RIEM, N°27, Agosto-diciembre 2023, ISSN 0719-1790, pp. 1-23
Revista Iberoamericana de Estudios Municipales

‘Good investment for quiet folks’? Buenos Aires and São Paulo municipal bonds in the global capital markets 1887-1927

¿‘Buenas inversiones para personas discretas’?: Los bonos municipales de Buenos Aires y São Paulo en los mercados de capitales globales entre 1887 y 1927

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Recibido: 08/09/2022
Aceptado: 06/12/2023

DOI:10.32457/riem27.2302

Abstract

This paper examines the relatively unexplored topic of Latin American municipal bonds in the international market, comparing the performance of Buenos Aires and São Paulo bonds with their national counterparts between 1887 and 1927. The study also provides insights into how these bonds contributed to establishing investor confidence and promoted economic and urban growth in Latin America suggesting that municipal bonds were as safe (or safer) as sovereign ones, and that the status of a political capital did not played a central role on the bonds performance. The study highlights the more stable and less volatile nature of municipal securities, making them a “good investment for quiet folks.” The article concludes demonstrating the importance of municipal bonds in Latin America urban development.

Keywords: Latin America, Municipal Debt, Urbanization, Brazil, Argentina.

1 This research was funded by the project VIDCA Instalación INS-INV 2022-05. Universidad Austral de Chile.

Resumen

Este artículo examina el tema relativamente poco explorado de los bonos municipales de América Latina en el mercado internacional, comparando el rendimiento de los bonos de Buenos Aires y São Paulo con sus contrapartes nacionales entre 1887 y 1927. El estudio también proporciona información sobre cómo estos bonos contribuyeron a establecer la confianza de los inversores y promovieron el crecimiento económico y urbano en América Latina, sugiriendo que los bonos municipales eran igual de seguros (o incluso más seguros) que los soberanos, y que el estatus de una capital política no desempeñaba un papel central en el rendimiento de los bonos. El estudio destaca la naturaleza más estable y menos volátil de los valores municipales, haciéndolos una "buena inversión para personas discretas". El artículo concluye demostrando la importancia de los bonos municipales en el desarrollo urbano de América Latina.

Palabras clave: América Latina, Deuda Municipal, Urbanización, Brasil, Argentina.

1. Introduction

Latin America has had a tumultuous history in the financial markets, with many ups and downs since it first entered the scene in the 1820s. It's been a hotbed of new financial practices and ideas, and has also been a testing ground for new theories on economic development and ways to combat inflation. However, the history of municipal bonds in Latin America still remains largely ignored by financial history literature.

There is very little literature on the history of municipal finance in Latin America, particularly when compared to the European and American municipal bond markets. In fact, the Latin American market for municipal bonds only really took off at the end of the nineteenth century, thanks to a positive combination of rapid economic growth, rising wages, mass migration and intense urbanization. Studies of the municipal bond market have primarily been produced by scholars from the Anglo-Saxon academia. The United States, with one of the oldest markets, has been particularly active in investigating this financial instrument. During the accelerated development of the US economy between the Reconstruction period and the 1929 crisis, the country developed a robust domestic market in which municipal bonds competed with countless private financial instruments. This generated an active market that financed everything from small Midwest communities to the construction of subways and bridges in New York and Chicago. Most of the public debt in the United States during the nineteenth century was issued at the local level, rather than at the state or federal level (E. Monkkonen, 1988, p. 141). In the United Kingdom, emissions were subject to greater control by the central government, although they faced significant scrutiny from local communities responsible for the costs (Sbragia, 2013; Webster, 2022). Despite some domestic restrictions, London was the financial capital of the world and issued bonds for cities from all over: from the British Isles, the Empire, and beyond. In 1918, the London Stock Exchange listed 46 foreign cities with a total debt volume of £ 80 million.

The history of Latin American municipal bonds has been largely overlooked in the existing literature. While a few works, such as Marichal (1989) and some specific studies on Brazil, Argentina, and Chile (Abreu, 2006; Conti & Boto, 1997; Hanley, 2018; Miller, 2021; Summerhill, 2015) briefly touch on the subnational bond market, municipal bonds are often relegated to footnotes. Despite the extensive research on sovereign debt, the international phenomenon of Latin American municipal bonds is practically absent from economic historiography.

However, the scarcity of literature on Latin American municipal bonds does not mean that it was an insignificant market for foreign investors. In fact, Latin American cities were regular borrowers in the capital markets, particularly in London, which was their traditional financial partner. From 1887 to 1929, at least 35 Latin American municipalities issued 75 bonds in London, Paris, New York, and other markets such as Berlin, Amsterdam, and Brussels. Even mid-sized cities like Pelotas (Brazil), Concepción (Chile), and Santa Fé (Argentina) had direct access to this type of funding, giving the chronic lack of capital in the region. The favorable context allowed municipalities to access international markets after the debut of Rosario municipal bonds in London in 1887. Investors were eager to explore this newly-opened subnational market. As yields from European and American bonds were low, investors were pushed towards new investments (Flandreau & Zumer, 2004).

But why would international investors choose Latin American subnational debt over well-known assets such as Argentine or Brazilian sovereign debt? What benefits could municipal debt offer to lure investors from national to municipal debt? The historical analysis presented suggests that municipal securities were more attractive to "quiet folks" given its subnational status, having with more "safety layers" for investors in comparison with sovereign debt. A second hypothesis posited here is that, in the context of municipal securities, the capital city status did not play a pivotal role in determining the safety of a municipal security. To investigate this, the paper focused on two significant Latin American cities, Buenos Aires and São Paulo, and compared their performance and characteristics with those of their respective national counterparts from 1887 to 1929. These cities were emblematic of Latin America's economic momentum during that period, characterized by rapid growth, export orientation, and their status as major economic hubs within the two principal economies of the region. Additionally, both cities were already familiar to international investors, in contrast to many mid-sized cities that struggled to issue municipal bonds in global capital markets between 1887 and 1929. Furthermore, the comparison between a capital city and an important, albeit non-capital city—São Paulo—enabled us to test one of the suggested hypotheses. The results proved to be intriguing, shedding light on this under-researched topic in the history of Latin America's public debt.

The first part of the paper provides an overview of the international municipal market in London, which was the primary market for Latin American securities, including the bonds issued by Buenos Aires and São Paulo. The second part focuses on the political and economic context of Argentina and Brazil during the selected period, providing background information for the cities' bond issues in London. In the third part, the paper explores the growth of Buenos Aires and São Paulo as cities and the political disputes that characterized Argentine and Brazilian politics during this time. The section draws on accounts from visitors, analysts, and politicians to shed light on how these cities, and their securities, were perceived by global markets. The fourth part compares the risk, volatility, and overall attractiveness of Buenos Aires/São Paulo bonds with those of Argentina/Brazil to evaluate the appeal of these municipal bonds for international investors. Finally, the paper concludes with some contributions to the history of the international market for Latin American municipal bonds.

2. The international market for municipal bonds in the first globalization 1880-1929

Since the 1880s, there was a growing presence of municipal bonds in international markets. By the turn of the century, the London Stock Exchange had quoted 12 foreign cities with more than £12 million, including loans payable in pound sterling, US dollars, and Italian liras. The next decade witnessed the golden age of municipal bonds, with an increase to 43 cities issuing more than £70.8 million in 1913, payable in pound sterling and US dollars. This was a truly globalized era for cities, offering investment opportunities from Moscow to Osaka, Baku to São Paulo, Stockholm to Alexandria.[2] Prior to the war, The Economist lauded municipal securities investments with great optimism, stating that they were 'one of the very best forms of investment for quiet folks, who wish to compromise between an attractive yield and perfect security, is to be found in municipal issues at home, abroad or in the colonies'.[3]

Despite the disruptive effects of the World War on financial markets, foreign municipal bonds recovered quickly in the London Stock Exchange by the conflict's end, dealing with more than £79.5 million in bonds in 1918, with 46 quoted cities and corporations. Latin-American cities were particularly represented among the borrower cities, with seventeen cities and a third of the lent capital's amount. The harsh decade of the 1920s for the European markets led to an increased channeling of investments to the US markets and its wealthy investors. The London Stock Exchange only slightly increased its foreign municipal assets to £79.7 million with 48 corporations. These were the times when American dollar diplomacy towards Central America and the Caribbean pulled national and municipal debts out of European markets, as well as some South-American and Canadian stocks and bonds. From the 1920s onward, New York would become the global hub for municipal bonds (Marichal, 1989, pp. 171-200).

From the end of the nineteenth century to the eve of the First World War, the securities market underwent a revolution in liquidity. The continuous rearrangement and hierarchization of the capital markets through its stock exchanges opened up wide fields for capital flows on a global scale. From truly global stock exchanges such as London and Paris to more regional ones like Berlin and Vienna, and local ones like Johannesburg and Valparaíso, the number of securities surged impressively, increasing the liquidity and stability of the capital markets (Michie, 2006, pp. 83-118).

2 The list of municipal securities in London was drawn from Investors Monthly Manual, The Economist (1876-1925) and other sources such as the Council of the Corporation of the Foreign Bondholders (1877-1929), The Times (1887-1929) and specific national newspapers. (*Jornal do Commercio*, Brazilian Review, *El Mercurio* and others).

3 The Economist, October 25, 1913, p.879.

Beginning in 1880, advances in communication technology, such as the telegraph and later the telephone, and the implementation of the widely accepted gold standard, which provided a stable monetary system, significantly reduced risks in investment and opened up new investment opportunities. (Winseck & Pike, 2007) This environment facilitated the rise of municipal bonds in global markets, which allowed municipal authorities to pursue new forms of financing to attract capital inflows. With rapidly growing urban centers in the Americas, big urban projects such as tramways, docks, and public works became a necessity. Additionally, the influx of immigrants placed great pressure on the often precarious urban infrastructure (Almandoz, 2018, pp. 119-204).

Cities such as New York, Buenos Aires, and São Paulo, were among the regular borrowers in capital markets. Municipal authorities often found themselves in disputes with central governments over their freedom to negotiate and contract external loans. This was the case for states in the United States and Latin-American countries such as Brazil, Argentina, and Mexico. Different models were developed, ranging from the very restrictive Mexican model, where only authorized banks could issue foreign debt for states and municipalities, to the very open American model, where states had complete freedom to issue external debt without a central government guarantee (Gamboa 1992; Monkkonen 1995). In Brazil, the central government often struggled with the liberty of states to issue external debt, fearing a downgrade on its national debt in the case of subnational defaults.[4] The expansion and complexity of municipal bond markets even saw the inversion of capital flows from local to national, when municipalities lent to their central governments, such as Rome and Milan in the 1920s (Eichengreen *et al.,* 2021, p. 117)

The growth of cities, immigration, lower risk, higher liquidity, and improved communications led to the rise of municipal bonds, making them a truly global investment in the early twentieth century. This was particularly true for Brazil and Argentina, where cities such as Buenos Aires, Rio de Janeiro, São Paulo, and Rosario had highly sophisticated and prosperous export sectors that attracted European immigrants seeking new opportunities. The influx of immigrants and the fiscal growth of the cities enabled municipalities to float loans in the international market to build their urban infrastructure and refinance their debts.

3. Argentine and Brazilian municipal bonds in international markets

The first Latin American cities to issue debt in the London market were Rosario and Cordoba in Argentina in 1887, and the city of Santos, the coffee outlet of Brazil, in 1888. The reasons for these cities being the first to issue debt is indicative of the political and economic momentum of the two largest South American economies. Brazilian and Argentine cities went to global capital markets for two main reasons.

4 The Scotsman, July 13, 1914, p.8.

Firstly, they could. Both Brazil and Argentina underwent significant institutional changes during the 1880s and 1890s. In Brazil, the Federal Republic established in 1889 gave subnational entities the autonomy to pursue external financing. Argentina, on the other hand, had a unified currency in the 1880s, along with a renewed institutional arrangement after four years of political strife. Additionally, Brazilian and Argentine exports were booming during this period. Between 1880 and 1929, Latin American economies experienced growing exports. The net terms of trade were on the rise, and the influx of hard currency stimulated imports and cheaper external loans. A significant proportion of this capital was reinvested in the export sectors, boosting exports of the region's primary commodities such as coffee, rubber, and hides for Brazil, and grain and meat for Argentina.[5] One of the consequences of this booming export sector was its facilitated access to the capital markets, and in this case, the cities' access.

Secondly, they needed to. Both countries lacked a well-developed domestic capital market during a period of demographic and economic growth. The increase of commodities exports from the hinterlands promoted consistent demographic growth of their capital and port cities, creating new demands for urban reforms in order to accommodate the ever-growing migrant inflows, both domestic and foreign, such as the cities of Buenos Aires and São Paulo. Furthermore, the national governments of both countries faced strong opposition from legislative bodies to increase taxes to expand public investment. The primary solution, now a possible one, was through external debt.

3.1 Argentina

The late nineteenth century marked a period of significant institutional change for Argentina. After four decades of internal conflict, the federalists established a new constitution, which was approved in 1853 and fully enacted in 1860. The constitution was modelled after the United States constitution and granted significant autonomy to the provinces (Saiegh, 2013). Despite some years of political conciliation, conflict erupted under the presidency of Nicolás Avellaneda (1874-1880) between supporters of a national-liberal movement, led by presidential candidate Julio Roca, and supporters of the autonomy of Buenos Aires province, headed by Governor Carlos Tejedor. After the defeat of the porteños in 1880, Roca re-established central order by federalizing the city of Buenos Aires as the national capital, inaugurating a period of 'peace and administration', as his government program stated (Sabato, 2012, pp. 269-304). The literature recognizes that the political stability of the Roca-Cellman-Pellegrino years (1880-1892) was of great significance for the good performance of Argentine securities (national and subnational) in the global capital markets (Ford, 1956; Mauro *et al.*, 2008).

One of the most important achievements of the 1880s was monetary unification and stability. Argentina did not have a unified currency until 1881 when Congress passed law no. 1130, creating the *Argentino*, a paper currency fully exchangeable for gold at par. This reform allowed the country to enter the gold standard, giving strong, credible signals to international investors. In fact, it was

5 Recent research indicates that the first era of Latin American exports had a positive impact on the regional economies. Kuntz's work highlights how the profits generated by the export sector in eight Latin American economies were reinvested, leading to direct and indirect benefits for these economies. For more information on the cases of Argentina and Brazil, refer to chapters 2 and 4 of the book. (Kuntz-Ficker, 2017).

in the 1880s that provinces and municipalities first went to international capital markets. Between 1887 and 1929, six Argentine municipalities issued debt in London and Paris, with bonds ranging from £ 200,000 to £ 2,000,000 (Marichal, 1989, pp. 247-249).

In addition to these significant institutional reforms, Argentina had one of the most optimistic economic prospects in the world from 1880 to 1929. After the challenges of unifying the country in the 1860s, the Argentine economy was ready to reap the benefits brought by technical and financial innovations of the late nineteenth century. The country received 3.3 million European immigrants between 1876 and 1914 at a time when railways were opening up the pampa to produce the much-needed staples that western industrialized countries required. With the fantastic decrease in transportation costs, exports of low unit value received an immense stimulus. New land tracks, fresh migrant workforce and strong international demand brought British investments in the form of generous loans and railways. The country specialized in exporting grains, mutton, and frozen beef (in the 1920s), enjoying a historic increase in its purchasing power (Kuntz-Ficker & Rayes, 2017). It was the gilded age of Argentina, with GDP growing 7 % on average between 1890-1913 and 7.3% during the First World War (1914-1918). Exports grew by 11 % between 1890 and 1914 (Kuntz-Ficker & Rayes, 2017, p. 47). These made Argentine securities one of the most valued in the capital markets.

National and provincial bonds had been available in the market since the 1820s, but it wasn't until the mid-nineteenth century that Argentine securities reached a privileged stage with the Baring Brothers as their official banking partner in the City. By the 1880s, the provinces and national government were heavy borrowers. Despite the Baring crisis of 1890, Argentina remained on an indebted path throughout the twentieth century. The growth of the Argentine economy and the influx of European immigrants also piqued the interest of international investors in municipal securities. (Cortés Conde, 1995, pp. 157-170). Between 1887 and 1929, 20 loans were issued by Argentine municipalities in London, Paris and New York.

3.2 Brazil

In Brazil, the beginning of the twentieth century marked significant political and institutional changes. The newly established Republic drafted the constitution of 1891 that created a federal government with broad powers for states and municipalities. This new political arrangement was primarily negotiated by the agrarian elites of Rio de Janeiro, São Paulo and Minas Gerais, resulting in an oligarchic republic with significantly less power for the federal government than the recently deposed monarchy.

Following a tumultuous period of military government under Deodoro da Fonseca and Floriano Peixoto (1889-1898), regional elites elected Campos Salles as a conciliatory figure. Salles was responsible for shaping the political order under a somewhat ambiguous federal constitution, creating a political consensus called "Governor's Politics." This political engineering granted significant fiscal and political autonomy to regional elites in exchange for a dominant role of the Executive over the Legislative at the federal level (Lessa, 2015, p. 183). After a decade of internal political disputes and erratic economic policies, the Republic was finally stabilized.

The new Constitution granted states and municipalities significant fiscal autonomy. A range of excise and land taxes were transferred to subnational entities, leaving the Federal Government primarily with foreign trade taxes. Under the empire, municipalities received approximately 8 % of all taxes revenues, whilst under the new republic their share had increased up to 18 % (Hanley, 2018, p. 17). Most importantly, the new regime also granted the freedom to float external debt without asking state or federal governments for permission. With the Governor's Policy granting strong state and municipal autonomy, subnational entities had the liberty to access international capital markets.

Until the enactment of the new Constitution in 1891, only two Brazilian municipalities had issued external debt: Santos in 1888 and the capital of Rio de Janeiro in 1889. Between 1902 and 1929, 17 Brazilian municipalities issued external debt in London, Paris, and Amsterdam, benefiting from the new freedoms negotiated by state and municipal elites.

In conjunction with the major institutional changes of the 1890s, the Brazilian economy was rapidly expanding. The fiscal and monetary situation of Brazil improved quiet significantly at the turn of the century. After the harsh stabilization program of Salles' Finance Minister, Joaquim Murtinho, the Brazilian economy quickly recovered from the acute *encilhamento* crisis of 1898 and embarked on a series of public works, mainly financed by external loans.[6] With growing exports and positive terms of trade, the Brazilian economy grew by an average of 4% between 1900 and 1913. The adoption of the gold standard in 1906 was celebrated by international investors as a seal of quality for Brazilian papers in London and marked the beginning of a period of heavy indebtedness at federal, state and municipal levels (Fritsch, 2014).

The country was the world's biggest coffee producer and exporter. By the 1880s, Brazil accounted for 59 % of the world's coffee exports. In the 1920s, it reached 90 % (Topik & Samper, 2006, p. 122). The lion's share of all this coffee was produced in the State of São Paulo and exported through its main port, Santos. Coffee was the mainstay of the Brazilian economy and the Brazilian and *Paulista* finance. From the 1900s, a good portion of the loans issued by the State and the cities of São Paulo and Santos had coffee as collateral.

Despite the hegemony of coffee in the Brazilian economy, there were other flourishing economic sectors that allowed cities up north and down south to compete with the juicy loans of São Paulo and Rio de Janeiro. In the Amazon region, rubber was the economic basis of the cities of Manaus and Belém. Rubber exports began in the 1850s and reached their peak in 1910 when they accounted for 25 % of Brazilian exports, making Brazil the world's leading producer (Musacchio & Zephyr, 2006, p. 271). Manaus was at the heart of the rubber economy, concentrating financial and commercial services to conduct the international rubber trade. From Manaus, the rubber balls were shipped down the Amazon River to Belém, the oceanic port with direct contacts with European and American buyers. Both cities were heavily indebted during the rubber boom, with at least five

6 The *Encilhamento* was the first significant economic crisis in Brazil since its independence. It was caused by a lax monetary and credit policy implemented by Finance Minister Rui Barbosa in the early years of the new federal Republic. This policy created a large speculative bubble in the capital markets of Rio de Janeiro and São Paulo. The crisis had a profound impact on the Brazilian exchange rate and international credit, leading to a series of austerity measures during the governments of Campos Salles and Rodrigues Alves (1898-1906). To learn more about the implications of the *Encilhamento*, please refer to (Levy, 1980).

loans issued in London, Paris, Berlin, Brussels and Switzerland. At the end of the rubber boom, both cities defaulted on their debt obligations. In 1919, the debt service of the defaulted city of Belém was four times her revenues.[7]

In the south of Brazil, the State of Rio Grande do Sul was experiencing a period of prosperity. Alongside the traditional exports of jerked beef and hides, the state was now also producing a diverse range of foodstuffs. The expansion of railways facilitated the growth of new cattle ranches and a thriving rice industry, protected by government policies. Rio Grande do Sul was also the second most popular destination for European immigrants after São Paulo. These factors combined to make the state the third richest in Brazil in the 1920s, and the second largest agricultural producer (Love, 1975, p. 118). The influx of migrants led to significant urban growth and a corresponding need for investment in cities such as Porto Alegre, the state capital, and Pelotas, the wealthiest cattle-producing city.[8] Between 1909 and 1912, these cities issued two loans totalling £ 1,100,000 in London, and between 1921 and 1928, three loans totalling US$ 9,500,000 in New York[9].

4. Buenos Aires and São Paulo external debt

Buenos Aires and São Paulo were the most significant economic centers of their respective countries. The port of Buenos Aires oversaw the large exports of the Argentine hinterlands, collecting taxes and fees from the majority of the booming export economy. São Paulo was at the heart of the Brazilian coffee economy. As the capital of the prosperous State of São Paulo, the city enjoyed a favourable position in the international markets, much like Buenos Aires.

Both cities were chosen to approach the same phenomenon from different perspectives. On one hand, these cities were at the heart of their countries' expanding export economies and the fast demographic and urban growth that came with it, bringing new material needs. On the other hand, a comparison of these bustling South American cities can reveal how different local dynamics could behave similarly, giving a broad understanding of this new municipal bond market between capital and non-capital cities.

Buenos Aires was the federal capital of Argentina and its main export hub, channeling the wealth of the rich hinterland. The city had a proper political setting where local and national interests were intertwined regarding issuing debt, how to use its proceeds, and how to pay for it. São Paulo was the capital of the wealthiest state of the new republic, but it was not the center of political decisions and did not have the prerogatives and budgetary privileges of the national capital. São Paulo was part of a trend of power shifting from Rio de Janeiro to Santos-São Paulo, where it received most of the European migrants and became the industrial capital of the country by the 1930s. Being more hinterland-connected, São Paulo presents some different dynamics compared

7 *Jornal do Commercio, retrospecto commercial* 1934, p.175-188.

8 In 1920, approximately 25% of Porto Alegre inhabitants were European immigrants (Herrlein Jr, 2004, p. 198).

9 *Jornal do Commercio, retrospecto commercial* 1934, p.175-188.

to Buenos Aires, which makes the comparative analysis richer, considering the very similar results found in the empirical tests.

Table 1.
Loans issued by Buenos Aires and Sao Paulo municipalities between 1888 and 1929 in London, Paris and New York

	Nominal Amount (in thousands pounds and dollars)	Interest rate %	Issuing Price	Purpose	Bankers	Market
Buenos Aires						
1888	£ 1.326	6	Par	Public Works	Cohen	L&P
1889	£ 1.984	4,5	86	Public Works	Baring Brothers	L
1909	£ 2.976	5	98 1/2	Public Works	Baring Brothers	L
1924	$ 8.490	6	96	Public Works	Dillon, Read, Harris, Forbes, Colony Trust	NYC
1927	$ 3.396	6	97	Public Works	Blyth, Witter, Schröder	NYC
1927	$ 3.396	6	98	Public Works	Blyth, Witter, Schröder	NYC
São Paulo						
1908	£ 750	6	97 1/2	Refinance	London & Brazilian Bank	L
1916	$ 5.500	6	n/a	Refinance	Equitable Trust Corp	NYC
1919	£ 8.500	6	93 3/8	Refinance	Chase National Bank	NYC
1922	$ 4.000	8	par	Public Works	Bancamerica Blair Corporation	NYC
1927	$ 5.900	8	100	Public Works	First National Corporation	NYC

(Sources: The Economist, Investor Monthly Manual 1880-1929; The Brazilian Review 1908-1919, Marichal 1989, Johns, 1992). London (L), Paris (P), New York City (NYC)

4.1 Buenos Aires

The 1880s were a transformative decade for Buenos Aires, marked by a series of reforms initiated by *intendente*[10] Torcuato de Alvear (1880-1887), which aimed to create a European, or more precisely, a Parisian, Buenos Aires that could accommodate the millions of migrants flocking to the prosperous Argentine republic. The politically unstable republic had finally reached a consensus between the national and Buenos Aires province elites on a common agenda. Following the 1880 revolution, the country entered into a new political agreement that culminated in the federalization of the city of Buenos Aires in September of the same year.

The federalization of Buenos Aires was a significant event that opened up a new era of public works and profound urban transformations. The city became the hub of the rich agrarian economy and its

10 *Intendentes* were mayors appointed by the central government.

main port, eclipsing its rival, the river city of Rosario. By 1890, the capital city accounted for 75 % of all national imports and a third of all exports, creating a strong fiscal base for the municipality (Johns, 1992, p. 152). All these resources were directed towards public works, such as new avenues, public buildings, theatres, and the legislative palace. By the turn of the century, Buenos Aires had become known as "the Paris of South America". The city's population had grown from 500,000 in 1869 to 1.3 million by 1900, with approximately half of them being European immigrants (Scobie, 1972, p. 1036). The city had its first subway line in 1900, and Latin America's first modern department store, Gath and Chaves, opened in a stunning five-story Art Deco building on Florida Street. This intense urbanization and demographic growth demanded big investments in public works, especially in public sanitation and waterworks. In the first decades of twentieth century, Buenos Aires had extended is water network to over 1 million people, spending an average of 17 % of country´s total budget between 1900-1914, with e peak of 25 % of between 1910-14 (Regalsky 2010, p.459).

Many of the important infrastructure projects built during the 1880s were financed by external debt. The city alone took out five loans between 1888 and 1927, all of which were earmarked for public works.[11] In addition to external debt, the city also issued gold internal bonds, which were very attractive to British investors. In 1907, a grumpy correspondent of The Economist complained that the loan procedures were being wasted on extravagant projects such as the completion of the *Teatro Colón*, which he bitterly dubbed 'a white elephant'.[12]

Image 1.
The newly inaugurated "White Elephant", Teatro Colón, was partly financed by municipal debt. c.a 1910. (Photograph nr.001323222, Biblioteca Nacional de Argentina).

11 In this research I considered municipal debt only bonds issued by the city after the federalization in 1880.

12 The Economist, October 26, 1907, p.1827.

Despite the criticism from some press analysts, municipal loans tended to be regarded as safer and more stable than sovereign bonds. This was not just the case in Latin America. Cities such as Saint Petersburg and Moscow were considered much safer and better investments than Russian imperial bonds, and Japanese cities were also regarded more favorably than their national counterpart.[13] One of the reasons cited by investors was that subnational bonds were necessarily used for productive purposes, or at least refinancing. In contrast, national bonds could be (and often were) allocated to military purposes. During the informal arms race between Brazil and Argentina in the 1910s, investors were unwilling to lend money that would be used to purchase warships and field machine guns, resulting in riskier and therefore more expensive loans for national governments.[14] Municipal debt was a safer option, as it was protected from wasteful and dangerous military spending.

The federalisation of Buenos Aires allowed a new way for *porteño* elites to access external funding. Since its securities were considered safer (as some empirical tests would later show), the city became a new doorway for investments of national interest, such as public works. Congress was the city's legislative body and the *intendentes* were appointed by *Casa Rosada*, so national projects could be financed by more marketable municipal bonds, and the city could also rely on a strong fiscal base. Even if investors didn't quite understand what were the specific municipal taxes and fees obliged to the debts issued[15] they were confident on their revenue stream since the municipality had guarantees from the National Government, something that the province of Buenos Aires, for instance, didn't had.[16]. The city collected 36% of its income from national land and license taxes, in addition to city taxes. This was a win-win situation for both the city and the country. In the words of an observer, the municipality was 'in effect a department of the National Government, which could raise loans upon more easy terms'[17].

4.2 São Paulo

In the eve of the twentieth century, São Paulo was a thriving city, second only to Rio de Janeiro in economic and demographic importance. São Paulo quickly overshadowed its main counterpart, becoming the industrial center of Brazil and South America by 1929 (Petrone, 1955, p. 142). In the first two decades of the century, the city experienced rapid urban and demographic growth, with its population more than doubling in less than 20 years from 300,000 in 1905 to 637,000 in 1922. The influx of immigrants made the State Capital a modern and cosmopolitan city, with Italians, Spaniards, Portuguese, Lebanese and others making up two-thirds of the population. A visitor could easily hear ten different languages spoken on the streets, from Sicilian dialects in the industrial neighbourhoods to well-spoken French in upscale residential areas, such as the newly built *Avenida Paulista*. The city was spending an average of 20% of its budget on public works, with a peak of 30% at the end of in 1900 decade[18].

13 The Economist October 25, 1913, p.879.

14 The Brazilian Review, 1908, p.845.

15 The Times, July 02, 1892, p.18.

16 The Times, March 04 1892, p.12.

17 The Economist, October 07, 1905, p.1589.

18 Times, November 28, 1908, p.18.

In 1907, an American visitor described São Paulo as a 'modern metropolis', highlighting its cultural and educational institutions such as the *Museu do Ipiranga* and *Theatro Municipal*, which were heavily inspired by the Garnier Opera in Paris (Wright, 1907, pp. 203-212). Another visitor was impressed by the *Paulista* elites and the modern city they had built for themselves. The new São Paulo, built on coffee money, was supposed to be modern and European, or even better, French. New boulevards, coffee houses, and fancy stores were all built to project modernity and 'frenchness' for the rich coffee planters of the State Capital. This visitor, the former French Prime Minister George Clemenceau, wrote in his journal in 1911:

> The city of Saint Paul (350,000 inhabitants) is so curiously French in some of its aspects and customs that for a whole week I had not once the feeling of being abroad. The feature of Saint Paul is that French is the universal language. Saint Paul's society is supposed to be more markedly individual than any other community in the Republic, and it offers this double phenomenon of being strongly imbued with the French spirit, and, at the same time, of having developed those personal traits that go to make up its determining characteristics (Clemenceau, 1911, p. 380).

All this richness and modernity of the new São Paulo came from the economic mainstay of not only the State but of the whole country: coffee. Clemenceau also noted:

> It is not possible to speak of Brazil, still less of Saint Paul, without the coffee question cropping up. The fabulous extension in recent years of the coffee plantations and the crops that have permitted the present extraordinary accumulation of wealth have drawn the attention of the whole world to the Brazilian *fazendas* (Clemenceau, 1911, p. 388).

The city was the commercial and financial center of the State's coffee economy, where the profits and rents of coffee exports were spent and invested. The São Paulo Stock Exchange, founded in 1890, financed railways, utilities, and state and municipal debt of cities from all over the country (Hanley, 2005). Its main investors were the rich *fazendeiros* looking to diversify their investments into public works, banking, and industrial enterprises. The Campos Elísios Palace, seat of the *Paulista* Government in the capital, was built in 1890 in an eclectic French style as the city residence of a wealthy coffee planter, and later transformed into the seat of the São Paulo Government in 1915. The fact that the State Government Palace in the capital was first built as a city residence of a coffee planter illustrates the symbiotic relationship between coffee and power not only in São Paulo but in Brazil as a whole.

Image 2.
The offspring of a marriage between coffee money and political power. The Campos Elíseos Palace in 1907, seat of the Paulista State Government. (Wright, 1907, p. 211).

The new republic of Brazil in 1889 saw the rise of a wealthy elite of coffee planters who controlled the country's political and economic life. Out of the twelve presidents elected during the so-called "First Republic" (1889-1930), five were former governors of São Paulo State. The connection between the Campos Elísios Palace and the Catete Palace, the presidential seat in Rio de Janeiro, was evident when *Paulista* coffee planters came together in 1906 in the city of Taubaté to enact the "coffee valorization policy." This arrangement, with federal approval, enabled them to issue large foreign loans in order to stabilize international coffee prices. As the country produced approximately 70% of the world's coffee, the *Paulista* elites had the means to control international prices (Topik, 1987, pp. 72-110).

Although this policy was financed and executed by the State of São Paulo, the capital city stood to reap immense benefits in order to embellish and expand its urban area. In 1910, another French traveler, Pierre Denis, observed 'the perfect cohesion between city and the countryside, closely linked by common interests', later dubbing the city the 'capital of coffee planters' (Denis 1911, 112).

5. Buenos Aires and São Paulo municipal bonds: a comparative approach

The following section compares the performance of a Buenos Aires and a São Paulo bond that were issued in London in 1889 and 1908 respectively. The main objective is to analyze how investors view municipal bonds as an investment option, with the aim of testing the assumption made by some contemporary financial commentators that they are the "best form of investment for quiet folks". According to these commentators, these quiet folks were seeking "attractive yields" (better than British consolidated debt, the consols) and "perfect security", which is as safe as possible, like the consols. To provide context for these municipal bonds, I compared them with similar national bonds issued by their respective governments. The comparison with national bonds from Argentina and Brazil, which were considered excellent investments at the time, could reveal some nuances and peculiarities of municipal bonds as an investment option that historical research has not yet fully explored. This section suggests that municipal securities could be safe as, or safer as, national one, even if we consider the best Latin American sovereign bonds of the period. Also, the data also suggests that being a capital city didn't necessarily mean better results over the national bonds as not being a capital city, as the comparison of São Paulo and Buenos Aires show.

The Buenos Aires bond was the 4.5% £1,985,000 bond issued at 86 by Baring Brothers in 1889, while the selected São Paulo bond was the 6% £750,000 gold bond issued at 97.5 by the London and Brazilian Bank in 1908.[19] The national bonds were the Argentine 4.5% £5,563,000 gold/sterling bond issued at 90 in 1887 by Baring Brothers, and the Brazilian 5% £4,000,000 gold/sterling bond issued in 1908 at 96 by the Rothschild of London.

Both issues were dedicated to improve public works in their rapid urbanization process. The Buenos Aires issue was especially dedicated to paving streets and "any other public works undertaken by the municipality[20]. The São Paulo issue was destined to "general improvements" and the refinancing of internal municipal debt. One year before the issue, São Paulo had just doubled its expenditure on public works, reaching 31% of the general municipal budget[21].

The time series of the bonds were selected and analyzed with consideration given to the political and financial situations of both republics at the time. The Argentine time series starts in 1897 after the effects of the 1890 Baring crisis had been absorbed by the Romero Agreement of 1892 and the Terry Agreement of 1896. The analysis starts after the conclusion of the Terry Agreement because the deal made the national government responsible for the defaulted provincial external debts (Cortés Conde, 1995). The inclusion of subnational debt into national debt rehabilitated not only subnational credit, but also the entire Argentine credit in international markets, preparing the country to adhere to the gold standard in 1899, which was a sign of prestige among international investors (Bordo & Rockoff, 1996).

Chart 1 shows the spreads between the Buenos Aires and Argentina bonds against the British consol. There is a downward trend in risk for both issues, indicating the improving credit of Argentine securities over the period. The Buenos Aires bond outperformed the Argentine bond in terms of risk and volatility with both bonds having the same interest rate and the same prestigious subscriber bank – Baring Brothers.[22] The municipal bond outperformed the Argentine bond in 35 out of 62

19 The London and Brazilian Bank was a British medium-sized bank established in Brazil in 1862. The bank formed partnerships with several municipalities and states to issue their bonds in London until the 1930s. For a more in-depth examination of the bank and other British banking activities in Latin America, please refer to the comprehensive work of (Joslin, 1963).

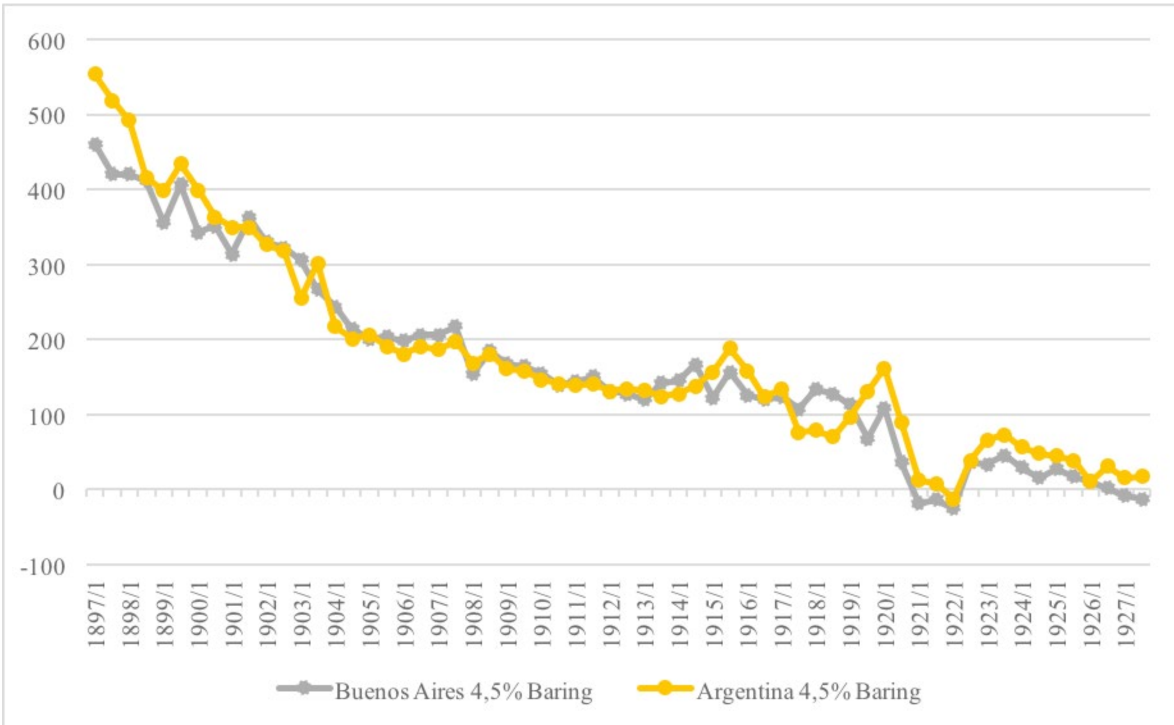
20 Times, May 01, 1889, p.12.

21 Times, November 28, 1908, p.18.

22 Before the advent of modern credit rating agencies, the perceived safety of securities depended largely on the bank underwriting the operation. In this historical context, the Rothschild and Baring stood out as the most prestigious banks globally, rendering securities underwritten by them the safest and most sought-after in the market. (Flandreau & Flores, 2009; Miranda, 2023, chapter 2).

semesters, with two semesters having the same spreads (1912/1 and 1926/1). As the issues had the same interest rates, the spreads showed that investors considered this municipal bond to be safer than the national bond.

Chart 1
Spreads of Buenos Aires and Argentina against British consols in basis point.
Source: Investor's Monthly Manual 1897-1928 and Floud and McCloskey, (1994).



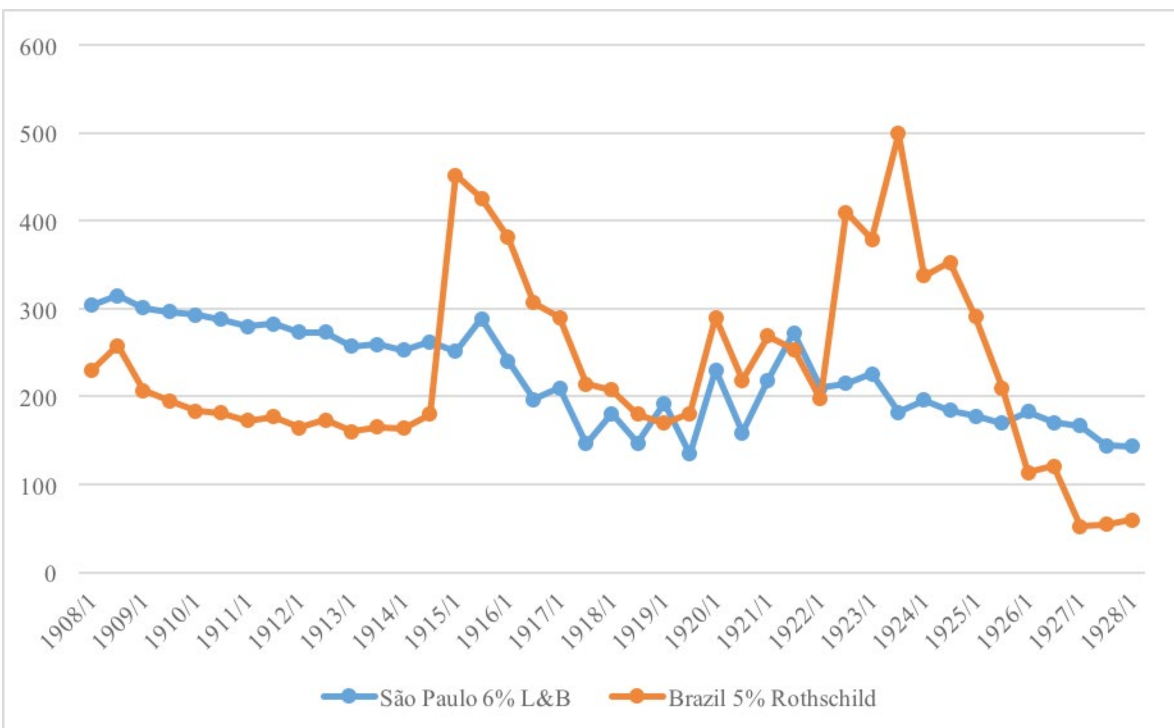
One interesting feature is the low spreads presented by Argentina, especially in 1920-1921. This was a period of high bank discount rates in Britain, with consol yields reaching a peak of 5.51% in 1921 (Floud & McCloskey, 1994, pp. 173-174). Even considering the conservative environment in British finance during these years, there wasn't much outflow of British capital from Argentine securities, which were considered safer than consols. In addition to risk, volatility was also measured for both issues. The municipal bond was less volatile in comparison with the national counterpart. The volatility of the Buenos Aires bond was 0.58 compared to 0.72 for the national issue. The volatility also shows that investors had a safer place for their investments in municipal debt. Cities had a less eventful political and economic life than countries, and besides that, they could always count on bailouts from the national government, as the investors of the 1889 issue were aware. The fact that the Argentine government took charge of provincial debt through the 1896 Terry Agreement also played a part in reducing the volatility of subnational issues, like the Buenos Aires bond.

The Brazilian time series begins in 1908 because that is when São Paulo issued its first foreign debt, and also because the effects of the *Encilhamento* crisis of 1889-1890 were absorbed by the negotiations between the Brazilian government and the Rothschild of London. The Campos Salles administration (1898-1902) – a former São Paulo governor turned President - enacted a series of serious fiscal and monetary reforms under the direction of the Financial Minister Joaquim Murtinho, while Campos Salles himself went to London to renegotiate the Brazilian national debt with the creditors. The result was a funding loan inspired by the terms of the Romero and Terry Agreement, which stabilized the Brazilian currency, the mil-reis, and restored the country's credit in international markets. In the next decade of 1904-1914, the Brazilian external debt more than doubled (Abreu, 2002).

Chart 2 shows the spreads for São Paulo and Brazilian bonds. Despite the 1% difference in the interest rate between both issues, the Brazilian issue was underwritten by the Rothschild, which could compensate for the extra 1% of risk charged by the market on the São Paulo bond issued by a smaller bank, the London and Brazilian Bank, which also had a slightly higher issuing price than the Brazilian one (97.5 x 96). Both were paid in gold/sterling.

Chart 2

Spreads of São Paulo and Brazil against British consols in basis point
Source: Investor's Monthly Manual 1908-1928 and Floud and McCloskey, (1994).



Overall, São Paulo had a better performance over its Brazilian counterpart. Even with a higher interest rate (6%) and a medium-sized bank as underwriter, the São Paulo issue managed to keep up with Brazilian bonds. For the time series, São Paulo had lower spreads in 20 out of 40 months. Also, the volatility was much lower. For the time series, the city bond had a volatility of 0.45 compared to 1.30 for the national bond, three times less volatile. São Paulo had two layers of "safety" for investors. Firstly, state guarantees of the world's leading coffee producer. Usually, the State of São

Paulo had huge stocks of coffee on British, German, and American ports kept as collateral for their external loans. Since the State guaranteed the payment of municipal issues, the presence of coffee stockpiles in Bristol and New York warehouses could offer a very reassuring sensation for creditors.

In addition, the city of São Paulo benefited from the Coffee Valorization Program implemented by the State of São Paulo in 1906, which provided indirect advantages without incurring the fiscal responsibilities of servicing the debts contracted by the State to finance the price controls.[23] It is not surprising that during the First World War (1914-1919) and the coffee crisis (1922-1925), the city's bond had much greater investor confidence than its national counterpart. In this case, international crises had a much more severe impact on national credit than on subnational debt, as was also evident in the case of Buenos Aires/Argentina during the First World War. Recent studies have demonstrated how bank brands can be used to protect investors against risk during times of distress (Flandreau and Flores, 2012, 2009). In this case, the Rothschild brand was not enough to prevent a 50% increase in Brazilian bond spreads during times of crisis, given the complicated international situation. However, the São Paulo 6% bond appeared to be relatively stable with its London and Brazilian Bank branding.

6. Conclusions: cities in the international markets

During the first financial globalization, not only nation-states, but also middle-sized cities reached global capital markets to cope with the need for capital in a context of mass immigration, urbanization and economic growth. The growth in capital flows in the last quarter of the nineteenth century provided a good explanation for the rise of new investment options. By 1880, all Latin American independent countries (with the exception of Haiti) had issued bonds in the global markets. Although some of these bonds had terrible results,[24] others established themselves as good investment options in the region, such as Argentinean and Brazilian bonds. As a result, the space was filled by subnational bonds of States and cities.

A comparative analysis of two Buenos Aires and São Paulo bonds allows us to draw some conclusions on this emerging Latin American municipal bond market. Firstly, despite being smaller polities with less autonomy and a much less varied and diverse revenue base, investors did not regard these cities as riskier investments. The municipal loans were considered by investors to be 'the best investment for quiet folks.' São Paulo and Buenos Aires loans were considered safer and much less volatile. Secondly, cities could be considered good investments regardless of their status as political capital. As the political capital of Argentina, Buenos Aires had special fiscal arrangements and the

23 In 1906, the State of São Paulo implemented its inaugural Coffee Valorization Program to maintain a stable price for the commodity. The program was heavily funded by the State with occasional assistance from the Federal Government, through external loans issued in London and New York. Over the years, three significant valorization programs were put in place - in 1906, 1917 and 1921. To ensure the programs became permanent, the *Instituto Paulista para a Defesa Permanente do Café* was established by the State Government in 1924. (Topik, 1987, pp. 72-110)

24 A striking example is provided by the 1870 loans of small Latin American republics such as Honduras, Santo Domingo, Bolivia, and Paraguay, which offered yields of 7 to 10%. However, these investments ended badly, with many investors being defrauded due to defaulted countries and incomplete infrastructure projects. For further information, please refer to (Miranda, 2017).

complicity of national elites in serving and using its municipal debt for special purposes. São Paulo didn't have this prerogative and had excellent results as well. Even if being a political capital could imply a more direct influence of the national over the municipal ability to pay, as observed with higher positive correlation on Buenos Aires/Argentina (0.91) over São Paulo/Brazil issue (0.72), investors didn't consider the São Paulo bond a riskier investment.

A third conclusion comes from the big difference in volatility despite the strong positive correlation between municipal/national issues. Despite investors being aware of the strong links between the economic performance of country and city, the two municipal bonds had more 'safety layers' for investors since they were guaranteed by national governments. If the city could not afford its debts, the high correlation could indicate that the price drop in a city bond could rapidly spread to a national bond. Hence, it was important for National Governments not only to keep up with their own debt but also to guarantee their subnational ones. The press observed that it was harder to renegotiate national debt with outstanding subnational, as in the case of the Brazilian second funding loan of 1914.[25] This was also observed by the willingness of Argentina and Brazil to take charge of their defaulted subnational debts when negotiating their funding loans.

The São Paulo bond demonstrated much less volatility than the Brazilian bond, with a lower correlation. This may indicate that investors consider city assets to be safer than country assets when political and economic ties are less intertwined. In contrast, Buenos Aires experienced the opposite scenario, with higher correlation and lower difference in volatility. This could be inferred from the fact that Buenos Aires, being the capital and a stage of crude political struggles (such as the 1880 revolution that directly affected the political and administrative status of the municipality), had a lot of economic and political interests in common. In Brazil, although coffee was the center of the Brazilian economy, with São Paulo as its heart, the interests of other important economic regions and the capital city, Rio de Janeiro, had to be dealt with by the federal government. The relationship between Rio de Janeiro and the state and municipal elites in São Paulo, regarding monetary and fiscal policies, was not always aligned, as the traditional Brazilian historiography suggests (Fritsch, 2014).

A fourth conclusion is that subnational entities were less exposed to international shocks. Charts 1 and 2 show that the shocks of the First World War impacted the national bonds more heavily than the municipal bonds, with cities enjoying lower spreads during dire international events. Financial commentators on the press also observed that investors appreciated the fact that cities did not issue bonds for buying war materials or paying reparations. On these two specific issues, the Economist analyst could not be more right, referring to municipal bonds as a 'compromise between attractive yield and perfect security'.

25 The Scotsman, July, 13 1914, p.8.

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