

Native Capital: Financial Institutions and Economic Development in São Paulo, Brazil, 1850–1920. By Anne Hanley. Stanford: Stanford University Press, 2005. xviii + 286 pp. Tables, appendix, bibliography, notes, index. Cloth, \$55.00. ISBN: 0-804-75072-6.

Reviewed by Zephyr Frank

In this well-researched and finely crafted book, Anne Hanley tells the story of the origins and development of banks and joint-stock companies in São Paulo, which today is Brazil's most populous and industrialized state. The story is important in two fundamental aspects. First, by demonstrating the importance of local, "native" capital in both banking and joint-stock companies, especially in the urban industrial sector of São Paulo, *Native Capital* represents a strong revisionist critique of the older literature, which insisted that foreign capital dominated the early phases of Brazilian banking and industrialization. To counter that earlier thesis and prove that domestic capital was a critical factor in many sectors of São Paulo's financial and industrial economy, Hanley marshals considerable quantitative evidence, largely from primary sources, such as company balance sheets, that until now have been underutilized in Brazilian economic history. While foreign capital predominated in railroads and large public utilities, domestic capital held sway in commercial banking, light industry, and regional utilities. Following the lines laid down by Warren Dean more than a generation ago, the author suggests that industrialization in São Paulo was due, in no small part, to the surplus capital generated by the coffee boom. This surplus domestic capital found its way into banks and joint-stock companies, which would, over time, provide the foundation for São Paulo's remarkable industrial growth.

The second strand in Hanley's argument is tied to the role of institutions in shaping economic development. Institutional innovation in banking and industry (especially joint-stock companies) combined with the rising tide of wealth and capital associated with the coffee economy to generate São Paulo's first industrial spurt. Major reforms or innovations included the legalization of the joint-stock form of company in 1849; the adoption of a new land law in 1850 and 1854; the promulgation of a commercial code in 1850; the revision of joint-stock company law in 1882; the creation

of new financial institutions and rules in 1890 after the Republican coup of the previous year; and the coffee valorization plans first implemented in 1906. These institutional changes, except for the last, were mostly authored by national, not state, authorities during the period covered by the book. In this sense, São Paulo was well positioned to take advantage of reforms; it was not, during most of this period, leading the movement to reform itself.

Hanley identifies several ways in which institutional change between 1850 and 1920 contributed to (or detracted from) economic development in São Paulo. The most important factor was the change in the rules of the game. The new rules favored the progressive expansion of impersonal financial intermediation, replacing the older, more limited mode of personal negotiations based on family and other social ties. Both banks and the stock market (known in São Paulo as the Bolsa) took advantage of these impersonal modes of financial intermediation during the period under review. In so doing, banks expanded their lending and companies were able to raise far more capital than would have been possible on the basis of family and personal connections.

In chapter six, drawing from her groundbreaking research, Hanley describes the “webbing” that occurred between companies and banks through interlocking boards of directors. Whereas many such connections existed between 1856 and 1905, the number of direct, personal links indicated by this measure plummeted during the period from 1906 to 1920. The impact of this finding, and of the methodology behind it, will extend beyond the realm of Brazilian economic history. Indeed, the author integrates this second layer of the story into the broader debates about economic development that are currently taking place in the European and North American literature. If only for this reason, the book deserves a wide readership by business and economic historians, as it tackles a subject of great importance—institutions and economic development—and shows the advantage of using historical sources to illuminate general theoretical principals. However, Hanley’s book has value beyond this, and it will no doubt stand as the definitive study of banking and business finance in São Paulo before 1920 for many years to come.

Zephyr Frank is assistant professor of Latin American history at Stanford University. His most recent publication, edited with Carlos Marichal and Steven Topik, is From Silver to Cocaine (2006).