³ The Banco do Brasil was involved in many aspects of NMR's

50. *Ibid.*, 152–157.

51. Files containing material about the 1922 loan and resulting coffee business include RAL XI/111/218, XI/111/219, XI/111/234, XI/111/236, and XI/111/469.

52. RAL XI/38/25; XI/4/58, XI/42; XI/4/59, XI/43; XI/45; XI/4/81, XI/44.

53. RAL XI/43.

business in Brazil, and appears as a correspondent in files dealing with such things as coffee valorization, the Lloyd Brasileiro shipping concern, and wartime trade. In addition, Henry Lynch provides frequent reports on the bank's affairs during the 1920s, and the future of the bank was a major concern of the Montagu mission.

MONTAGU MISSION

The Brazilian Treasury had drawn heavily on the Banco do Brasil, which by 1923 had placed the latter in a difficult position when it had to supply seasonal finance to agricultural concerns, in addition to supplying the funds needed to support the price of coffee. The result was that the Banco do Brasil had to issue more money, threatening attempts at achieving monetary stability; simultaneously the exchange rate began to plummet. Repaying the bank seemed to be the government's best chance of stabilizing the situation, and they approached NMR for a £25,000,000 loan. This situation led to an instance of explicit exercise of the bankers' influence for financial orthodoxy in a debtor nation.

NMR reported that a further large issue would be difficult to raise, given the government's large existing foreign debt and the low prices quoted for Brazilian bonds in the capital markets. The situation was not helped by municipal and state governments raising large sums abroad without the federal government's control. The bankers decided to make any loan conditional on the outcome of a mission to review Brazilian public finance, and the response of the government to any recommendations made by the mission.

The mission, under the chairmanship of Sir Edwin Montagu (1879–1924),⁵⁴ made a total of forty-three recommendations in their report of 1924. These included: balance of the federal budget, improved budgetary control, tax reforms, restraint in borrowing, greater federal control over the borrowings of states and municipalities, the sale of government shares in the Banco do Brasil, restrictions on monetary emission, improvements to the balance of trade, the use of foreign capital, and private development of the railways. Despite government endorsement of the report, no loan was issued because the British government blocked all loans to foreign governments between mid-1924 and 1926 as it tried to get Britain back on to the gold standard. Even when the embargo was lifted, pressure was put on NMR by the British government not to issue the loan to Brazil as an attempt to indicate their displeasure at Brazilian

54. Son of the financier Samuel Montagu, Edwin Montagu was a Liberal Member of Parliament between 1906 and 1922, during which time he served first as secretary to Herbert Asquith, and subsequently held various government posts including Secretary of State for India (1917–1922).

diplomatic maneuvers at the League of Nations. The Brazilians turned to New York, another step in the weakening of Britain's financial influence on Brazil.⁵⁵

The Montagu mission is well documented in the archive, although no member of the bank's staff was formally attached to the team, and files include: final and draft versions of the mission's report; background notes and terms of reference; Sir William McLintock's report including balance sheets; and the typescript private diary of Edwin Montagu for December 1923 to March 1924. Correspondence includes that of Montagu, Lionel de Rothschild, Lynch, and the British government.⁵⁶

The mission, not surprisingly, failed to provide a definitive solution to Brazil's financial problems, and in 1931 a further mission, led by Sir Otto Niemeyer of the Bank of England, was sent out to advise the government. The archive contains some records of the attempts in 1930 to persuade the government to accept a second mission. In the event both the pre- and post-revolution governments of Washington Luís and Getúlio Vargas agreed to the mission.⁵⁷

HENRY LYNCH

One of the jewels of the archive's Brazilian holdings is the correspondence from Henry Lynch (1878–1958), NMR's representative in Brazil from 1919 until his retirement in 1957. Palin, an employee of the bank in London, describes Lynch in his memoirs:

This great character, a member of an old-established Anglo-Brazilian family, was a partner in an import and export business but more importantly for us he was the agent and representative in Brazil of NMR. He was a bachelor, tall, with a complexion which deepened during the years I knew him from pink to purple, fond of good living, and occupying a unique position in Rio, where he was sometimes said to be more the British Ambassador than the British Ambassador was. Knowing and known to everybody who was anybody in governmental, political, financial, commercial and social circles, he always seemed to me to be supremely well fitted for his job.⁵⁸

Lynch became indispensable to the bank, and was dedicated to the promotion of British interests in Brazil. He sent the bank regular and detailed information and advice on commercial, political, and economic matters, and was a conduit to the very highest levels of Brazilian government. His correspondence files for the years 1919–1930 discuss *inter alia* proposed loans; loans being sought and issued elsewhere; and

55. Garcia, "Anglo-American Rivalry," 42–45 and RAL XI/111/268.

56. RAL XI/111/194, 220 and 309. See also Fritsch, 86–101 and Garcia, "Anglo-American Rivalry," 32–38 for further information on the mission.

57. RAL XI/111/398 and XI/111/425.

58. Ronald Palin, *Rothschild Relish* (London: Cassell, 1970), 76.

developments at the Banco do Brasil. He had good contacts at the Banco do Brasil with, for example, its president from 1929–1930, Manuel Guilherme da Silveira, as this telegram from 1930 indicates:

President, Banco do Brasil, thanks you for your *opinion* and will be guided by same STOP For your own information in my opinion moment is ripe to tactfully direct Banco do Brasil policy and anything you can do in direction would be very advantageous STOP President, Banco do Brasil, clearly most desirous to be led right direction.⁵⁹

Lynch gives uninhibited portraits of members of the government as they take their appointments and sends news of the military revolts of 1924 and the revolution of 1930, including reports of his meetings in that year with Washington Luís, Julio Prestes, and Getúlio Vargas. Lynch also gives advice, and he had perhaps begun to sense the bank's vulnerability to a government moratorium on debt servicing and the failure of the international capital markets to resolve seemingly intractable economic problems, when, within a few weeks of Vargas coming to power in 1930, he telegrammed on the subject of another British financial mission to Brazil:

In accepting your suggestion regarding expert Government shown further desire reorganise and as valued agents of Brazil since its independence I feel that unless you show them some confidence by helping them over the time necessary for study of reorganisation that there is grave risk Government coming to the conclusion that if their Bankers are not prepared to assist them they had better concentrate on internal affairs and restrain their efforts in connection with foreign service(s) stop⁶⁰

The files also show Lynch's involvement with the São Paulo (Brazilian) Railway Company as their representative for a number of years and his bid for the Brazilian match manufacturing monopoly. Without him the Montagu mission would have found access to the Brazilian government extremely difficult, and the British participation in the 1922 centenary exhibition would have been negligible.⁶¹

CONCLUSION

The history of N. M. Rothschild & Sons' involvement in Brazil can make a significant contribution to an understanding of the financial and

59. Telegram Lynch, Rio de Janeiro to NMR 12 June 1930. RAL XI/111/425.

60. Telegram Lynch, Rio de Janeiro to NMR, 11 December 1930. RAL XI/111/425.

61. Main correspondence files for Henry Lynch: RAL XI/111/147, XI/111/204, XI/111/239, XI/111/247, XI/111/285, XI/111/382, XI/111/383, XI/111/391, XI/111/425; on exchange stabilization and the Banco do Brasil XI/111/400 and XI/111/465; on the match monopoly XI/111/638; for the São Paulo (Brazilian) Railway Company during Lynch's time as their representative in Brazil XI/111/385; on the Brazil centenary exhibition XI/111/168 and XI/15/19. Files continue beyond 1930 but these are at present closed. General files on Brazilian matters also contain correspondence with Lynch.

commercial ties between Britain and Brazil from the first years of the nineteenth century to the first decades of the twentieth. The holdings of The Rothschild Archive, although complex, are undoubtedly rich. Guides to this material, a virtual exhibition, and some transcripts of documents are made available on the archive website at <http://www.rothschildarchive.org>. The Archive itself is situated in the bank's premises in the City of London, and is open to *bona fide* researchers. Readers wishing to consult material should write presenting details of their proposed research, and two written references are required in support of their application.⁶²

62. The Rothschild Archive, New Court, St. Swithin's Lane, London EC4P 4DU.
info@rothschildarchive.org