Epilogue

Latin American Banking History in Perspective

The chapters of this book have focused on the obstacles encountered, as well as the advances achieved, during the emergence of banking in Latin America from independence in the early nineteenth century down to the first decade of the twentieth century. We have described this process as part of a long phase of *slow capitalism* that eventually led to faster economic growth and some convergence with more advanced nations, albeit subject to diverse trajectories. However, it is also necessary to ask what happened subsequently. Major institutional challenges arose as financial markets throughout the vast region gradually expanded during the first third of the twentieth century, requiring new regulations of banks and emerging stock markets, the reform of monetary policies and adaptations to the gold standard, widely adopted and also frequently abandoned. The increasing complexity of local banking systems and the introduction of clearing houses in numerous countries in Latin America also led to a progressive modernization of finance while, in parallel, debates intensified with regard to the role of the largest national banks, private and/or public, as well as on the need for the creation of central banks, particularly from the 1920s.

In this brief Epilogue it may be appropriate to emphasize a hypothesis that can help guide future research and debate as advanced by the interpretation of Gail Triner (2000) on the history of the modernization of the Brazilian banking system in the first third of the twentieth century. She argues that: "a 'modern' banking system, one that intermediated resources between economic sectors and responded systematically to the competing force affecting the supply and demand for credit and deposits, emerged in

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the early twentieth century."[1] This insight is also generally applicable to the larger nations of Latin America. In other words, the nineteenth-century banks did not truly bring integrated banking systems, in part because many early enterprises were experiments and also because of the limitations of financial markets, which depended in good measure on the increasing size and relative degree of the development of the diverse national economies.

In any case, it should be noted that overall, banking in Latin American did expand considerably between the last quarter of the nineteenth century and 1914. In the first place, it is important to note that there was a significant increase in the total number of banks. Eight banks were established in Mexico between 1875 and 1884, four in Chihuahua (linked fundamentally to the mining boom) and four in Mexico City. Later, between 1888 and 1907, came a real boom, with the creation of a total of thirty-three new Mexican banks: several opened regional offices, although only two banks, based in the capital of the country, were allowed to establish broad-based branch networks. In Argentina, banking expansion reached its peak in the 1880s, with the establishment of six new state-owned provincial banks and some thirty private commercial banks, mostly in the city of Buenos Aires; by 1889 more than fifty commercial banks (public and private) were operating in the country. The severe financial crisis of 1890/1891 led to the bankruptcy of a considerable number of the Argentine state banks and of some private banks, but between 1900 and 1914 a dynamic economic recovery allowed for a renewed and increasingly strong banking activity. Just one fact suggests the importance of this trend: by 1914 the Banco de la Nación de Argentina already had no fewer than 150 branches throughout the national territory, being the largest Latin American credit institution at that time.

In Brazil, banking development was somewhat less intense during this period, but not negligible. By 1888 there were already twenty-seven commercial banks, most of them concentrated in the cities of Rio de Janeiro, São Paulo and some ports in the northeast. After the end of the empire in 1889 and the transition to the republic, a wide range of financial firms multiplied with extraordinary speed as a result of the reforms promoted by the minister of finance, Rui Barbosa. These led to a financial boom, although many of the new companies were speculative and went bankrupt during the crises of 1891–1893. There followed a period of financial retraction in Brazil, followed by the banking crisis of 1900, and it would not be until after the financial and monetary reforms

[1] Triner (2000), 2.

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of 1905 that a new spate of bank foundations took place. This was the result of a notable and simultaneous expansion of the export sectors and of the domestic economy in Brazil, and by 1914 there were almost fifty relatively important commercial banks in business.

In Chile, by 1914 there were nineteen banks operating in Santiago and Valparaíso: two of English capital, three German and fourteen of national capital, while an additional number of small banks were busy in secondary cities. In contrast, in the rest of the subcontinent financial development was more limited: in 1914 there were only seven major banks operating in Peru, five in Bolivia, four in Ecuador and three in Venezuela. In Colombia in 1915 there were some fifteen medium-sized banks operating in five cities and another ten small local banks. Evidently, there was a considerable gap between the most economically dynamic countries in this period, Argentina, Brazil, Chile and Mexico, and most of the other Latin American nations, which had not yet managed to establish truly extensive or consolidated credit systems.

This book has focused attention on the antecedents and takeoff of banking in Latin America in the long nineteenth century, characterized initially by a difficult transition from secular colonial economies – with relatively homogeneous institutional frameworks – to the more disparate political structures of the many states and economies that emerged from the age of independence. This transmutation was so difficult in political, social, legal and economic terms that it would not be until midcentury that new institutional regimes began to coalesce, at the same as a process of economic growth began to gain traction, impelling the development of early banks and incipient banking systems that would expand substantially during the last decades of the nineteenth century.

Considerable emphasis has been placed in this book on the relation between the emergence of banking and the trajectories of multiple states in this vast region, sometimes described as a periphery of world capitalism. The study of the birth of banking also sheds light on the slow and often haphazard process of economic development during more than a century. In any case, the study of these complex antecedents of the financial history of Latin America can also stimulate interest in key questions dealing with the relations between finance, politics and society during the twentieth century. The issues that merit study, analysis and reflection are legion but, in many respects, have been only partially studied. For instance, within the broad-ranging field of Latin American economic history, research has generally focused more on the

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trajectories of commerce, agriculture, ranching, mining, transport and early industrialization than on banking and finance.[2]

From the early twentieth century, the expansion of banking did contribute to system-building, although this did not necessarily imply full integration. Only additional studies on specific national and regional cases can clarify the main trends of the financial history of the different nations in the hemisphere after 1914. The multiplication of commercial and regional banks in many countries of the subcontinent, including a considerable range of mortgage banks, a few private investment banks and the continued presence of foreign banks, all bespeak the increasing complexity of the financial dynamics of national and regional economies. On the other hand, much less is known about the gradual development of stock markets, which were still rather weak and have barely begun to be studied by historians. In other words, there is a need to analyze and explain the notable contrast between the gradual expansion and consolidation of local banking systems in Latin America and the weakness of formal capital markets in this vast region. The relative scarcity of domestic investment capital contributed for a very long time to the reliance on foreign financial markets for external funding, both for public loans as well as private investments for large development projects. At the same time, insufficient domestic finance for industrial and technological innovation generated innumerable obstacles for sustained economic growth in the region during most of the twentieth century and down to the present.

More specifically, another issue on the long-run trajectories of the Latin American banking enterprises and systems that merits further exploration is the long-term role of the national banks with extensive branch banks that continued as dominant entities in the financial markets and system of many countries of this vast region. Several of the larger banking firms survived the political and financial crises of the 1890s as a result of fusions or radical reorganization, but there were major differences from country to country. Their history is also relevant for an understanding of the study of the origins and trajectories of central banks from the early twentieth century, a subject that has, as yet, merited relatively few studies in the region.[3]

[2] The existence of nine economic history associations in Latin America – in Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and the Caribbean – mostly founded in the last quarter of a century, reflects the rapidly growing number of researchers and publications in this field.

[3] Flores and Marichal (2024) as well as Díaz and Marichal (1999) provide essential outlines.

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In the case of Mexico, for example, the largest banks, Banamex and the Bank of London and Mexico, continued to outshine their regional competitors, but after 1914 suffered the enormous impact of the Mexican Revolution and were submitted to the new power regime that began slowly to emerge from a decade of civil war, while virtually all regional banks were forced to close down altogether.[4] It would only be in 1925 with the establishment of the central bank, the Banco de México, that a new banking system reemerged rather tenuously in Mexico.[5] From the late 1920s the postrevolutionary government also promoted a series of new public banks, contributing to the virtual invention of development banks that soon multiplied elsewhere in Latin America in the 1930s.

In the case of Argentina, which is the historical case – apart from Brazil and Mexico – that has been best studied with regards to the large national banks, the financial crisis of the early 1890s brought the banking system to its knees, but after the creation of the Banco de la Nación in 1891, there was a gradual recovery and subsequently this entity remained the largest banking enterprise in Latin America down to the 1940s. Its financial trajectory has been reconstructed in several quantitative and analytical studies that illustrate why it continued to be a vigorous entity, but interestingly enough it did not become a central bank.[6] In fact, the Argentine central bank was created only in 1935. Its subsequent trajectory has begun to be analyzed in research articles and a few books, but the fact is that there continues to be a relative scarcity of detailed analysis on the trajectory of the rest of the Argentine banking system during the twentieth century.[7]

A South American country whose banking system has been well studied during the modern era is that of Colombia, with particular emphasis on the origins and evolution of the central bank from 1923 onwards.[8] However, the Colombian case also raises the quandary of why it was that the Andean countries – Peru, Colombia, Chile, Ecuador and Bolivia – should have been pioneers in the creation of central banks during the 1920s, while in the largest countries of South America, Brazil and Argentina, central banking only came later. The key role of foreign *money doctors* in the creation of early Latin American central banks,

[4] Solís (2021).
[5] For bibliographical references, see Marichal and Del Ángel (2003).
[6] Paolera and Taylor (2001); Gómez (2017b); Rougier and Regalsky (2023).
[7] Rougier and Sember (2018).
[8] Meisel (1992); Meisel and Ramírez (2010).

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such as that of Princeton professor Edwin Kemmerer, has been researched, and provides many important answers.[9] On the other hand, the analysis of the trajectories of Latin American central banks from the time of the financial crash of 1929 and the onset of the Great Depression is a subject that has only recently received attention.[10]

In Brazil the financial crisis of the 1890s took a long time to unravel and the establishment of a central bank was long postponed. It was only after the monetary reform of 1905 that the government resolved to restore the Banco do Brasil as the leading bank. Triner argues that from 1906, "the Banco do Brasil provided the core of a highly centralized banking system that linked public and private sectors." This constituted a mixed development strategy that was to prove highly successful and has continued down to the present day. So powerful was this bank that it acquired the "responsibility to act as a federal monetary authority and fiscal agent."[11] Nonetheless, the Banco do Brasil was not properly speaking a central bank. Such an institution would not be established until 1965 and there exists considerable debate as to the reasons for the delay.[12] Curiously enough, therefore, Brazil belongs to the category of latecomers in Latin America in establishing an independent central bank, along with a good number of smaller nations in the hemisphere.

Another general, and as yet largely unanswered, question concerns what happened to the foreign banks from the early twentieth century. This book has briefly described their entry into Latin America from the last third of the nineteenth century as a phenomenon that can be associated with an early age of financial globalization. But their heyday did not last long. The relative decline of foreign banks in Brazil had already become evident by 1914. And a similar story was suggested long ago by Charles Jones for the case of Argentina from the early twentieth century onwards.[13] More substantial changes would come as a result of the Great Depression, but there are as yet insufficient comparative studies to be able to accurately describe the overall trends of foreign banking in Latin America during the rest of the twentieth century.

[9] Drake (1989).
[10] Flores Zendejas and Nodari (2021); Gómez (2017a).
[11] Triner (2000), 49.
[12] Villela (2017), 437–457.
[13] Jones (1973), 84, indicates that the deposits in foreign banks in Argentina dropped from 38.6 percent of all deposits in 1900 to 22.8 percent of the total in 1914, mainly due to competition by domestic banks.

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Generally speaking, from the 1940s the region's private banks played second fiddle to national governments bent on rapid economic and autonomous development, as well as on the growing role of state enterprises. Most domestic private enterprises in that era obtained capital outside local stock markets, relying on informal financial markets. Hence, formal banking systems expanded slowly, although they gradually diversified.[14] New interpretations specific to banking and financial history are necessary to help complement and broaden the abundant historical literature that has focused so far mainly on the industrialization and urbanization that characterized the postwar economies throughout Latin America. In short, banking and financial history can open new windows to help explain advances in capitalism on a national and regional scale during the twentieth century and down to the present, as well as to contribute to studies on broader economic trends and on development strategies.

In this book we hope to have demonstrated that to look closely at the origins and evolution of credit, financial and banking systems in the long run offers interesting possibilities for a new appraisal of Latin American economic and political history from a comparative perspective. This could possibly encourage the development of a greater number of courses on financial history in Latin American universities and elsewhere, which is one of the ulterior objectives of this study. More generally, it may be suggested that reflecting on the links between finance and politics can help us in contemporary times to fathom the enormous importance of the increasingly globalized nature of finance that permeates today's life and world.

[14] Ángel (2003, 2016).

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