

The Rothschild Archive

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From 1855 until the Valorization Loan of 1906, N.M. Rothschild monopolized the issues of debt for the central government of Brazil. Until at least 1930, Rothschild continued to be Brazil's leading banker. The extensive archives of this institution constitute an invaluable resource for historians of Brazil.

Two incidents from the early Republic illustrate the importance of the Rothschilds in general and the archives in particular: Deodoro's "stock exchange coup" and the banking crisis of 1900.

When a military coup replaced Emperor Pedro II by a Republic presided over by Marshal Deodoro da Fonseca in 1889, the Rothschilds continued as international agents of the Brazilian treasury. Short-term trade credits, through accepting drafts by Brazilian bankers, continued as usual. On the other hand, the Rothschilds stopped placing long-term issues for the Brazilian authorities due to investors' reluctance to extend credit to the new regime.

With the election of Marshal Deodoro, as constitutional president, in February of 1891, Brazil's political status appeared to become more legitimate. Unfortunately the financial situation deteriorated as the government permitted the issue of bank notes by private banks without proper backing. The milreis, over its parity against sterling at the fall of monarchy, fell towards half this value with atten-

dant inflation. When Marshal Deodoro's government requested authorization from congress for yet more bank notes, the legislature refused. In response, Deodoro executed the "stock exchange coup" on November 3, 1891. Brazil's international credit, already weak, disappeared with the closing of congress. Deodoro's finance minister, the baron of Lucena, asked the Rothschilds to accept drafts of the Banco da República on the security of the government's deposits for upcoming bond interest payments. The international agents politely declined in a telegram dated November 9. On the 23rd of that month, Deodoro was overthrown by the navy allied to dissident army officers supported by the majority of congress. Normal relations to the bankers were quickly re-established.

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Text of telegram

of November 9 –

Rothschild-Lucena RAL XI 65 8A

"Brazilian Financial Agency

London 9 Nov 1891

We thank your Excellency for both telegrams and note that you do not consider Brazil is passing through either a political or financial crisis. We accept your statement about a political crisis, but we must be allowed to

differ on the question of a financial crisis as the low exchange and the flatness of Brazilian Stocks denote a very severe financial crisis, principally owing to the fear of further issues of paper money which would be considered most disastrous for Brazilian credit and for the whole country.

In answer to Your Excellency's request to accept the drafts of the Banco República to the extent of the money deposited with us by the government, we regret that we are unable to comply with this request.

The archives show that while the German and British governments opposed each other in an arms race, German and British banks collaborated in Brazil.

Not only has Your Excellency yourself publicly stated that the government's require-

ments in London are provided for a long time to come, which statements have appeared in the European press; but it is our duty as trustees for the bondholders to see that, under the circumstances, their interests are protected.

However, if Your Excellency thinks it prudent and advisable to ship further amounts of Gold to us, we have no objection, in order to meet your wishes, to the Government drawing on us against such shipments in proportion as they are made, but we do not wish to accept more drafts for the Banco República, as this Bank already has a credit on us under conditions with which Your Excellency is acquainted, and Your Excellency is no doubt aware that we have repeatedly refused being drawn upon for large amounts by other Brazilian and foreign Banks."

The government of Marshal Floriano Peixoto, which succeeded that of Deodoro attempted to return to financial stability. This

stabilization failed due primarily to a costly civil war. Floriano's successor, Prudente de Moraes, the first civilian president, also sought stabilization, but an adverse international conjuncture, including low coffee prices, defeated him. Finally, the next president, Campo Salles, recovered financial stability due to a more favorable international situation combined with a policy of raising taxes, decreasing spending, and privatization. Campos Salles' austerity program and his minister Joaquim Murinho's campaign to restore the Brazilian currency to parity led to a major banking crisis in 1900. Murinho nominated the manager of the German bank, Otto Petersen, to become director of the quasi-official Banco da República at the outbreak of the crisis. While many Brazilians found the nomination of a foreigner to this commanding position to be unacceptable, American and British critics claimed the minister gave undue advantages to German interests. Given the worldwide Anglo-German rivalry, it is surprising to find Murinho using Rothschild's good offices to obtain permission from the Disconto Gesellschaft for Petersen to take over the Banco da República (See RAL XI 65 10C Joaquim Murinho-Rothschild 26 Sep, 1900).

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My thanks go to Caroline Shaw of the Rothschild Archive for her help during my research there. We look forward to her talk in September 2005 at the meeting of the ABPHE, Brazil's economic history association. We also look forward to greater use of the Rothschild Archive by Brazilian scholars.