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WORKING PAPER 02

THE BRAZILIAN FEDERAL STATE IN THE OLD REPUBLIC (1889-1930): DID REGIME CHANGE MAKE A DIFFERENCE?

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Introduction

In Alfred Stepan’s distinction between two kinds of federal states—those that “came together” and those that “held together,” Brazil’s first federal regime (1891), though not mentioned by Stepan in his influential 1979 essay, was one of the earliest examples of the latter kind. The creation of a cohesive Brazilian territorial state was the achievement of the centralized Empire, but the country only “held together” after the Republican coup of 1889 by meeting the regional demands of São Paulo and other southern states. Stepan views successful “holding together” regimes as characterized by special concessions to minority populations (e.g., Spain, Belgium), but this model doesn’t fit Brazil: The federated units in the 1891 and those of subsequent constitutions had formal equality. This outcome was associated with the fact that Brazil is among the world’s largest federal states with a broadly homogeneous culture, and it is the largest federation in the developing world with that characteristic. But the formal equality of the units masked a grossly unequal federalism in practice, based on fiscal arrangements that favored the rich states. Moreover, only literate males could vote, and the richer states had higher levels of literacy; these constitutional provisions strengthened the wealthy states’ power in a regime of direct elections of the president. This was the price of holding together.

In this paper I argue that 1) the Old or First Republic was a crucial era for statebuilding in Brazil, in which bureaucratic capacity was extended at both state and central levels of government; 2) such achievement, along with social and economic innovations, demonstrates that the Vargas era (1930-1945) did not create “modern” Brazil ex nihilo, contrary to the prevailing historiography; 3) more generally, the Brazilian case seems to show that centralized authority is not necessarily more effective at state-building in the developing world than decentralized authority. In concrete terms, I discuss institutional differences between Empire and Federal Republic and looks at fiscal indicators (central and state revenues, expenditures, and foreign debt obligations) in assessing “stateness.” I also consider state intervention in the economy and society—specifically, in public health and education.

In the last decade of the 19th century, Brazilian statesmen adopted a federal form of government that would become a permanent feature of the nation’s subsequent history. All six Republican constitutions of Brazil have been

1 Lemann Institute for Brazilian Studies University of Illinois, Urbana-Champaign
3 In a strict sense, the comparison of two regimes in sequence is anachronistic. But such consideration is still useful, in the same way that students of the French Revolution compare the sweeping changes of the Republican France with the immobility of the Ancien Régime.
at least nominally federalist. Even the centralizing Estado Novo dictatorship (November, 1937-October, 1945) did not formally renounce Brazil’s federal organization. The charter of 1891 provided for a wider dispersion of authority than did those of Argentina (1853, revised in 1860) and Mexico (1857 and 1917), the other two large federal republics in Latin America. Both of these countries placed greater restrictions on their states (or provinces) than did Brazil, notably in not allowing their member units to levy export taxes on goods shipped across state lines.

The dispersion of judicial, fiscal, and military power in early Republican Brazil provided a more effective state than had the centralized Empire, partly because of the greater extractive powers of the state at all levels. And, paradoxically, the revenues obtained by the state governments were greater, relative to that of the central government, during the fifteen years of the Vargas period than the ratio of state to federal income in the second half of the Old Republic. During Vargas’s Estado Novo dictatorship (1938-1945) in particular, all state revenues, taken together, were 56% as large as of those of the central government. Between a third and a half of state income belonged to São Paulo. That state’s revenues relative to those of the central government progressively rose from 1901-1910 to the Estado Novo years (1938-1945).5

The issue of federalism in the late Empire

The Republican party of Brazil, founded in Rio de Janeiro in December, 1870, from the beginning was committed to a federalist model. The party’s manifesto ended with the motto, “Centralization—Dismemberment; Decentralization—Unity.” The driving force of the republican movement in the next two decades was the Republican Party of São Paulo (formally constituted in 1873), and a defining feature of republicanism in Brazil was that each republican organization was coextensive with provincial boundaries: In reality, there was no national republican party.

Paulistas, like Republicans from other states as well as many monarchists, saw the centralized Empire as sucking resources out of their province (to become a state after 1889). Although the republican movement was inspired by the founding of the Third Republic in France in 1870, the content of its program was even more heavily influenced by Aureliano Tavares Bastos’ book of the same year, A Província. Although a monarchist, Tavares Bastos persuasively defended the decentralization of fiscal authority, and called for provincial control of banking and immigration policies. He held that Brazil should follow the recent examples of two other large states, Austria-Hungary and Canada, both of which adopted federal regimes in 1867. Tavares posed the issue in terms of North vs. South, and calculated that the former was contributing more to imperial coffers than the latter.6 Recent research by the economic historian André Villela shows Tavares was right, if one considers the whole period 1844 to 1889, that is, from early in the reign of Pedro II to the fall of the Empire.7 This, despite the collective claim of Paulistas and other southerners that their region was being unfairly burdened. In fact, they received more than the North, partly

5 São Paulo’s state revenues in the first period were equivalent to 11.2% of federal revenues, and an average of 22.6% in the Estado Novo period. The corresponding share for all state revenues was 38.2% in the first period, and 55.7% in the second. Joseph L. Love, São Paulo in the Brazilian Federation (Stanford, CA: Stanford U. Press, 1980), table 8.2, p. 265.
6 Aureliano Tavares Bastos, A Província (Rio de Janeiro, 1870).
7 André Villela, “Distribuição regional das receitas e despesas do governo central no II Reinado, 1844-1889,” Estudos Econômicos, 37, 2 (Apr.-June, 2007), p. 247-274. Villela’s starting date is 1844, because systematic data only begin in that year. He uses Tavares’s definition of the North, which consists of the provinces of Amazonas, Pará, Maranhão Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco Alagoas, Sergipe, and Bahia. The remaining provinces constitute the South.
because of government railroad construction. But both regions were subsidizing the imperial capital.

From the monarchical federalism of Tavares Bastos it was a short step to republican federalism. According to a foreign observer, the province of São Paulo by the 1880s was indeed being fiscally exploited the imperial regime: It contributed eight times more to the imperial treasury than it received from it.8 The imperial government was not redistributing the funds to the economically declining Northeastern states, but spending it in Rio de Janeiro, the national capital. Moreover, by the 1880s, São Paulo’s representation in parliament was well below its share of Brazil’s population, because no reapportionment had taken place over the life of the Empire.

**The Republican constituent assembly**

A handful of Paulista Republicans, along with the Bahiano Rui Barbosa, participated in the military coup of November 15, 1889, when Marshal Deodoro da Fonseca declared Brazil to be a federal republic. A constituent assembly met in 1890 and approved a constitution early the following year. The guiding hand on constitutional theory was that of Rui, who remarked on numerous subsequent occasions that the model he adopted was that of the United States constitution. He even referred to “the institutions that we copied from the United States.” Rui was familiar with the Federalist Papers9, but it seems unlikely that he delved very deeply into the history of federalist theory, which goes back to Althusius (1603).

The constitutional convention never questioned the proposition that the new regime should be federalist in organization; rather, the focal issue was the degree of decentralization of political and fiscal powers.10 In the extensive debates, there were loose coalitions of northern and southern states, but some units, notably Rio Grande do Sul, occasionally joined the north to vote against the coffee interests of Rio de Janeiro, Minas Gerais, and São Paulo.

The most important single fiscal issue at the assembly was the distribution of revenues between the Union and its component states. Rui Barbosa had played the leading role in the “commission of 21” (representatives of each state and the federal district) that had presented a draft to the constitutional convention. Rui had defended the position of the provisional government, in which he was the dominant figure, calling for a strong Union based on ample revenues. He argued that adequate financing was imperative if Brazil was to win over foreign investors and bondholders. The chief challenges to Rui’s plan came from Júlio de Castilhos of Rio Grande do Sul and Lauro Müller of Santa Catarina. Castilhos, who had represented his state on the commission of 21, wanted all taxing powers not specifically granted to the federal government reserved for the states. The specific levies were those agreed on by the commission, namely, import duties, duties on the entrance and exit of foreign ships, stamp taxes, and telegraph and postal fees. But Castilhos’ proposal failed by a vote of 103 to 123, with most northerners voting for it, and Paulistas against it, because the latter delegation believed they could obtain adequate state revenues through other means, and because they wanted a strong central state to represent their interests abroad.

Lauro Müller proposed that a 15% ad valorem rate be added to federal import duties for the states for five years, renewable, if Congress agreed, in 1896. The northerners, led by Pernambuco’s Rosa e Silva, argued that the

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10 The following discussion of the constituent assembly’s debates is based on my own notes on the three volumes of the published transcript. See Brazil, Congresso Constituinte da República, 2nd ed., (Rio, 1924-1926).
southern states might be able to tax agricultural properties and exports, but that the depressed markets for cotton and sugar made these duties non-options for the Northeast. In the larger “North” only Amazonas and Pará, exporters of rubber and cacaú, would benefit from export taxes, held Rosa e Silva. Like Muller, the Northeastern delegates defended a fixed share of import revenues (the central government’s single most important tax) for the states.

After an initial tie vote, Müller’s measure failed, with Bahia’s delegation (including Rui), Pernambuco, and the rest of the North voting aye, and São Paulo, Minas, and Rio Grande voting nay. The final vote was 92 for, and 110 against. In the end, the states were allotted the right to tax exports. The states gained exclusive rights to the (overseas) export duty, usually the second largest income-earner under the Empire, the transfer tax on property, the urban real estate tax (décima urbana) and licensing fees (indústrias e profissões). The great beneficiary of the export tax was São Paulo, whose state revenues from 1891 to 1892 tripled, in constant terms. The states were also given the right to contract foreign loans. Such powers were denied to the Mexican states under the constitution of 1917. The Brazilian states furthermore received title to government-owned lands (terras devolutas) within their boundaries, and the right to alienate them. This authority was of major importance to São Paulo, with its expanding coffee frontier, but also to most other southern states. It meant little or nothing to the northeastern states, some of which had no public lands at all.

As regards representation in congress, Epitácio Pessoa of Paraíba, a state both poor and small in population, called for an equal number of deputies for each state: “The general interests [of the nation] are the sum of the interests of the states,” he declared. The Paulista plan, calling for representation in the Chamber proportional to the population of the states, was the one that carried. For the presidency, the commission of 21 had proposed an indirect election by Congress. It was Castilhos of Rio Grande who proposed that the president be elected by direct popular vote. Because the literacy requirement for suffrage had already been agreed on, this plan was accepted by delegates from the relatively literate and populous South. The proposition carried narrowly, 88 to 83. The commission had also proposed indirect elections for senators, and again Castilhos offered an amendment for direct elections. The measure prevailed with less opposition, since it did not affect the relative position of the states. (Each state was allotted three senators.) The closeness of critical votes in the constituent assembly make clear that the character and extent of federalism was by no means the inevitable result of the proclamation of a federal republic in November, 1889.

The Federal Republic in practice

The new constitution, promulgated on February 24, 1891, offered a greater decentralization of fiscal and even military authority than did the the federal constitutions of Mexico and Argentina. In this respect, Brazil was an outlier in the period of Latin American history that Claudio Véliz calls the “liberal pause.” Regionalist politics (that is, pursuing self-serving policies and patronage at the expense of other federal units) was enhanced by the

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11 Because of an impasse between the Republican parties of São Paulo and Minas Gerais in 1919, the two parties agreed to accept Pessoa as president at the initiative of the Republican party of Rio Grande do Sul. See below on Pessoa as president.
12 The states were allowed to create their own state police forces that, in the case of São Paulo, amounted to a state army by the 1920s. By that time, the Força Pública possessed artillery, armored tanks, and airplanes. It had even contracted a foreign military mission years before the army did so (French missions of 1906 and 1919, respectively).
fact, as noted, that political party organization was coextensive with the states. Furthermore, direct election of the key post of the presidency meant that the Republican Parties of São Paulo, Minas, and later, Rio Grande do Sul, could combine to dominate the political system. The three machines could deliver overwhelming majorities in their respective states. Together, the three states’ Republican parties could elect a president. He, in turn, could control congress through the manipulation of the credentials committees of that body.14

What did the regime shift from Empire to Republic represent? Disabused Historical Republicans—those who had agitated for the Republic during the Empire—were wont to say, “It wasn’t the Republic of my dreams,” just as Alphonse Aulard said of the Third Republic, “How beautiful was the Republic under the Empire!” On the centenary of the Republic in 1989, Francisco Iglesias, the distinguished Mineiro historian, wrote in O Estado de S. Paulo, “...in fact, the Republic for its chief creators was a journée des dupes.15 Political practice did not annul any of the fundamental vices of the previous regime.” He pointed to the continued, even enhanced, power of rural senhores and coronelismo (bossism in the countryside). The conciliation of competing elites continued, but the people (povo) were excluded, or more precisely, they were manipulated to legitimate and sustain the existing power structure as Brazil passed from monarchy to republic.

The great national problems remained unaddressed: No one considered agrarian reform, then more necessary than ever, in view of the [only] apparent emancipation of the former slaves [after 1888]…. Citizenship remained restricted to the few…. Resistance to change had won out again, and the essence of the social order wasn’t altered.16

In her widely-influential Brazilian Empire: Myths and Histories, the historian Emilia Viotti da Costa eloquently expressed the widely-held view that the transition made little difference to the citizenry. Viotti wrote:

The main difference [between Empire and Republic] was that the traditional rural oligarchy had been supplanted by a new one: the coffee planters of the [Paulista] West and their allies, who, once in power, promoted only those institutional changes that were necessary to satisfy their own needs. November 15 was thus a journée des dupes for all the other social groups who had hoped that the Republic would represent a break with tradition.17

In the words of Giuseppe Lampedusa (Il Gattopardo), things must change in order to remain the same. But is

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14 In early 1900 President Manuel Campos Sales, a Paulista, instituted the política dos governadores as a means of ensuring that the president would always have a majority in the Chamber of Deputies. To achieve this end, he pushed two procedural changes through the Chamber. One effectively gave the president control of the Chamber’s credentials committee. The second required that a majority of county councils in each congressional district certify the winner’s vote. Since the establishment party at the state level supported local politicians and vice versa, this was another safeguard against the entry of noncompliant deputies into congress.

Campos Sales introduced the política dos governadores to guarantee congressional support for fiscal and monetary policies required for the Rothschild Funding Loan (1898), consolidating Brazil’s external debt. These included such unpopular measures as raising taxes, shrinking both the currency in circulation and government expenditures, and placing a lien on customs collections for Rothschild. Thus the política was an adaptation of formal democratic structures to political conditions in a neocolonial economy.

15 The original use of the phrase journée des dupes refers to Richelieu’s outmaneuvering his enemies and retaining the authority given him by Louis XIII in 1630. Its first use in Brazil referred to the frustration of the radicals (exaltados) as the moderados took over the Brazilian government on the abdication of the first emperor, Pedro I (7 April 1831).

16 O Estado de S. Paulo, 11 November 1989.

the received interpretation, which was widely diffused no later than Campos Sales’s consolidation of the política dos governadores in 1902, the definitive judgment?

In a formal sense, some have argued that the Empire, for most of its life, was more democratic than the early Republic in that a much broader suffrage prevailed than under the early Republic. But the imperial franchise at the lowest level, limited to free males age 25 earning a modest income, provided only the right to vote in local elections and to vote for “electors,” who would then choose members of provincial and national parliaments. Widespread fraud ultimately motivated Prime Minister José Antônio Saraiva to reform the right to vote in 1881. He extended suffrage to non-Catholics and immigrants, and simultaneously excluded illiterates, and, as before, women and slaves. Elections were now direct, and required voters to meet both a literacy qualification and to provide proof of a minimum income. The new law thus combined a régime capacitaire and a régime censitaire. Voters as a share of national population fell from 12% of the population to 1.5%, though the electorate was presumably less controlled by local bosses and better informed.¹⁸

When the Republican constitution replaced that of the Empire in 1891, Europe was beginning to shift toward universal manhood suffrage—Spain did so in 1890, and Austria, Sweden, and Italy would follow between 1907 and 1912. Republican statesmen in Brazil felt they could not turn back the clock to a two-tiered voting system. They retained the literacy requirement, but got rid of the income requirement of the Saraiva Law and lowered the voting age to 21. The new constitution also brought governance closer to the people by instituting direct elections of state governors, posts that were filled by appointment during the Empire. Most importantly, the President of the Republic was to be elected by direct vote of the citizenry. But the numbers who actually cast ballots remained at only 3-5 percent of the total population over the course of the First Republic.

Changes in suffrage requirements are well known, however one interprets the degree of democracy. My focus here will be on other matters. Granted, the change of regime in 1889 was not Lenin’s October Revolution. Yet the shift made possible a greater realization of what modern states are supposed to be about: Not that the Republic was so much, but that the Empire was so little. Let us consider several aspects of what modern states are supposed to do: First of all, to provide the financial resources to achieve social change, as well as providing the economic infrastructure to pay for them. Secondly, to expand educational opportunity and to safeguard the health of the population.

Fiscal development of the Republic

To address these matters it is necessary to examine the fiscal history of the central government and the provinces (later, states) before and after the change of regime in 1889. A methodological issue immediately arises, namely, what deflator to use. I have employed those indexes by Luís Catão and Cláudio Haddad, widely regarded as the best currently available.¹⁹ Catão’s index begins in 1870 and ends in 1913, overlapping Haddad’s, which begins in 1908. During the six-year period they both cover, they behave very similarly, and I have employed Haddad’s index

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Taking up the issue of “fiscal reach” first, we should not neglect the spatial aspects of an Imperial state that theoretically covered nearly half the South American continent. Even at the end of the regime, in 1885-87, the central government collected 54 percent of its revenues in the capital (município neutro), and spent 73 percent there. Fiscal “stateness” was thus basically confined to the city of Rio de Janeiro. Admittedly, the central government of the Republic was also macrocephalic, and 52 percent of its revenues were collected in Rio during its first decade of existence. Surprisingly, on a per capita basis, central government expenditures remained unchanged from 1882-89 to 1892-99, 1892 being the first fiscal year the new federal system was in effect. But spending by the states under the Republic advanced rapidly. Using the Catão price index as a deflator, we find that for the years 1882-89, real provincial expenditures were only 24 percent as large as those of the Imperial government, while in 1892-99, state outlays were 56 percent as large as those by the federal government; revenues displayed a similar trend (26 and 55 percent). Spending by the Brazilian states rose even faster relative to federal expenditure after 1900.

It was not only São Paulo and other dynamic southern states that profited from the new fiscal system. Deflating the state (formerly provincial) revenues and expenditure for the periods 1882-89 and 1892-99 shows that all states experienced net gains in both income and outlay with the advent of the Republic. This finding implies that the areal diffusion of fiscal “stateness” advanced significantly with the change of regime. Beyond that, the fiscal powers of combined levels of government expanded significantly. Raymond Goldsmith found that the government share of GDP (including federal, state, and município receipts) rose from 10.2% in 1885-86 to 16.4% in 1907.20

The states gained on the federal government in terms of tax resources and spending in every decade from the beginning of the century through 1940. São Paulo’s share rose fastest, pioneering in education and social welfare into the 1930s, but total state revenues and expenditures without São Paulo were also rising vis-à-vis the federal treasury, albeit less rapidly. The proper emphasis, I believe, is on both state and federal fiscal policies, as government responsibility in economy and society rose at both levels. Although the U.S. government was apparently less fiscally centralized than that of Brazil on the eve of World War II, Brazil’s central government during the Estado Novo dictatorship raised and spent less of government totals than Canada’s and Argentina’s federal governments in 1940. While Brazil was a strongly centralized state and Mexico a federation in 1938-45, i.e., during the Estado Novo years, the ratio of state to central government revenues in Brazil was more than three times the ratio prevailing in Mexico in that period.

On the expenditure side of the ledger, the new Federal Government conventionally extended education and public health measures for the population, but it was interventionist by the laissez-faire standards of the day. Its public works and coffee valorization programs are well known, but less well known are the relative dimensions of government income and outlay. Comparing the federal budgets of Brazil and Mexico between 1890 and 1910—and omitting the larger Brazilian expenditures at the state level-- Steven Topik discovered that Brazil’s government was able to raise and spend twice the money per inhabitant (in dollar terms) attained by the autocratic regime of Porfirio Diaz. Topik writes: “The greater activism of the Brazilian state is perhaps surprising in light of the popular image of the Porfirian state as robust and centralized, and the Republican state in Brazil as weak and splintered into

20 Raymond Goldsmith, Brasil 1850-1984: Desenvolvimento financeiro sob um século de inflação (São Paulo: Banco Bamerindus, 1986), p. 71. The figure had fallen to 12.5% in 1929 and rise again to 13.2% in 1945 (p. 71).
Another instance of rising state power in the new regime was that of external financing. The enhanced access to hard currency meant greater access to the economic infrastructure—railroads, utilities, and port facilities—necessary for export-driven growth (the model adopted by both Empire and Republic). The total value of Brazil’s federal, state, and municipal loans subscribed abroad shot up five times, in sterling terms, between the last year of the Empire and the outbreak of World War I. In 1889, virtually the whole of the Empire’s total foreign debt was a central government debt. Under the Republic, the Union borrowed at a rapid rate, but the members of the Federation did so at a faster pace, so that in 1933, when foreign borrowing had come to an end, São Paulo and its subunits, São Paulo city and Santos, accounted for 21 percent of the total foreign debt, and the Union, 60 percent.\(^{22}\)

The debt situation of the states reflected their ability to borrow (based on potential export earnings) but also the daring of their state leaders. After the complex valorization transactions of 1906-08, São Paulo undertook on its own to protect the price of coffee on the international market, financing the operation overseas, in a process that began a long effort by both the state and the Union to maintain monopoly pricing. The federal government assumed responsibility for valorization in 1921, returned that task to the state of São Paulo in 1924, and took it over once more in 1931, assisted this time by São Paulo. That enterprise would involve both units into the 1940s, despite valorization’s failure after 1929.

By the outset of the Depression, São Paulo’s debt amounted to half that of all the states and, despite the Union’s intervention in the coffee market, the Paulista debt averaged a quarter as much as the federal debt between the outset of the Depression and the Estado Novo. By taking out huge loans for coffee support and others for more conventional purposes, São Paulo’s leaders chose to forego a heavy reliance on the federal government (useful to Minas and inevitable for most states), opting instead for dependence on foreign creditors. Thus, in an array of dependencies, São Paulo preferred a clientage to overseas lenders, a situation that provided political options within Brazil not available to other states. All the same, in the Great Depression São Paulo turned to the federal treasury, and got much of what it wanted: Half the Bank of Brazil’s outstanding loans in 1937 to the federal government were for matters related to coffee defense. In addition, São Paulo by that year had garnered half the Bank’s loans to the state governments, and two-fifths the Bank’s loans to private concerns. (This was in addition to the Vargas government’s cancellation of half of coffee planters’ debts in 1933, in the Economic Readjustment.\(^{23}\)

**Other differences between Empire and Republic in financial and fiscal policy**

In the last dozen years, economic studies have tended to support the thesis of constructive change as Brazil passed from Empire to Republic. Consider Stephen Haber’s “Financial Markets and Industrial Development,” a comparative study of Brazil and Mexico. He points out the unpredictability of regulatory policies under the Brazilian Empire, showing how the regime impeded corporate ownership with unlimited liability for stockholders before 1882. Two months into the new regime, Rui Barbosa reformed the limited liability laws, deregulated the banking industry,

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22 Love, São Paulo, p. 248.
and offered fiscal incentives to new companies. Although the euphoria of the Encilhamento boom changed to pessimism with the sharp bust in 1891, Brazil enjoyed a relatively large and well-integrated capital market by the latter years of the Old Republic. Mexico, by contrast, had much weaker capital markets and much less-widespread corporate ownership—4% of companies chartered in Mexico City vs. 18% of those in Rio. Furthermore, opening capital markets in Mexico tended to increase concentration of corporate ownership, while in Brazil, it broadened participation. Haber speculates the difference might be explained by the market-distorting cronyism of the Porfiriato.24

Nathaniel Leff’s “Economic Development in Brazil, 1822-1913” in the same volume contends that Brazil grew slowly in the nineteenth century in part because of crippling transport costs, in particular owing to a meager rail network. This in turn owed significantly to insufficient state support of development under the Empire (1822-89). During the First Republic, the combined levels of government disposed of greater taxing powers, which was used in part to stimulate railway construction. Domestic agriculture and industry benefited, along with coffee.25

As indicated above, it is well known that the Empire’s timid and inconsistent legislation on limited liability in joint stock companies hampered economic development. Before 1882, the formation of a joint stock company required specific approval by the highest executive body, the Council of State. In Anne Hanley’s view, the imperial statutes of 1849, 1869 and 1882 either gave the government extraordinary oversight of private firms or saddled investors with unlimited liability. In the Republic, São Paulo’s economy moved from financial dependence on merchants and money-lenders to a modern array of dozens of banks and two stock exchanges.26 This was chiefly result of the new Republican government’s regulatory policy and reform of the imperial limited liability statute.27

Gail Triner’s Banking and Economic Development28 contributes to a rising perception that the Old Republic was a crucial period of state-building in Brazilian history, and was far from being “more of the same”—that is, an extension of the institutional history of the Empire. Like other studies cited here, Triner’s findings also imply that the Vargas years (1930-1945) did not create modern Brazil ex nihilo.

The creation of a currency board in 1905 to buy and sell national currency (the mil-réis) at a fixed rate of 15 pence, along with coffee valorization, helped the national treasury obtain foreign loans. The government-associated Banco da República was reorganized the same year as the Banco do Brasil, a commercial bank acting as the agent of the federal government; the Bank slowly withdrew notes from circulation and raised foreign and domestic investors’ faith in the financial system. Thus the Republic’s “modern banking system” came into in place in 1906, even though an authentic central bank would only arrive in 1945.29

By 1930 the new banking system could claim these achievements: 1) Deposits in foreign banks fell from 37% of the whole in 1907 to 19% in 1930. 2) Overall deposits rose thirteen times (in real terms) during this period,

29 The Superintendancy of Currency and Credit (SUMOC). It met the requirements of a modern central bank—controlling the interest rate and money supply, and serving as a lender of last resort to the commercial banks.
whereas GDP only increased 2.5 times. Brazil was seriously “underbanked” in 1906, and bank deposits represented only 3% of national income; by 1930, the share had risen to 18%. 3) Though the Banco do Brasil was not a real central bank, it was generally able to pursue an effective countercyclical policy in its supply of currency, helping to smooth out the business cycle. 4) Bank deposits as a share of money supply rose from 20% in 1906 to 68% in 1930. This development, related to item 2), was important because it showed increasing public confidence in the banking system, lowering the cost of borrowing, and raising the efficiency of the economy. 5) Finally, the growth of the Banco do Brasil and the broader banking system expanded the power and legitimacy of the Brazilian state.\(^{30}\)

And yet, there may have been a downside to these significant gains. André Martínez Fritscher and Aldo Musacchio have argued that the constitutional framework of the Old Republic was a weighty determinant in shaping the Brazil of our own day, with its long history of impressive growth before the “lost decade”—about 3% a year of per capita GDP from 1900 to 1980\(^{31}\)—coupled with extreme interpersonal and interregional inequality. Addressing these issues, they offer a revisionist challenge to the prevailing orthodoxy that Latin American inequality is traceable to the colonial period.\(^{32}\) In opposition to the orthodox position, Martínez Fritscher and Musacchio argue that regional inequality in particular is, in significant measure, traceable only back to the first Republican regime. According to these authors, the reservation of major revenue streams for the leading exporting states under the constitution of 1891 structured the inequality characterizing the relationship between the per capita incomes of the Brazilian Northeast and the Center-South, i.e., São Paulo, Rio de Janeiro, and Minas Gerais. Natural endowments mattered, of course, but the “extreme” form of federalism adopted in 1891, they argue, coupled with the commodity boom of the period, allowed the fortunate states to collect taxes that were in turn invested in public goods, including public health and education. These measures coupled with rich endowments (São Paulo’s terra roxa soil and warm, but not hot, annual temperatures on the planalto) ultimately yielded payoffs in higher per capita incomes, differentiating the exporting states—coffee growers, and, for a time, rubber exporters as well—from the rest. Relatively high revenues per capita in turn led to differentials in the cost of foreign capital. More investments at lower rates of interest led to more growth in the favored states in a kind of cumulative causation.\(^{33}\) Of course, this doesn’t mean that a centralized state would have achieved the growth rates that the federal regime actually attained, so greater regional equality might have been obtained at the cost of lower overall growth. Whether a more centralized regime could have pursued an effective regional income redistribution policy is also doubtful. The Northeast development program of Epitácio Pessoa (President, 1919-22) was a failure, and regional income redistribution schemes adopted in the first forty years after 1945 were also without great effect. But a counterfactual outcome in which similar rates of economic growth with better a regional distribution of income are not necessary for the Musacchio-Martínez Fritscher argument to be valid.

\(^{30}\) Triner, passim.
\(^{33}\) This sketch of their argument is based on André Martínez Fritscher and Aldo Musacchio, “Endowments, Fiscal Federalism, and the Cost of Capital for States: Evidence from Brazil, 1891-1930.” NBER Working Papers 15411.
Public Health and Education

Just as São Paulo led the states in fiscal power, that same state government, rather than the Union, pointed the way for programs in public health. São Paulo’s leaders realized that immigration was an essential element in their agricultural development model, and they quickly discovered that investment in public health was required to attract the targeted European population. In the second decade of the Republic, such measures were taken by many other states and the federal government in Rio: The campaign against yellow fever in the national capital under President Rodrigues Alves (a Paulista) was a response to a previous campaign in the state of São Paulo. True, this would not have been possible under the Empire, since the etiology of yellow fever was not yet known, but São Paulo had already shown its ability to control an epidemic of bubonic plague early in the new regime. We have some indication of what the Imperial regime could do regarding public health from its behavior in the great drought in Ceará and neighboring provinces in 1877-79. The central government tried to provide relief, but the fatally slow-moving state machinery had little effect on the problem, and 200,000 people in the Northeast starved or died in epidemics resulting from government concentration of drought refugees. The government’s reaction to the drought resulted from poor communications resulting in faulty perceptions of the problem; skepticism about the extent of the calamity; and bureaucratic hesitation: Provincial presidents (i.e., centrally appointed governors) feared a decision to open government coffers at a moment when they were instructed to economize would jeopardize their future careers.34

Other evidence further suggests that the Republican regime had a greater impact on the health of the Brazilian population than its predecessor. Over the period 1870-1890 average life expectancy at birth improved only 2 percent, while in the following two decades, under the Republic, it improved 10 percent, though still only rising to 30.6 years. General Brazilian mortality rates fell from 30.2 per thousand in 1872-90 to 27.8 in 1891-1900, a 9 percent difference.35 And this, before the federal government’s campaign against yellow fever.

In education, as in public health, São Paulo state also the leader, partly because its leaders viewed a healthy and productive labor force as dependent on basic literacy. By 1912 São Paulo alone, in constant terms, was spending almost as much on public education as the Empire as a whole--central and provincial governments together--had spent per annum in the late 1880s.

At the national level, progress in education, as in public health, must be judged against the miserable situation bequeathed to the Republic by the Empire.36 In 1886 there was only one student in primary or secondary school for every 75 Brazilians (and most students were in private schools). This situation was worse than that of the previous census year, 1872, when the ratio was 1 to 68, compared to 1 to 5.5 in the United States at that time. By 1907 the ratio in Brazil was 1 to 33, better than twice the Imperial rates just cited.37 Moreover, the number of primary pupils in Brazil doubled between 1887 and 1907. As for literacy, the available census data indicate a slight decline in

34 For a study of the drought and the imperial government’s ineffective efforts to succor its victims, see Roger L. Cunniff, “The Great Drought: Northeast Brazil, 1877-1880” (Ph.D. diss., University of Texas, 1970), 134-138, and passim.
36 For an examination of public health and education bureaucracies in Argentina in a similar period, see Ricardo D. Salvatore, „Between „Empleomanía“ and the Common Good: Successful Expert Bureaucracies in Argentina (1870-1930),” in this collection.
37 Love, São Paulo, p. 93; IBGE, p. 5.
the last eighteen years of the Imperial regime—from 16 percent in 1872 to 15 percent in 1890 (for all persons five and older). By 1900 the rate had risen to 26 percent.

Looking at the problem of education in a region-wide context, Martínez Fritscher, Musachio and Viarengo reveal that in 1890, Brazil had the lowest rate of literacy among the large Latin American countries in 1890, 15%, situating the country between Guatemala and Honduras. But the South American nation had the most rapid literacy growth rate throughout the Americas between 1890 and 1940, surpassing the rates of Mexico, Venezuela, and Colombia. At the same time, Brazil experienced a proportionate rise in the numbers of public schools, enrollments, and teachers. The number of students as a share of children ages five to fourteen rose from 6% in 1889 to 23% in 1933, and enrollment in these years rose 757%. Using quantitative evidence, the authors argue that, given the fact that the all-important presidency was determined by the direct vote of literate males, state leaders poured export revenues into public education to increase their influence in national elections.

In higher education, the number of faculdades (professional schools) expanded significantly beyond the half-dozen of all sorts bequeathed by the Empire, as more states demanded institutions of higher education within their borders. By 1908 there were 25 such institutions in Brazil (12 public, 13 private). Note that Getúlio Vargas and his generation of political leaders in Rio Grande (Flores da Cunha, João Neves, Mauricio Cardoso, etc.) studied law in Porto Alegre, while the previous generation (Júlio de Castilhos, Pinheiro Machado, and Borges de Medeiros) had studied in São Paulo and Recife.

Concluding remarks

Imperial politicians had focused their sights on the central government, which appointed governors as well as naming senators with lifetime tenure; a successful career tended to culminate in Rio de Janeiro. Patronage was the chief source of power of the political class. Granted, the Republican regime also was suffused with patronage networks—there was no general civil service reform until 1938—but at least political career paths under the Republic were relatively skewed toward local and state government, where politicians were elected to represent local interests, even if they were those of other notables. More importantly, policy outputs probably mattered more under the Republic, with larger overall government budgets and extensive foreign borrowing. Therefore, patronage mattered less.

I do not deny that established economic interests probably controlled the Republican regime more directly and effectively than the Empire. All the same, though coffee planter interests in the early Republic tended to predominate, to view the State as “the executive committee of the ruling class” would be inaccurate, because of the federal administration’s abiding concern to limit exchange rate deterioration by keeping international debt repayments within manageable bounds.

39 Martínez-Fritscher, Musacchio and Viarengo, p. 5.
40 Coffee planters favored a falling exchange rate because they received hard currencies for their coffee, but paid their costs of production in local mil-réis. For a discussion of the “relative autonomy of the State” in Brazil and São Paulo, see Joseph L. Love and Bert Barickman, “Rulers and Owners: A Brazilian Case Study in Comparative Perspective,” in Hispanic American Historical Review, 66: 4 (Nov., 1986), pp. 743-761.
In any event, the monarchy had not responded adequately to the opportunities implicit in the boom in world trade generated by the Second Industrial Revolution in the North Atlantic basin after 1875, and powerful provincial interests consequently declared for a federal system. In this paper we have considered the contrasts between Empire and Republic in fiscal capacity, an examination that also revealed that the areal impact of government was more concentrated on Rio de Janeiro under the Empire. In addition, we have compared the responses of the two regimes to challenges in education and public health, including the spectacular failure of the imperial government during the drought of the 1870s.

With regard to the economic policies of the two regimes, an economic historian recently wrote that business finance under the Empire “was constrained by government policy as much as it was by [risk-averse] bank lending practices.”41 Another authority on economic history, Warren Dean, generalizes that there was no consistent or energetically pursued development policy under the Empire. Its business climate was “mildly hostile to capitalist entrepreneurship.” By contrast, the early Republican regime was pro-business and focused on creating a national market. After 1894, however, policy tended to be more focused on securing credit worthiness with foreign investors, an objective that was attained at the end of the decade.42

To an extent, the regime change of 1889 represented a “capture” of the national government by São Paulo, but other states benefited too, as shown above. in a dispersion of governmental power and revenues that had been centralized under the Empire. Social indicators improved at the national level. And in the political sphere, São Paulo always had to have allies to carry out its policies. It lost control of the presidency in 1910, 1919, and, of course, in 1930. Speaking generally, we may say that although the change of regime in 1889 had complex and significant effects that are still being identified and examined, the Republican regime of February, 1891, did make a difference. It just wasn’t enough, and may have contributed to the regional inequality of income that characterizes Brazil today.

Bibliography


41 Hanley, p. 20.


Argentina (1870-1930).”


