



LATIN AMERICAN FINANCIAL DEPENDENCY IN THE 19TH CENTURY: THE ROLE OF THE CITY IN DRIVING REGIONAL INSERTION IN THE INTERNATIONAL FINANCIAL SYSTEM

*DEPENDÊNCIA FINANCEIRA LATINO-AMERICANA NO SÉCULO XIX:
O PAPEL DA CITY NA CONDUÇÃO DA INSERÇÃO REGIONAL
NO SISTEMA FINANCEIRO INTERNACIONAL*

*DEPENDENCIA FINANCIERA LATINOAMERICANA EN EL SIGLO XIX:
EL PAPEL DE LA CITY EN EL IMPULSO DE LA INSERCIÓN REGIONAL
EN EL SISTEMA FINANCIERO INTERNACIONAL*

José Alex Rego Soares¹ 
Universidade de São Paulo, Brasil

Abstract: The goal of this paper is to review the literature on the problem of Latin America's financial dependence due to the process of indebtedness at the end of the 1820s independence wars and the insertion of these young nations in the international financial circuit under the lead of the City of London. We aim to highlight the shape of the vulnerability of these economies during the nineteenth century, in the intersection of Latin American economies as financial capital and their outcome on the dynamics of capital accumulation in the region, reflecting on the international division of labor and their specialization as *commodities* exporting economies. In this way, we will need a bibliography review on the subject in order to corroborate our analytical perspective. To do so, we are going to analyze the financial dependence and the debt crisis in the region, the role of financial capital in the expansion of regional commodities production, and finally the financial inheritance in the industrialization process of Latin America, which constitutes dependence as a historical construction.

Keywords: Latin America, International Financing, Dependency.

Resumo: O objetivo deste artigo é revisitar a literatura que discute a problemática da dependência financeira da América Latina decorrente do processo de

¹ Economista com Doutorado pelo Programa de Pós-Graduação Integração da América Latina (PROLAM/USP), Pós-Doutoramento na FEA/USP e Professor Colaborador III na FEA pelo PART. E-mail: jalex.economia43@gmail.com

endividamento ao fim e ao cabo das lutas de independência na década de 1820, e a inserção dessas jovens nações no circuito financeiro internacional comandado pela *City* londrina. Pretendemos ressaltar a configuração da vulnerabilidade dessas economias no transcurso do século XIX, na interseção das economias da América Latina como capital financeiro e sua repercussão na dinâmica da acumulação de capital na região, refletindo na divisão internacional do trabalho e sua especialização enquanto economias exportadoras de *commodities*. Desta forma, nos pautaremos em uma revisão bibliográfica sobre a temática, a fim de corroborar com o nosso viés analítico. Para tanto, analisaremos a dependência financeira e a crise da dívida na região, o papel do capital financeiro na expansão da produção regional de mercadorias e, por fim, a herança financeira no processo de industrialização da América Latina, constituindo a dependência como uma construção histórica.

Palavras-chave: América Latina, Financiamento Internacional, Dependência.

Resumen: El propósito de este artículo es revisar la literatura que discute el problema de la dependencia financiera de América Latina resultante del proceso de endeudamiento al final de las luchas por la independencia en la década de 1820, y la inserción de estas jóvenes naciones en el circuito financiero internacional liderado por City Londres. Pretendemos destacar la configuración de la vulnerabilidad de estas economías en el curso del siglo XIX, en la intersección de las economías latinoamericanas como capital financiero y su repercusión en la dinámica de la acumulación de capital en la región, reflexionando sobre la división internacional del trabajo y su especialización como economías exportadoras de productos básicos. De esta manera, seremos guiados por una revisión de la literatura sobre el tema, para corroborar con nuestro sesgo analítico. Con este fin, analizaremos la dependencia financiera y la crisis de la deuda en la región, el papel del capital financiero en la expansión de la producción regional de productos básicos y, finalmente, la herencia financiera en el proceso de industrialización en América Latina, constituyendo la dependencia como una construcción histórica.

Palabras claves: América Latina, Financiamento Internacional, Dependencia.

DOI:[10.11606/issn.1676-6288.prolam.2020.170329](https://doi.org/10.11606/issn.1676-6288.prolam.2020.170329)

Recebido em: 30/05/2020

Aprovado em: 26/12/2020

Publicado em: 30/12/2020

1 INTRODUCTION

The end of the political independence struggles in Latin America resulted in the formation of a set of States dependent on the financial system and introduced these young nations into a cycle of financial

accumulation. New conditions of dependency were established, this time under the yoke of the international financial system.

The exposure of Latin American countries to international financial cycles² is a structurally chronic and critical condition, given the lack of autonomy of these countries in relation to these capitals. Because of the historical conditions imposed on Latin American countries' development, the dynamics offered by economic agents in the *City of London* in the 19th - the great capitalist center consolidated in that century - exposed a dependency upon external savings and kept these countries as hostages.

The goal here is to analyze the relationship between the City and Latin America's newly independent economies through the financialization of capital. Thus, we start from the first observation that this relationship between center and periphery is consolidated by the financial sphere, exposing the character of underdevelopment as a financial dependency. This dependence refers not only to external savings but to the capital cycles themselves.

The high volatility of these capitals, added to the endogenous conditions of the country-specific economic and political groups development, is a critical factor in the exposure of this region's primary export profile countries³. As a result, we will draw a synthesis of the debate on this theme using a review of the critical literature on the conditions of dependency upon external capital in a critical way. Furthermore, dependency and vulnerability is going to be discussed in this article in 3 sections. The first session presents the expansion of the *City* and its regional economy and financial aspects. In the second section, we analyze the presence of external indebtedness concerning

² "International Financial Flow is the generic name given to the various historical moments of capital export from central countries, or the import of foreign capital or even external savings that settles in the region." (Hirst; Thompson, 1998, p. 75).

³ According to Dobb, the backwardness of regions (such as Latin America) "were generally traditional colonial or semi-colonial regions - the farm, plantation and raw materials lands of large capitalist emporiums that took advantage of them as factors of food stuff and cheap raw materials and as spheres of investment" (Dobb, 1970, p. 25-6).

all Latin American countries and the international financial system, in a monopolistic capitalism (imperialism) context, and in the third section, we are going to present the sphere of international finance and the industrialization process in the region.

2 THE CONSOLIDATION OF THE CITY AND THE FINANCIAL DEPENDENCY OF LATIN AMERICA

England, by consolidating itself hegemonically as an exporter of capital to the world at the beginning of the 19th century has hegemonized these capitals performance on two fronts: one in the consolidation of old markets, and the other through the insertion in new markets, expanding the gravitational orbit of the *London City*.

From these fronts, the capital unfolds within Latin America - as direct investments: railways, public utilities, mining, etc. - and others as the newly independent state's funding. *"They had huge branch networks which channeled savings from the remotest corners of Britain to London, and thenceforth to all parts of the world through City intermediation"* (De Cecco, 1987, p. 09).

The *City* of London hegemonizes and shapes the conditions of capital accumulation process that undergoes through the financial world, a complete metamorphosis of capital, spreading to different countries of the world.

The *City*'s hegemony of London drove to a (re) connection of Latin American economy with the international economic system, in its most advanced form⁴, - the financial system having the largest monopolistic company that moves from the economic center to the outskirts - powering the financially-productive system. The world market

⁴ This more advanced form is still earlier in the form of industrial capital. Latin America connects to the world capitalist system in financial condition, much earlier than the relationship with industrial capital and therefore its relationship with international capital cannot be considered as a secondary or supporting players in the formation of Brazilian capitalism, as authors of the thesis of late capitalism place it.

reinstatement redefinition, far beyond the former colonial meaning as explored by Tomich (2011).

The (re) connection between Latin America and the *City* defines international financial profile flows and their impacts on economic and social reality in particular to the productive area, bringing large international companies in mining, energy, financial system, railways, utilities, shipping company - established in the first half of the 19th century a "(...) *mosaic of capitalist and non-capitalist relations of production*" (Glade, 2009, p.21)⁵. As "*head of the capitalist machine*" (Arrighi, 1996, p. 164), the *City* directs the (re) connection and the world economy planning, not disrupting the economic systems connected to the world market.

In the first quarter of the 19th century, the Latin American new countries joined the international planning (Griffith-Dawson, 1998).

The new states of Central and South America became enmeshed in a complex web of commercial and financial relationships which progressively tied them to an expanding world economy and its consecutive cycles of expansion and recession, of prosperity and crisis. (Marichal, 1989a, p 12-13).

According to Griffith-Dawson (1998), Latin American economies actively participated in the financial market, due to their internal low capacity accumulation and the financial needs of these economies resulting from the independence wars. It is also important to mention the colonial legacy that shaped these economies⁶.

⁵ Periods in the constitution of this historical formation process of companies in Latin America: 1) after "the first decades immediately to independence" (Lewis, 2001, p. 128) an attempt was made to create derived manufacture from colonial manufactures; - here, despite the attempt to consolidate small manufacturing, there was an incoming movement of large capital, the large financial capital exported by *City* of London to Brazil and Latin America. Financial capital in its most advanced form is in relationship with the most basic forms of production organization. 2) "it was classic of exports expansion" (Lewis, 2001, p. 128), a period that extends from approximately 1870 to the first world war, based on a process of modernization of various organizational sectors of infrastructure combined with expansion of domestic demand; 3) "period that extended from the first world war to the Depression" (Lewis, 2001, p. 128).

⁶ According to Albert Hirschman, one of the reasons for the country's backwardness: "Latin Americans in the 19th century are linked, in a way, to the emergence of local theories, ideas or opinions about the nature of the problem of Latin American development. The explanation may be that, many decades after the schemes of independence, the problems of survival, organization and consolidation of South American states, in the midst of disputes over borders, internal uprisings and civil wars, remained at the center of public attention so that the 'ideologues' focused primarily on the problem of political organization" (Hirschman, 1967, p. 11).

On table 1, we can observe the *City* of London's capitals intake in the region⁷. Through loans to the Latin American countries, England grew and consolidated as an economic and political reference powerful enough to finance the countries in the region in their early years of existence. Juan Bautista Alberti (1858 in Marichal, 1989b, p.03) summarizes this scenario as follows: "*Nations like England or France might hesitate between seeking loans within the country or taking them from abroad; but desert and poor countries that do not have their own capital have no right to hesitate [...]*"⁸. Between 1822 and 1829, Latin America countries obtained twelve loans from the City of London - 1.5 loans per year from 1822 to 1828. This scenario summarizes the Latin America financial dependency and its orbit around a dynamic financial provider.

The position held by the *City* constituted a reference to all capital investment, as Joseph Smith corroborates:

An international economy came into being with London as the financial capital. British exports dominated world markets and few countries remained unaffected by British capital investment. In 1815, Britain had an accumulated credit abroad of around 10 million pounds. By 1895 the figure was 2.195,3 million. (Smith, 1979, p. 03).

London's privileged position, with no competitors, turn Latin American newly born destiny of the nations into the aegis of international financial dynamics. Thereby they see themselves hostages *to the City of London*, ultimately given the region's own colonization model – as an exporting raw materials platform for their respective metropolises, consolidating their relationship with the international market. This dependence system outcome refers to: I) the financial institutions fragility within these new countries, II) early manufacturing industry with low capital concentration capacity, III) lack of a political and

⁷ For a detailed historical analysis on the City, see Meunir, D. (1958).

⁸ Original in Spanish: "*Naciones como la Inglaterra o la Francia podrían vacilar entre buscar préstamos dentro del país o tomarlos del extranjero; pero países desiertos y pobres que no tienen capitales propios no tienen derecho a vacilar [...]*"

institutional design regarding a developing model and IV) the need of external savings ownership. The availability of credit in the *City* centralizes on these savings-in-need economies. The old colonial economic and social structure transforms into a new phase of capitalism, opening a new typology of dependency from high finance.

It is also worth highlighting the condition of economies newly independent of a spoiling colonial regime that left an impoverished society as an inheritance. The cycle - poverty plus the need for resources to finance the struggle for independence and the dependent specialized export platform linked to the *City* - form the perfect environment for Latin America's financial exposure.

Table 1 - Loans (placed in London), 1822-1829.

Year of Issue	Interest Rates	State Name	Total amount of loans contracted in pounds sterling	Amount of loans issued in London in pounds	Issue price	Agents Responsible for Issue
1822	6	Chile	1,000,000	934,000	70	Hullert Bros & Co.
	6	Colombia	2,000,000	2,000,00	84	Herring, Graham & Co.
	6	Peru	1,200,00	450,000,	88	Thomas Kinder & Co.
1824	5	Brazil	1,686,200*	1,686,200*	75	Baylett, Farquhar & Co. Alexander & Co., Wilson Shaw & Co.
	6	Buenos Aires	1,000,000	1,000,000	85	Baring Bros. & Co.
	6	Colombia	4,750,000	4,750,000	88,5	B.A Goldschmidt & Co.
	5	Peru	Loan balance sheet	750,000	82	Thomas Kinder & Co.
1825	5	Brazil	2,000,000	2,000,000	85	Rothschild & Sons
	6	Guatemala	1,428,571	163,300	63	Barclay, Herring-Richardson & Co.
	6	Mexico	3,200,000	3,200,000	86,75	Barclay, Herring Richardson & Co.
	6	Peru	616,000	616,000	78	Thomas Kinder & Co.
1829	5	Brazil	800,000		54	Rothschild & Sons

* Some sources cite the amount as £1 million.
Source: Griffith-Dawson (1998, p. 315). Rates=%

The efficient capital accumulation system shortfall and the newly created nations' basic institutions, added to the need for credits, will

provide a high degree of vulnerability to international capital with its erratic flow (speculative cycle). William Galde draws attention to the fact that these capitals travel "*completely exempt from formal restriction*" (2009, p. 64), increasing the region's exposure to the harmful and unstable effects of these capitals in times of crisis.

These countries vulnerability reflection can be seen in Table 2, the exposure to external debt crises that unfolded in a set of defaults during the nineteenth century, and they are associated, at first, with the need for indebtedness due to the wars of independence waged by the countries of the region during the 1820s (12 *default*) *defaults*⁹. The global crises events that occurred in the world during the 1860s to the mid-1870s, and again from 1880 until the early 1890s (*defaults* 16) (Marichal, 2014), they rebound within Latin America's economies and, consequently, the payment of their obligations (Reinhart; Rogoff, 2008, p. 23), in a link to the international system¹⁰.

The Latin American countries' trend is impacted due to problems in the capacity of generating internal resources for foreign debt payments, added to the lack of new financing, as can be seen in Table 2. We found the recurrent defaults, their renegotiations and the forms of adjustment practiced in the post-independency time, as a chronic problem to the countries of the region, persisting throughout the nineteenth century.

The dependency on the *City* derives on a recurring basis, a close relationship between the need for external savings inherited from the colonial structure, and the need to continue sustaining the payments of its external obligations. When it is sensitive to dependency on external resources, it exposes the fragility of financial institutions, low

⁹ A default is a failure to meet principal payment or interest on the due date included in the original terms of the contract. Standard and Poors (December 22, 1999) also includes standard restructurings that contain terms less favorable to creditors than the original transactions (Reinhart; Rogoff, 2008, p. 01).

¹⁰ Russian economist Nikolai D. Kondratief (1946), in his classic work *The long waves of the economy*, tries to answer what are the periods of cycles within capitalist economies. In this case, there is some compatibility between the times when most of the *defaults in Latin America* and the second wave of descent, which lasts from 1870-75 I to 1890-96 (1946, p. 31). For further details over this period, we can see Arrighi (1996, p. 168) and Griffith-Dawson (1998, p. 264-269) about the countries of Latin America.

concentration of capital, lack of financial institutions and the supply of external credit. A direct current that feeds back that financial exposure-dependency.

Table 2 - External default of Latin American countries during the 19th century

Country Independence day	1800-1824	1825-1849	1850-1874	1875-1899
Latin America				
Argentina, 1816	-	1827	-	1890
Brazil, 1822	-	-	-	1898
Bolivia, 1825	-	-	-	1875
Chile, 1818	-	1826	-	1880
Colombia, 1819	-	1826	1850-1873	1880
Costa Rica, 1822	-	1828	1874	1895
Ecuador, 1830	-	1826	1868	1894
El Salvador, 1821	-	1828	-	1898
Guatemala, 1821	-	1828	-	1876, 1894, 1899
Honduras, 1821	-	1828	1873	-
Mexico, 1821	-	1827, 1833, 1844	1866	1898
Nicaragua, 1821	-	1828	-	1894
Paraguay, 1811	-	-	1874	1892
Peru, 1821	-	1826	-	1876
Dominican Rep, 1845	-	-	1872	1892, 1897, 1899
Uruguay, 1811	-	-	-	1876, 1891
Venezuela, 1830	-	1826, 1848	1860, 1865	1892, 1898

Source: Reinhart; Rogoff (March 5, 2008). Available in <
www.academia.edu/2663066/This_time_is_different_A_panoramic_view_of_eight_centuries_of_financial_crises>>. Accessed: 15 Mar 2018

3 THE FINANCIAL CAPITAL ROLE IN THE REGIONAL EXPANSION PRODUCTION

The financial resources demanded by these nations enforced a reflective condition on these countries, the cyclical dynamics of these flows, with little room for maneuver given to such fragility conditions both external and internal. The Britain trade flow also increased. The figures generated by the trade flow pinpoint a lower relative load for Britain. However, the load for Latin American countries is more

significant. Joseph Smith describes it this way:

Although the Latin America trade relationship with Britain was not as important as to Europe, North America, or Asia, British trade with Latin America was still substantial. Between 1865 and 1895 annual British exports to that area averaged 20.6 million pounds as an annual import averaged 20.3 million. As a value supplier to the British economy the rapidly developing British relationship with Argentina was the prime example of this. Latin America was also a major field of British financial investment. Such investment has been estimated at just over 80 million pounds and more than 552 million pounds in 1885. The sum was considerable, but Latin America was only a part of a global picture (Smith, 1979, p. 4).

This relationship builds up a complex condition, the financial market turmoil is responsible for its own *commodity markets disorganization*, making up an interconnection between goods and capital markets within Latin America economies. Thus, displaying a high level of vulnerability to the exporting sector, markedly dependent on international capital (investments), therefore, in turn, jeopardized the production performance conditions within the economies of the region, as Celso Furtado points out:

The international economic relations development was not made only on the increasing exchanges between the various nations, but also on the creation of headquarters that controlled the financial flows; that guided international capital transfers; that financed strategic exportable products stockpiles, that intervened in pricing formation, etc. A Latin American country exportable surplus expansion depended almost always on facilities investments financed with foreign capital, which became accessible whenever the insertion of growth in production to international markets corresponded to the command centers' expectations of the world economy (Furtado, 1986a, p. 203).

The external savings performance enforced significant tensions to the region's economies income generation capacity shaping the *commodity production expansion and downturn cycles*. By now the Latin American economies insertion in the international circuit has become an important changing moment for the financial capital performance.

The exporting sector growth helped to create an internal market,

although extremely restricted. Simultaneously, it drove the centers' urbanization with greater internal accumulation performance. The countries became intertwined through the international flow of financial capital itself and by the commodities. Therefore, the national and international relationship is not a competition with each other; but a dependency on native capital with *the City's financial capital*. This reflective situation occurs as a symbiosis between the "two" capitals – a subordinated complementation, unable to create a competitive system in the Latin American capitalistic economies' accumulation process¹¹. Giovanni Arrighi describes the capital maximizing process as the only way of self-preservation:

The only path means that the profit-maximizing, accumulation capital logic and the income-maximizing commercial expansions logic coincide and sustain each other. For its sprawling, the world economy can count on the ever-increasing volume of currency and other means of payment that seek to invest in trade. And for its self-expansion, the capital can count on the availability of an increasing number of specialized markets, in which an increasing mass of products can be bought and sold, without having their value depreciated (Arrighi, 1996, p. 238).

The credit development that breaks the limit for the very means of production expansion reinvigorates the logic of the system in its expansion process, creating actions and contradictions within itself, launching fictitious capital into the world. A capitalist logic, dynamic element capable of permeating all the spaces of the world, for Hobsbawm, is the creation of a "*unified world*"¹² (2011, p. 87).

From the mid-19th century onwards, the transformations inside *the City* will shape this capitals' presence in the region, beyond mostly loans conditions, thus releasing the financial flow so that the governments of the region could appropriate for the direct external investments in order to feed new investments methods (especially

¹¹This relationship between the nascent capitals and the international capital, encloses the very expansion of the accumulation conditions of the region, restricting its dynamics. The presence in the first hour of international capital acts in its favor as a market reserve mechanism, shaping the conditions of dependency of the region to the investments of these large monopolies.

¹² This expression is the name of chapter 3 of *The Age of Capital*, in which Hobsbawm traces the formation of this global economy, which emerges with force between 1848 and 1875. The reference to be consulted is Griffith-Dawson (1998).

railways and services). Thereafter, there are now three ways available for governments to obtain these resources from the mid-19th century onwards: I) foreign loans through official banks; II) past debts refinancing loans; and III) weaponry purchasing and railways developments, as it can be seen on Table 3.

The financial transactions to Latin America in the mid 19th century were unveiled in three steps: first – which takes place in the 1850s – they are basically limited to the old refinancing foreign debts, especially those incurred in the 1820 (independence wars); second – in the 1860s – a strong military funding presence takes place (Paraguay's war); and, finally, on third, it directed to the infrastructure financing, together with public contracts, especially the railways construction (Marichal, 1989b, p. 113).

The financial market developed new ways of mobilizing resources and distributing them more skillfully to companies located in central economies. Given the large capital accumulation and the birth of the large company, companies were organized by shares. A *"fertile moment for capital mobilization experiments regarding industrial development"* (Hobsbawm, 2011, p. 326).

Still in the 19th century twilight years, we observed a picture of the whole capital's metamorphosis: from a capital accumulation process established in search of new markets, to the old markets effective consolidation. Thus, the capital expansion leads to Latin American economies' interconnection with the international economy (Bethell, 2009, p.604).

Table 3. Foreign Loans to Latin American governments - 1850-1875

Nations	Number of Loans	Nominal value Total (millions sterling)	Military (%)	Public works (%)	Refinancing (%)
Argentina	7	13.488	20	68	11
Bolivia	1	1.700	–	100	–
Brazil	8	23.467	30	13	57
Chile	7	8.552	37	51	12
Colombia	2	2.200	–	9	91
Costa Rica	3	3.400	–	100	–
Ecuador	1	1.824	–	–	100
Guatemala	2	650	–	77	23
Haiti	1	1.458	–	–	100
Honduras	4	5.590	–	98	2
Mexico	2	16.960	70	–	30
Paraguay	2	3.000	–	80	20
Peru	7	51.840	10	45	45
Dominican Rep	1	757	–	100	–
Uruguay	1	3.500	–	–	100
Venezuela	2	2.500	–	30	70

Source: Marichal, 1989b, p. 95.

What we can mention from the information on table 3 is that most of these resources that provide means of capital will greatly impact on the economic organization of Latin American countries, bringing an intersection with the world economy.

At the end of the 19th century, the countries of the region became compromised with the international dynamics, given its primary-exporting structure, its economic and financial dependency relationship. This is a consequence from regional (internal) development dynamics at different "periods" of Latin America capitalism development and the relationship of these economies with the dynamic center of international capitalism (Soares, 2016).

This interconnection plays an important role to the Latin America's national funds, releasing them to be reinvested in the very expansion of their main export product (*commodities*), and for other

minor investments. The lack of an accurate perspective on the development and the access to international flows has fostered specialization in primary exporting sectors.

The economy's diversification process inhibition was articulated with the investments profile made available by *the City*. In turn, Marx and Engels, when writing about English trade in *The English Trade Balance*, highlight that the export of capital goes beyond banks and insurance companies:

[...] has interests in railways, canals, mines, etc., foreigners, from where it receives the corresponding dividends. Shipments related to all these interests are made most exclusively in products that exceed the amount of English exports (Marx; Engels, 1978 [1853], p. 176).

It is on this frantic, changing scenario that the colonial economies to capitalist economies transition process takes place. Hence, The productive forces inequality is crystallized here, not bringing distance reduction inside the international labor division between the newly liberated colonized economies and the industrialized nations, expressing, thus, in the international exchange, "*the International Division of Labor*" (Bukharin, 1988 [1915-1917], p. 21).

This reorganization on the technical-financial fronts of capitalist economies at the end of the 19th century marks the capitalist enterprises monopolization process, establishing a new company and a new bank (Lenin, 1982 [1917], p. 586-610). Thus, a new phase is open, which the Political Economy enshrined as imperialism¹³. The local economy integration upon these international markets through international financial flows was an important step in the system reproduction of labor division that has been coming forward to the region since its colonization.

Thus, productive specialization is established, since the

¹³ A brief summary of the interpretations of imperialism can be found in a footnote in the book *The emergence of the mode of production of goods*, of Prof. Francisco de Oliveira. In the case of Latin America, Albert O. Hirschman presents a very particular discussion on the subject in *On Hegel, imperialism, and structural stagnation*, from 1976, little explored by Marx, according to the author.

investments presented were set, as a rule, to the interests not only financial, but also commercial and industrial of its creditors, as we can see through¹⁴ the types of investments that took place at the end of the 1880s, see table 3.

England, as the world's great engine (Dobb, 1971, p. 362-3) and financial center, has a formidable role in these investments. There has been volume rise of British investment from just over £200 million in 1880 to around £1 billion at the turn of the 20th century.

Most of British investments in Latin America in the thirty to forty years before World War I were made in the portfolio (government bonds and minority holdings in foreign-controlled companies), although direct investments increased from a quarter in 1880 to almost half in 1914. More than a third of the money invested by the British in Latin America were placed in government bonds (state, federal and municipal). (Bethell. 2009, p. 590).

The integration process into the international financial monopolistic capital was an organizational method of these capitals, subjecting the region's economies to consolidate a very particular investment typology. At the end of the 19th century and the beginning of the 20th century, this process becomes evident when Lenin notices the monopolistic conditions taking place.

In South America [...] 5 German banks have 40 branches; 5 English, 70 branches [...] England and Germany, over the last twenty-five years, have invested approximately US\$1 billion in Argentina, Brazil and Uruguay; from the outcome, they benefit 46% of all trade in these three countries. (Lenin, 1982 [1917], p.625).

The industrial and financial centers' connection with Latin America was the force that boosted the capital accumulation process throughout the Latin American continent.

¹⁴ Lenin describes as follows the new stage that capitalism had reached – imperialism: "Financial capital created the time of monopolies. And monopolies always carry monopolistic principles: the use of 'relationships' for profitable transactions replaces competition in the open market. It is quite common that among the clauses of the loan it is necessary to spend part of it on the purchase of products to the creditor country, in particular armaments, boats etc. France has often resorted to this process during the last two decades (1890-1910). The export of capital becomes a means of stimulating the export of goods" (1982 [1917], p. 624).

The role of such flows in Latin American economies results directly from the degree of development that central economies have achieved (financially and technologically) and their need to reproduce such capitals, severely impacting the former European colonies economic structures, in order to format the region's own economies in the process of integration into world capitalism formatting the international labor division. Lenin comes again to corroborate what is stated, as follows:

The export of capital is reflected in the capitalism development within the countries where they are invested, accelerating it quite extraordinarily. If, as a result, the referred export can, to some extent, bring a development stagnation to the exporting countries, this can only take place in exchange for greater enlargement and the deepening of capitalism development around the world (Lenin, 1982 [1917], p. 623).

The borrower and lender relationship is a financial, dependency condition between both, a financial and commercial relationship (Lenin, 1982 [1917], p. 624). The financial binding is, at this historical moment, a sensitive factor, and will crystallize from the 19th to the 20th century transition. This relationship becomes clear when we understand table 4 (which corroborates with table 3, in relation to the investments profile in the region), which concerns with British investments in Latin America and its priorities. Yet regarding the capitalism full changes conditions in the global order, and the region's economies begin to integrate this circuit, in a characteristic of its development, as Carlos Marichal points out:

[...] overlapping network of capital flows from several North Atlantic industrialized nations [...] However, these flows were not the only local productive activities financing sources; on the contrary, they were the complement to domestic investment, standing out in certain areas rather than others (Marichal, 1995, p. 12-3).

In this way, we can recall how the form of dependency comes off, together with these financial and commercial flows. Latin America begins to participate in the modern international monetary system – which fosters trade expansion with an international financing system, thus linking Latin American countries to this dynamic at the end of the

19th century and in the beginning of 20th (Cárdenas *et al*, 2003, p. 10).

This relationship can be noticed more clearly in relation to trade between the countries of the region and Europe. Therefore, it was Great Britain that eventually took the labor international division to its "*maximum expresión*", according to Eric R Wolff (1972, p. 21). In this utmost international labor division context, where countries are integrated, with the distances' reduction, the Latin American economies are placed in a very complex picture: hostages of the income generated by the exploitation of primary products. At the same time, it establishes a distancing from the regional integration process– a Latin American integration paradox.

This foreign capital relationship brought complicators and, moreover, exposed these economies to euphoria and depression cycles, as well put by Griffith- Dawson (1998). This conjuncture establishment brings repercussions on the relations between the economic center and the periphery beyond economic issues, reflected in internal politics and international relations that have been built from this framework. There are also other important variables in this scenario: "*[...] financial dependency will be the starting point for an early political and direct military dependency*" (Donghi, 2011, p. 203).

This dependency on foreign resources leads, namely, to international financial flows exposure and external cycles in a way dependent on the conjuncture of dynamic centers (Webb, 2003,). This capital´s dependency is described by Rosa Luxemburgo as follows:

This 'commodity' is not appropriated to fill 'certain gaps' of foreign 'national economies', but rather, 'create gaps', open faults and ruptures in the wall of the ageing 'national economies', to penetrate and act on them as a powder keg and turn them into a more or less long term, into heaps of ruins (Luxemburgo, 1971 [1925], p. 75).

Yet, in her words, this "commodity" [paves the way for other] "most notable goods", thus undermining local economies and bringing these

economies to the so-called civilized world of mass consumption – a consumption pattern fetish that seeks to copy from central countries.

As a reflux occurs, these economies' fragility is exposed to a context of "financial asphyxiation", which results in a lack of resources for their projects and also reverses the signal flow in order to honor their external commitments, critically interfering in the balance of payments. It is precisely at this point that these countries' lack of autonomy in financing Latin America development is materialized (Thorp; Whitehead, 1986).

Table. 4. British investments in Latin America at the end of 1880¹⁵
(in millions of pounds sterling - current values)

Countries	Investments Nominal	Government Bonds <i>Bonds</i>	Economic enterprises
Argentina	20.338,71	11.233,700	9.105,009
Bolivia	1.654,000	1.654,000	–
Brazil	38.869,067	23.060,162	15.808,905
Chile	8.466,521	7.765,104	701,417
Colombia	3.073,375	2.100,000	973,373
Costa Rica	3.304,000	3.304,000	–
Cuba	1.231,600	–	231,600
Dominican Republic	713,300	714,3	–
Ecuador	1.959,380	1.724,000	135,38
Guatemala	544,200	544,2	–
Honduras	3.222,000	3.222,000	–
Mexico	32.740.916	23.540,800	9.200,116
Nicaragua	206,570	–	206,57
Paraguay	1.505,400	1.505,400	–
Peru	36.177,070	32.688,320	3.488,750
Uruguay	7.644,105	3.519,220	4.124,885
Venezuela	7.564,390	6.402,800	1.161,590
General	10.274,660	–	10.274,600
Total	179.490,261	123.078,006	56.412,255

Note: Capital in various economic ventures: 34 railways, 24 utilities, 18 mining companies, 08 banking and other financing, 05 real estate developments, 07 shipping companies and various.
Source: Rippey (1972, p.25).

Thus, a process of dependence is presented that unfolds in a perverse way, considering that, in most Latin American countries,

¹⁵ In 1875, there were a total of 77 British companies operating in Latin America, which had operations on the London Stock Exchange; of this total, 25 companies were railway, 11 mining, 6 banks and 7 telegraph companies, 9 gas, 5 shipping (Marichal, 1989b, p. 93).

spontaneous savings are insufficient to cover the most urgent capital needs (Prebisch, 2011).

The outcome is a vicious circle formation: Capital productivity is low, because capital is lacking, and capital is lacking because the savings margin is low, given the low productivity (Prebisch, 2000, p. 109).

4 LATIN AMERICA'S INDUSTRIALIZATION AND FINANCIAL HERITAGE

Latin America's *economic and financial lack of a consolidation system* – which is a consequence of the region's dependence - exposes the necessary conditions to harbor the region's economies accumulation process, and to program the investment of the material structures of productions, in order to feed the region's economies internal developments. The lack of a dynamic economic system weakens the process of capital accumulation, and it is necessary to go to the foreign market to demand resources to support investments within regional economies. However there is a relationship beyond the institutional area, this is the character's condition to the region's colonization specificities, based on the systematic transference of the economic surplus to the metropolis, configuring a dynamics that hinds the generated product's internal inversion.

The local industry constitution at the end of the late 19th century cannot break up with the conditions inherited from the colonial period.

Given the particular conditions that each country faced to consolidate its own industrialization process, the Latin American's economies dynamic subject, highly profitable, is the monoculture, mining or other primary exporting activity, turning into an important obstacle to another economic activity constitution with a high degree of specialization. Furtado (1986b, p. 115) described the primary products export profile conditions, which reflects a strong concentration in a few production lines, which leads the productive structure to develop in an

inverse way from that which occurs before the demand profile.

Under these conditions, the industry will thrive over the rise effect on domestic income, thus preventing a dynamic core consolidation, which, in turn, is unable to establish itself for the primary export sector's benefit.

The technical conditions inherited from the colonial period and their degree of use rebound on the Latin American's economies formation and on the dynamics of accumulation itself, given the typology for very particular exporting economies and well distinguished from one other (Bértola and Ocampo, 2010 p. 20- 23; Furtado, 1986b, p.55).

By analyzing more carefully an attempt elaboration to approach to a typology formation that explains the Latin America's economies material conditions dynamics, these economies aspects and the positions they end up occupying in the international scenario, it is possible to conclude that one of the major problems that persists in Latin America at the end of the 19th century is the impossibility to the countries of the region to constitute "an economic system" integrated (Furtado , 1986a, p. 191), without consolidating dynamic mechanisms of accumulation and, consequently, financing its own development.

Thus, it is imperative to raise foreign resources to the financing of current transactions as well as for internal investments, in order to boost the necessary conditions for industrialization acknowledged in this context as a form of long-term development of regional economies. Aldo Ferrer describes such behavior during the twentieth century:

It is understood that within the structure of a "peripheral" economy, the possibilities of entrepreneur expansion activity were necessarily limited. With production concentrated in primary export activity, absent from any domestic generation of new technologies, it limited the industry to simpler manufacturing; the opportunities of the Latin American entrepreneur were inevitably narrow. Within this structure, capital accumulation was concentrated in traditional export activities, while savings formation was decisively dependent on foreign trade and foreign capital (Ferrer, 1969, p. 20).

It is a basic reading of Latin America's development understanding from an industrial structure as a way to overcome the backwardness of the capitalist development concept. This concept, in general, goes against the logic of the classical thought, although it is possible to detect an effort to define development and social well-being.

5 CONCLUSION

The exposed idea and arguments are based on a historical research agenda of the conditions that permeate Latin America's main weaknesses, given the continuous and systemic flow of foreign savings, in order to respond to the internal financing development conditions of the countries in the region. In this context, we present a review of the critical and broad interpretations of the external financing role in the region's economies at the end of the colonial system.

The historical conditions clearly demonstrate this scenario and the more ordinary dependency characteristics on external savings in a paradoxical condition. The need for external resources exposes the fragility of the region's economies and further weakens those economies, exposing the financial cycles of the central economies, in the case of the 19th century the City.

The search for resources to finance development derives from the very accumulation of the dependency model, inherited from the colonial period within a systematic framework in which the search for foreign savings exposes Latin American contradictions development model. At its limit, the very weakness of capital accumulation, added to the lack of political projects to overcome this process, was not capable of breaking this international dependency.

Thus, we observe the dependency conditions metamorphosing, from a former Iberic colonie framework to a system of countries orbiting

around the financial system articulated by Great Britain, hegemonized by financial capital, consolidating Latin countries' subordination relationship with financial capital.

The relationship between regional economic groups and financial capital becomes intimate, reflecting in the state sphere, and in the capital accumulation mechanisms format via state. This defines Latin America's international insertion design in financial capitalism in the 19th century.

6 REFERENCES

ARRIGHI, G.. **O Longo Século XX**: poder, dinheiro e as origens de nosso tempo. Rio de Janeiro: Contraponto; São Paulo: editora UNESP, 1996.

BÉRTOLA, L; OCAMPO, J. A. **Desenvolvimento, Vicissitudes e Desigualdade**: uma história econômica da América Latina desde a independência. Madrid: Secretaría General Iberoamericana, 2010.

BETHELL, L.. A Grã-Bretanha e a América Latina, 1830-1930. In: BETHELL, L. **História da América Latina de 1870-1930**. (org.). Volume IV. São Paulo: Editora da Universidade de São Paulo. Brasília, DF. Fundação Alexandre Gusmão, 2009.

BUKHARIN, N. I. **A Economia Mundial e o Imperialismo**: esboço econômico. São Paulo. Nova Cultural, 1988 [1915-1917].

CÁRDENAS, E.; OCAMPO, J.A.; THORP, R. Introducción, In: CÁRDENAS, E; OCAMPO, J.A.; THORP, R. (org). **La Era de las Exportaciones Latinoamericanas**: de fines del siglo XIX a principios del XX El trimestre económico. Fondo de Cultura Económico. México, 2003.

DE CECCO, M. **"Gold Standard."** The New Palgrave: A Dictionary of Economics. First Edition. Eds. John Eatwell, Murray Milgate and Peter Newman. Palgrave Macmillan, 1987. The New Palgrave Dictionary of

Economics Online. Palgrave Macmillan. 14 October 2013
doi:10.1057/9780230226203.2655.

DOBB, M. **A Evolução do Capitalismo**. Zahar editores. Rio de Janeiro, 1971.

DOBB, M. **Desenvolvimento Econômico e Países Subdesenvolvidos: seguido de a planificação socialista**. Edições 70. São Paulo/ SP, 1970.

DONGHI, H. **História da América Latina**. Rio de Janeiro. Editora Paz e Terra, 2011.

FERRER, A. Industrias básicas, integración y corporaciones internacionales. In: **La Dependencia Político-Económica de América Latina**. México. Siglo Veintiuno Editores, 1969.

FURTADO, C. **Teoria e Política do Desenvolvimento Econômico**. São Paulo. Editora Nacional, 1986a.

FURTADO, C. **A Economia Latino-Americana: formação histórica e problemas contemporâneos**. São Paulo. Ed. Nacional, 1986b.

GLADE, W. A América Latina e a economia internacional, 1870-1930. In: BETHELL, L. **História da América Latina de 1870-1930**. (org.). Volume IV. São Paulo: Editora da Universidade de São Paulo. Brasília, DF. Fundação Alexandre Gusmão, 2009.

GRIFFITH-DAWSON, F. **A Primeira Crise da Dívida Latino-Americana**. São Paulo: Editora 34, 1998.

HIRSCHMAN, A, O. Ideologia do desenvolvimentismo econômico na América Latina. In: Hirschman, A, **O Monetarismo vs Estruturalismo: um estudo sobre a América Latina**. (org.). Programa de Publicações didáticas. Agência Norte-Americana para o desenvolvimento internacional. USAID. Rio de Janeiro, 1967.

HIRST, P.; THOMPSON, G. **Globalização em Questão: a economia internacional e as possibilidades de governabilidade**. Petrópolis, RJ: Vozes,

1998.

HOBSBAWM, E. J. **A Era do Capital 1848-1875**. São Paulo. Editora Paz e Terra, 2011.

KONDRATIEFF, N.; GARVY, G. Las Ondas Largas de La Economía. **Revista de Occidente**, Bárbara de Braganza, 12. Madrid, 1946.

LENIN, V. I. **O Imperialismo, Fase Superior do Capitalismo** (ensaio popular). Obras escolhidas em três tomos Vol. 1, 2º edição. Editora Alfa – Ômega, São Paulo, 1982 [1917].

LEWIS, C. M. A indústria na América Latina antes de 1930. In BETHEL, Leslie Org. **História da América Latina**. São Paulo: Editora da Universidade de São Paulo/Imprensa Oficial do Estado; Brasília: Fundação Alexandre Gusmão, volume IV, 2001. p. 111-174.

LUXEMBURGO, R. **Introdução à Economia Política**. Editora Martins Fontes. São Paulo, 1971 [1925].

MARICHAL, C. **A Century of Debt Crises in Latin America**: from independence to the great depression, 1920-1930. Princeton University. Princeton, New Jersey, 1989a.

MARICHAL, C. **Historia de la Deuda Externa de América Latina**. 1942-1992, Quinto Centenario, Alianza Editorial. España, 1989b.

MARICHAL, C. Introducción. In: MARICHAL, C. Coordinador. **Las Inversiones Extranjeras en América Latina, 1850-1930**. Nuevos debates y problemas en la historia económica comparada. Ed. El colegio de México. España, 1995. P.11-25.

MARICHAL, C. **Historia Mínima de la Deuda Externa Latino-Americana, 1820-2010**. México: Colegio de México, 2014.

MARX, K.; ENGELS, F. **Sobre o Colonialismo**. Volume II. Editorial Estampa. Lisboa, 1978 [1853]

MEUNIR, D. **La City de Londres**: los grandes mercados internacionales. Fomento de Cultura. Valencia, 1958.

OLIVEIRA, F de. A Emergência do Modo de Produção de Mercadorias: uma interpretação teórica da economia da República Velha no Brasil. In: **História geral da civilização brasileira**: o Brasil republicano. Rio de Janeiro: Bertrand Brasil; 1997.

PREBISCH, R. O Desenvolvimento Econômico da América Latina e alguns de seus problemas. In: BIELSCHOWSKY, R (ORG). **Cinquenta Anos de Pensamento na Cepal**. Rio de Janeiro, Record. 2000.

PREBISCH, R.. **O Manifesto Latino-Americano e Outros Ensaio**s. Organização e introdução. Adolfo Gurrieri; Rio de Janeiro. Contraponto. Centro Internacional Celso Furtado. RJ, 2011.

REINHART,C.; ROGOFF,K.NBER: **This Time is Different**: A Panoramic View of Eight Centuries of Financial Crises. Available in: https://www.nber.org/people/kenneth_rogoff. Accessed: 15 march.2018.

RIPPY, J. F. **British Investments in Latin America, 1822-194**: The evolution of International business 1800-1945. Volume I. Routledge, London, 1972.

SMITH, J. **Illusions of Conflict: Anglo-American Diplomacy Toward Latin America, 1865-1896**. Pittsburgh: University of Pittsburgh, Digital Research Library, 1979. Available in: <http://digital.library.pitt.edu/cgin/t/text/textidx?c=pittpress;cc=pittpress;view=toc;idno=31735057897583>. Pittsburgh: University of Pittsburgh Press. Accessed: 10.mai.2018.

SOARES, J. A. R. **O Processo Histórico da Construção de uma Instituição de Fomento para a América Latina**: a economia política do Banco Interamericano de Desenvolvimento (BID). São Paulo, Tese de Doutorado, Universidade de São Paulo, 2016, 309 p.

THORP, R.; WHITEHEAD, L. **La Crisis de la Deuda en América Latina**.

Colombia: Siglo XXI, 1986.

TOMICH, D. W. **Pelo Prisma da Escravidão**: trabalho, capital e economia mundial. São Paulo: Editora da Universidade de São Paulo, 2011.

WEBB, R. La influencia de las instituciones financieras internacionales en la industrialización mediante la política de sustitución de importaciones. In: CÁRDENAS, E; OCAMPO, J.A.; THORP, R. (org.). **Industrialización en la América Latina**: La leyenda negra de la posguerra. El trimestre Económico n° 94. Fondo de Cultura Económico. México, 2003. .

WOLFF, R. **La Economía Política del Imperialismo**. Ediciones periferia, S.R.L. Buenos Aires, 1972, p. 19- 39.