The wars of the 1860s and the economic recovery of the province of Bahia

Marcos Guedes Vaz Sampaio*

Abstract: The economy of the Province of Bahia faced a recessive period between the years 1857 and 1860 due to three predominant factors, the prolonged drought that dragged on for four years, the US crisis of 1857, which spread its damaging effects on the international system and the monetary policy of the imperial government that ranged from pluriemissionism to centralization in the Bank of Brazil, culminating in the crisis of 1859-1860. After a significant decline in domestic economic performance, the trade balance showed a substantial recovery following the outbreak of the United States War of Independence (1861-1865), prolonging this auspicious moment with the advent of the Paraguayan War (1864-1870). The troubled belligerent years have had positive effects on local cultures, especially sugar, cotton and tobacco, revealing the important dependence of an exogenous factor to lead the internal burial in the face of a fragile domestic market of low monetarization, high concentration of income and little diversified productive structure.

Keywords: war; economic recovery; Province of Bahia

Introduction

The 1850s began with the abolition of the slave trade through the enactment of the Eusébio de Queiroz law. This well-known historical fact provided a new dynamic to the Brazilian economy as a whole with the diversification of investments, translated into new banks, commercial houses, expansion of urban services, railways, steam navigation and the emergence of factories, although these are still incipient (PRADO JR., 1986). The Province of Bahia, within this broader framework, also experienced diversification and modernization in its internal structure.

The favorable period, however, suffered a setback with the cholera-morbid epidemic that hit the province in 1855, retracting investments strongly and accounting for a significant number of deaths. The following years were not a return to the

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beginning of the decade, which seemed to open an auspicious horizon for the provincial economy. A major drought has affected a wide region of Bahia, significantly affecting the production of foodstuffs (TAVARES, 2001, MATTOSO, 2004). The situation worsened with the outbreak of the North American crisis of 1857, which reached Brazil and, naturally, Bahia, in the following years, damaging its economic performance during the years of 1858 and 1859.

The instability of the national monetary policy in the period contributed to worsen the scenario. As a result of the dispute between papermakers and metalists, it led the country to abruptly change from a reckless policy of expanding the circulating medium, defended by the papermakers, to a deep retraction of this, a strategy defended by the metalists. The abrupt change caused the national crisis of 1860 that hit the Bahian economy at the time when a return to normality was expected after the difficult years of the previous quadrennium, contributing to aggravate the domestic scenario (MONT’ALEGRE, 1972, PELÁEZ, SUZIGAN, 1981, LIMA, 1986).

The recovery, however, came faster than one could imagine with the outbreak of the Civil War in the United States in 1861. The sudden retraction of US production in international trade opened space for Bahian production to penetrate markets exploited by American traders, resulting in a resurgence in domestic economic performance, allowing the Province of Bahia to escape the years of crisis and experience a favorable moment again.

The outbreak of the Paraguayan War (1864-1870), which started in the throes of the North American intestine war, in turn, allowed the auspicious moment to be extended for Bahian foreign trade and, consequently, for its economic performance. The important growth of exports in the period, favored the resurgence of the provincial economy, stimulating the domestic market. The positive effects for the Bahian economy from the belligerent period reveal its important dependence on exogenous factors. The fragile economic structure, with low monetization, based on the primary export model, especially sugar, which faced an adverse situation of decline in its participation in international markets, due to competition from Antillean sugar and beet and with a diversified export agenda, it would not be able to recover so quickly if it were not for exogenous factors that ended up, indirectly, by benefiting it. The internal dynamics conditioned by exogenous factors reinforces the peripheral character of a tibial and archaic production structure in the face of the
new directions of the international system of expansion of industrial capitalism in central countries.

The present article, therefore, intends to analyze the economic recovery of the Province of Bahia in this period of wars. To achieve this objective, the text is divided into three parts, in addition to this introduction and the final considerations. The first part focuses its analysis on the unfavorable period that lasted from 1857 to 1860 in order to situate the recessive moment that the province was going through. The second part focuses on the two wars that broke out in the 1860s and that had important consequences on the economy of the Province of Bahia. Finally, the third part focuses on the analysis of the Bahian economy in the tumultuous 1860s, in order to show the improvement of its economic performance amid the turbulences caused by the American Civil War (1861-1865) and the Paraguayan War (1864-1870).

The economic crises of the 1850s in the Province of Bahia

The beginning of the second half of the 19th century had started promising for the economy of the Province of Bahia. Following in the footsteps of Brazil, which had experienced an important expansion at this time, summed up by Prado Jr. (1986, p. 192) in the foundation of 62 industrial companies, 14 banks, 3 savings banks, 20 steam navigation companies, 23 insurance companies, 4 colonization companies, 8 mining companies, among others, Bahia experienced an increase in its banking sector with 4 new establishments, being a foreigner, the London and Brazilian Bank, 15 companies in the metallurgical sector, five of them in the 1850s, 7 fabric factories, in addition to a significant diversification in its productive structure with the appearance of factories vinegar, hats, soap, ice and carts (TAVARES, 2001, MATTOS, 2011, PEDRÃO, SAMPAIO, 2002).

The favorable phase soon suffered an important setback with the cholera-morbo epidemic in 1855, which killed 25 thousand people, according to Tavares (2001, p. 273). The economic recovery, which began the following year, was short-lived, since in 1857, the province began to face a major drought, which lasted for four years with substantial effects on subsistence agriculture and livestock. During the year 1858, the Brazilian and Bahian economies felt the reflexes of the international crisis of 1857, which had its epicenter in the American market, contributing to aggravate the already troubled domestic scenario.
Second world crisis of the capitalist system (ROUBINI, MIHM, 2010), the crisis of 1857 was the result of American agricultural overproduction at a time when the international market was rebalancing after the end of the Crimean War (1853-1856), when that Russia’s grain production, an important world producing center, had suffered a sharp retraction, causing world prices to rise and contributing to euphoria in the United States agricultural sector. The enthusiasm of American investors also found an echo in the expansion of the railway segment, in the march to the West, with the consequent appreciation of their lands and, in the credit expansion, supported by the government after the discovery of gold in California in the late 1840s (CALOMIRIS, SCHWEIKART,1991; EVANS, 1969; KINDLEBERGER, ALIBER, 2013).

The optimism of the American economic agents amplified speculation on the New York Stock Exchange and soon afterwards suffered an important cooling with the Russian return to the international grain market, after the end of the war. The increase in supply with the overproduction of the USA and the Russian reintegration produced a substantial drop in agricultural prices, affecting the profitability and dynamism of the sector in the United States. As the business fabric was closely related, that is, credit expansion, increased investments in railroads, an external scenario favorable to agricultural investments, march to the West and land appreciation, the drop in the profit margins of the primary sector with the expansion of Russian grain supply was reflected in the slowdown in the US economy, followed by a retraction in investments and the collapse of a major Western insurer, Ohio Life Insurance. It was the signal for the rush to the banks and the spread of panic (CALOMIRIS, SCHWEIKART,1991).

The outbreak of the American crisis caused an important retraction of 11% in the country’s circulating environment, a decrease of 10.5% in its exports and 22% in imports, a 100% increase in interest rates and the bankruptcy of 1,415 bank houses (SAMPAIO, 2017 , p. 907). The deleterious effects of the crisis spread throughout the international system, affecting central markets in the second half of the 19th century, such as London and Hamburg, subsequently amplifying its range of action, reaching peripheral nations, such as Brazil. One of the initial developments on the Brazilian economy was the expressive increase in the remittance of foreign exchange to London, which, in 1857, grew 76% in relation to the previous year. In the Province of
Bahia, this increase was slightly less, but no less significant, standing at 52.6% more than the previous year (GUIMARÃES, 2013, p. 241-242).

Brazilian exports declined by approximately 16%, even in a scenario of currency devaluation, resulting in a substantial loss of revenue (PELÁEZ, SUZIGAN, 1981, p. 100). Another negative impact was the scarcity of currency, the result of the panic that translated into the expressive growth in the volume of withdrawals at Banco do Brasil, implying a 35% decrease in the bank’s monetary stock at the end of 1857 (SAMPAIO, 2017, p. 910). Mont'alegre (1972, p. 147) reveals that in Rio de Janeiro, capital of the Empire, 139 bankruptcies occurred between 1857 and 1858.

The national economic situation worsened with the outbreak of another crisis in a very short time. This time, the origin was internal, as a result of the sudden change in monetary policy, from the pluriemissionist profile, until then in force, to a more conservative approach, of restriction and concentration of issuance of currency under the responsibility of Banco do Brasil. The current monetary policy, based on the plurality of the issuing power of some banks, was based on the North American experience and aimed at stimulating the national economic development by facilitating the issuance of means of payment, providing greater flexibility and liquidity to the system in a country of continental dimensions. The papermakers, as defenders of pluriemissionism were known, advocated in defense of this policy, arguing that facilitating access to paper money is strategic for Brazil's progress, by issuing decentralization, which provided a more dynamic regional environment, stimulating investments and consumption. Metallists, as defenders of a more centralized and restrictive monetary policy were known, criticized this policy, warning of inflationary risk and significant currency devaluation, harming the business environment in the country (MONT'ALEGRE, 1972, PELÁEZ, SUZIGAN, 1981, LIMA, 1986).

The outbreak of the 1857 crisis and its repercussions on the Brazilian economy, heated the debate between papermakers and metalists about the causes of the economic crisis. Defenders of multi-emissionism, such as Mauá, attributed the responsibilities to the adverse international scenario from the debacle of the American market. Proponents of a more conservative monetary policy, in turn, accused pluriemissionist politics for the deleterious effects of the crisis. The perverse effects of the crisis led the imperial government to bet on the metalist thesis,
changing the command of the Ministry of Finance, leaving the liberal Souza Franco and assuming the conservative, Salles Torres Homem. The new minister led a sudden change in monetary policy, from the plurality of bank issuing faculties to centralization under the responsibility of Banco do Brasil in 1860.

The new monetary policy, with a contractionary and restrictive profile, caused a significant retraction of the circulating environment, contributing to the intensification of the depressive period (MONT’ALEGRE, 1972; PELÁEZ, SUZIGAN, 1981; MATTOS, 2011). According to IBGE (1990, p. 528), paper money in circulation fell from 95,100,000$000 reis in 1857, to 80,700,000$000 reis in 1861, which represents a 15% reduction in the circulating medium. Only in the case of the Province of Bahia, the chain of trade that went from 34,927,033$000 reis in the year 1858-1859, declined to 27,028,903$000 reis in the year 1859-1860, registering an approximate drop of 22.6% (BAHIA, 1978). Bahian exports declined from 13,419,612$000 reis in the year of the 1857 crisis, to 8,422,986$000 in the year of implementation of the new contractionary monetary policy, which represents a drop of 37% (BAHIA, 1978).

The substantial depressive effects of the strongly contractionary monetary policy of the conservative cabinet of Salles Torres Homem led to pressure on the government, mainly by prominent figures, such as Barão de Mauá. The intensification of pressures, reinforced by the worsening of the social and economic situation in some provinces, such as Bahia, resulted in a new change of command at the Ministry of Finance, with the entry of Silva Ferraz. His proposal was less rigid than that of Torres Homem, but neither did he flirt with previous pluriemissionism. The aim was to resume economic growth in the country, while preserving price stability (MONT’ALEGRE, 1972; PELÁEZ, SUZIGAN, 1981; MATTOS, 2011).

The economic situation in the Province of Bahia did not improve with the introduction of a less rigid monetary policy. If in the year 1859-1860, the trade flow had been 27,028,903$000 reis, in the year 1860-1861, there was a decrease of approximately 17%, with a trade flow of 22,530,526$000 reis (BAHIA, 1978). There was no prospect in the short-term horizon of a way to reverse the recessionary economic scenario that had been going on since the North American crisis of 1857.

Another troubled episode in American history, however, came to the rescue of the struggling Bahian economy: the outbreak of the American Civil War, also known as the Civil War, in 1861. If the recessionary period of the Bahian economy had been
inaugurated, among other factors, by an economic crisis originating in the United States, four years later, another event, also of American origin, had started, this time resulting in economic recovery for the Province of Bahia. The 1860s began with an intestinal war in the United States and ended with a war of historical importance for Brazil, the War of Paraguay, both with significant developments on the performance of the Bahian economy.

A decade of wars (1861-1870)

The 1860s were marked by the outbreak of two major wars for world economic and political history, the Civil War (1861-1865), which took place in North American territory, and the Paraguayan War (1864-1870), a conflict that it united Brazil, Argentina and Uruguay against the Guarani nation. The first, a civil war involving the northern states against the southern separatist states. The second, the result of territorial disputes and the Paraguayan expansionist desire. Both, with their idiosyncrasies, contributed, indirectly, to the improvement of the economic performance of the Province of Bahia. Partly due to the suppression of productive areas competing with the goods that Bahia also produced, allowing Bahian products to penetrate markets now disputed by regions that, at that time, were in conflict, another part due to measures of the imperial government, due to of the Paraguayan War.

The American civil war originated from the dichotomous profile of the economy of the United States in the middle of the 19th century, in which the states that experienced an important industrialization process were concentrated in the North, had a better distributed land structure, with small and medium-sized properties prevailing, predominance of wage labor. The South, in turn, concentrated the agrarian states, with a primary-export model, predominantly cotton farmers, with a marked presence of the latifundia and slave labor (GRANT, 2014). The North American nation’s modernization project included the suppression of slave labor and the spread of industrialization in the country, but it faced strong resistance from southern states.

The tensions involving the northern states, free from slave labor, and the southern states, defenders of slavery, have intensified with the increase in pressures to end slavery over the years. When Washington freed itself from slavery, southern
movements in defense of slave labor intensified, increasing the tensions that divided the country. Abraham Lincoln’s candidacy for the presidency of the United States helped to ignite the scenario, because he argued that the country could not remain divided, or that slavery would be abolished throughout the national territory, or else the whole country would adopt it. In a speech that became famous, called “the divided house”, he made his point (DAVIDSON, 2016, p. 155-156):

A house divided against itself cannot support itself. I believe that this government will not be able to survive permanently divided between a slave and a free half. I do not expect the Union to dissolve - I do not expect the house to fall. What I hope is that it will no longer be divided. It will become one, all in one way or all in another way. Either opponents of slavery will halt its advance and leave it where public opinion dictates, in the belief that it is on the verge of permanent extinction, or its advocates will carry it on until it becomes equally legal in all states, both old and new - both in the North and the South.

Abraham Lincoln’s victory in the 1860 elections led southern states, where slavery was most entrenched, led by South Carolina, to separate from the Union, forming the Confederate States of America and electing Jefferson Davis as their president. In 1861, southern attacks on northern strongholds forced Lincoln to take a firmer reaction, sending 75,000 soldiers from the North to contain aggression from the South. The Civil War began, which lasted until 1865 (DAVIDSON, 2016, p. 157-158).

The effects of a prolonged war were exhausting the forces of the South, which, with a more backward economy and, therefore, with less capacity to accumulate surpluses and form a strong army, was subsequently defeated by the troops of the North. A wrong economic decision contributed to aggravate the southern situation, while helping to explain, for example, the considerable improvement in cotton exports from the Province of Bahia: that of suspending cotton exports to England, believing that this decision would force British to enter the conflict alongside the Confederates. Great Britain, however, had cotton stock to keep it for a year without needing further acquisitions, in addition to the fact that it would be a very exhausting undertaking for the British to intervene in an American domestic conflict supporting
one side (KARNAL, 2011, p. 133). The figures for Bahian exports in the period show that local cotton helped to supply the retraction in North American sales, even though the British had a significant stock. The Confederates did not take into account that other producer markets could compensate for their temporary absence in the supply of cotton.

At the end of four years of conflict, the North defeated the forces of the South, guaranteeing the maintenance of the North American borders and the vast southern territories as an integral part of the country. The abolition of slavery was an important step in the project of modernization and social and economic transformation in the United States. According to Karnal (2011, p. 136), the civil war was extremely costly and lethal, accumulating more than 600 thousand dead, a number alarmingly higher, for example, than the Vietnam War, which killed approximately 58 thousand Americans. Allen (1968, p. 148) adds, pointing out a substantial inflationary picture, which in the North alone, reached the amount of 100% over the four belligerent years, as well as deep economic devastation and poverty in the South, the main stage of the armed conflicts. With the end of the war, little by little the American society was organizing and resuming its production, recovering the markets lost during the war years.

Another equally important war, the War of Paraguay (1864-1870), contributed to reinforce and consolidate the favorable economic moment for the economy of the Province of Bahia. If, on the one hand, the province sent approximately 20,000 men to the war, mainly from the rural area (MATTOS, 2011, p. 89), with the Bahian crop missing in its arms, on the other, the provincial foreign trade found itself at a moment substantially positive. The bellicose years on the cisplatine borders were of vital vitality for international commercial relations.

A target of historiographical controversy, going into the details of the Paraguayan War at this point is beyond the scope of this article. In summary, the predominant reading, supported by Doratioto (2002) and Yegros and Brezzo (2013), affirms that the conflict originated from the Guarani need to guarantee free access to the sea by the estuary of the Rio da Prata. Interventions by Brazil and Argentina in Uruguay, supporting the colorados against the power of the Blancos contributed to increase tensions with the Paraguayans, under the government of Solano López, who
feared greater control of Brazil and Argentina in the River Plate, damaging trade Guarani exporter.

The Paraguayan interpretation was that Brazil and Argentina sought to expand their territorial space at the expense of Uruguay and Paraguay. The invasion of Uruguay by the Brazilian army in order to put the colorados in power, in line with interests, led López to interpret that the Brazilian expansionist policy had been put into practice. In retaliation, he sent a Guarani gunboat to arrest the Brazilian ship Marquês de Olinda, which was traveling along the Paraguay River in November 1864, which resulted in the rupture of diplomatic relations between the two countries. On the eve of Christmas 1864, López launched an offensive against Mato Grosso, starting the war.

Brazil was successful in the rise of the colorados to power in Uruguay and, in March 1865, López declared war on Argentina, as it did not allow his army to attack Rio Grande do Sul by entering Corrientes, territory belonging to Argentina. On May 1, Brazil, Argentina and Uruguay signed the Triple Alliance Treaty against Paraguay's offensives. The conflict lasted until 1870, when Solano López was killed in a camp in Guarani lands (DORATIOTO, 2002, YEGROS, BREZZO, 2013). According to Mintegui (2017), between 15 and 20% of the Paraguayan population died, something around 80 thousand people, half of them due to illness, hunger or mistreatment. In Argentina, the death toll reached 18 thousand, while in Brazil, this number reached about 50 thousand people.

As if the significant contingent of deaths were not enough, the Paraguayan War resulted in significant losses to the Empire's finances. Large expenses and substantial issues of paper money have compromised the Brazilian budget for a long period, destabilizing its financial and monetary structure. According to Peláez and Suzigan (1981, p. 114), two estimates were made regarding the total monetary cost of the war: the first, prepared by the Ministry of Finance commission, indicated a total cost of 460,718 thousand reis; the second, carried out by the Treasury, reached the sum of 614 thousand reis. In addition, the significant increase in the volume of paper money during the war caused currency devaluations and inflation.

The effects on the Brazilian economy, however, were not at all harmful. Exchange rate devaluations, for example, offset the inflationary increase, leading Brazil to a long period of trade balance surpluses. In the interstitium of the war there
was a growth in private enterprises, as a result of the credit expansion. It can be said, therefore, that despite the increase in debt, the Brazilian economy experienced a moment of vitality in the belligerent years. In the words of Mont’alegre (1972, p. 189-190):

From 1864 to 1870 - the period that covers the war against Paraguay - new initiatives in search of capital emerged and, among others, five banks, six shipping companies, six industrial companies, seven maritime and land insurance, two colonization and introduction of immigrants, five of urban rails, two railroads. [...] In the year 1870-71, the external debt reached 12.7 million sterling and the internal debt reached 234,312 thousand escudos. From 1866, however, the terms of the trade balance were reversed, which, from traditionally negative, started to provide positive balances, in a series that would only be interrupted in 1888.

The dynamism that the Brazilian economy experienced in the tumultuous years of the Paraguayan War had important repercussions on the provinces. Exchange rate devaluations stimulated exports. The multiplication of paper money issuances, despite the inflationary consequences, heated the domestic market, giving dynamism to commercial, financial and productive structures once stifled by the highly restrictive monetary policy. Finally, the gaps in international trade, arising from the Civil War, contributed to the leverage of the cotton exporting economy, for example, in the case of Bahia, which also experienced an increase in sugar and tobacco exports. In the next topic, the impacts on the Province of Bahia will be analyzed more closely.

In the midst of wars, the Bahian economy is recovering

The Bahian economy, which had faced a particularly difficult decade in the 1850s, was showing signs that it could breathe more easily in the early 1860s. The first factor to contribute in this direction was the end of the prolonged period of drought, reviving the agricultural sector. The outbreak of the Civil War (1861-1865) in the United States on April 12, 1861, however, was the preponderant factor for the uplift of
the productive, commercial and financial activities of the Province of Bahia at the beginning of the decade.

As we have seen, the civil war substantially affected the productive and commercial structure of the American economy, temporarily removing it from international trade, which ended up favoring countries and regions producing goods competing with the North American market. The Bahian economy took advantage of this vacuum in foreign trade to increase its exports of sugar, tobacco and, above all, cotton, increasing prices and quantity. Calmon (1925, p. 98) referred to the moment experienced by the Province of Bahia:

The fact of the American war augmented the benefits of the rebirth effort among us. Diverting the energies of efficient work, tallying the fields, and merging all the strength of the fanaticism of hatred among brothers, it gave breath to our deadened activities, animated by the advances of credits for the development of the crops, which, by the way, usury of exporting dealers. The high prices of sugar, cotton and tobacco for the needs of the nation at war, and, above all, for the absence of competition from it, meant that our export in the year 1861, which, however, had not started under promising auspices, reached Rs 16,791,000$000, double that of the previous year, reaching Rs 18,030,000$000, in the following year of 1862.

The year 1862 was even more prosperous for the Bahian export sector, since international sales reached 18,029: 367$000, the highest value so far in its entire history (BAHIA, 1978c). It is important to highlight that the exchange rate had not undergone significant changes in the period, with only a slight appreciation, going from an implicit rate of 9$390 réis in 1861, to 9$125 réis in 1862 (IBGE, 1990, p. 568-569). Thus, the improvement in the export performance of the Province of Bahia was not only related to exchange rate devaluations, more common in the period under analysis, but to the gap in the international market generated by the North American civil war, reinforcing the perception of dependence on Brazilian and Bahian economy of changes in the international scenario to obtain greater gains in the set of the internal productive, commercial and financial structure. An example that reinforces this interpretation is the optimism of the superintendent of the Bahiana Company of
Steam Navigation who, in 1866, wished to expand the number of trips to ports in the north of the province due to the better commercial results due to the years of civil war in the United States:

 [...] the profitability of the southern line was very low, while the northern line was prosperous [...] The company's superintendent was enthusiastic about the results of the northern line, mainly on the stretch that went to Aracaju, due to the increase in cotton production, as a result of the Civil War that occurred in the United States. (SAMPAIO, 2014, p. 209)

This auspicious moment, however, suffered a temporary setback caused by the 1864 Crisis. According to Peláez and Suzigan (1981, p. 105), the threat of a decline in export prices and in the volume of foreign trade, as well as the low expectations regarding the Brazilian economy's capacity to resist a stronger external shock with the more restrictive monetary policy that was in force, contributed to the outbreak of the crisis of 1864, also known as the Crisis of the Souto, due to the bankruptcy of the credit establishment Casa AJ Alves Souto & Cia, firm with strong connections to Banco do Brasil. This crisis unfolded in an important set of bankruptcy of credit institutions, contaminating the national economic environment, causing a substantial debacle and generating a significant drop in the amount exported by the Province of Bahia in the years of 1863 and 1864. The year 1863, for example, recorded the worst performance in the export segment for the 1860s, declining by 13,058,166$000 réis (BAHIA, 1978c). However, in 1865, exports had already recovered and accumulated a new record, reaching 19,247,941$000 reis (BAHIA, 1978c). This recovery is explained by a new currency devaluation, raising the rate to 9$959 reis (IBGE, 1990, p. 569) and the rapid reaction of the imperial government that expanded the monetary issuance authorization granted to Banco do Brasil. The issuance of paper money grew significantly until the end of the decade, contributing to the recovery of economic activities, benefiting, in turn, also the Province of Bahia.

The fluctuating behavior of the exchange rate with a greater tendency towards depreciation, of course, reflected on the performance of the export sector and, consequently, of the trade balance, however, what makes this period emblematic is the behavior of the mercantile relations of the province, which can be visualized from
the movements in the trade chain, which adds the results of exports and imports in a
certain period of time. The average verified in the 1860s increased, approximately,
27.6%1 in relation to the 1850s, which reinforces the narrative of the recovery of the
provincial economy in the belligerent period, since exchange rate devaluations affect
imports, but even these experienced a growth in the period in question,
corroborating the idea of greater economic dynamism in the Bahian economy, as
shown in the table below.

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<tr>
<th>Exercises</th>
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<td>1850-1851</td>
<td>n.d.</td>
<td>1860-1861</td>
<td>22,530:526$</td>
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<td>1851-1852</td>
<td>21,763:550$</td>
<td>1861-1862</td>
<td>34,176:101$</td>
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<td>1852-1853</td>
<td>24,899:974$</td>
<td>1862-1863</td>
<td>35,166:909$</td>
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<tr>
<td>1853-1854</td>
<td>24,169:958$</td>
<td>1863-1864</td>
<td>29,161:388$</td>
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<tr>
<td>1854-1855</td>
<td>24,475:904$</td>
<td>1864-1865</td>
<td>30,977:160$</td>
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<tr>
<td>1855-1856</td>
<td>26,484:192$</td>
<td>1865-1866</td>
<td>36,846:882$</td>
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<tr>
<td>1856-1857</td>
<td>38,159:745$</td>
<td>1866-1867</td>
<td>34,080:350$</td>
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<td>1857-1858</td>
<td>33,099:142$</td>
<td>1867-1868</td>
<td>40,424:732$</td>
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<tr>
<td>1858-1859</td>
<td>34,927:033$</td>
<td>1868-1869</td>
<td>45,103:493$</td>
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<td>1859-1860</td>
<td>27,028:903$</td>
<td>1869-1870</td>
<td>39,549:999$</td>
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Looking only at exports from the Province of Bahia, as can be seen in Table 2,
performance in the 1860s is significantly higher than in the previous decade. From an
average of 10,897:075$000 reis, it jumped to 16,941:021$000 reis, which represents a
55.5% increase in export earnings. This figure reveals the potential for the recovery of
the provincial export activity in a context of wars that spanned the entire 1860s. In
this table it is also possible to verify the drop in Bahian exports in the years 1863-1864
and 1864-1865 due to the Crisis of Souto, mentioned above.

1 This value was arrived at by calculating the simple average of the two chronological goals and using
the same interval of years, that is, excluding the calculation of the average for the 1860s, the 1860-1861
exercise, due to the lack of data for the period from 1850 to 1851. If you add the interstice of 1860-1861
and divide your sum by 10 instead of 9, you get a slightly lower average of 34,801:$747, and therefore an
equally smaller percentage increase of 22.8%. However, the comparison is hampered by not involving
the same number of years for the two decades under analysis.
2. Comparative table of export revenues from the Province of Bahia in the 1850s and 1860s

<table>
<thead>
<tr>
<th>Exercises</th>
<th>Exports</th>
<th>Exercises</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1850-1851</td>
<td>9,854,407$</td>
<td>1860-1861</td>
<td>8,422,986$</td>
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<tr>
<td>1851-1852</td>
<td>8,660,997$</td>
<td>1861-1862</td>
<td>16,791,010$</td>
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<tr>
<td>1852-1853</td>
<td>10,656,745$</td>
<td>1862-1863</td>
<td>18,029,367$</td>
</tr>
<tr>
<td>1853-1854</td>
<td>10,431,055$</td>
<td>1863-1864</td>
<td>13,058,166$</td>
</tr>
<tr>
<td>1854-1855</td>
<td>11,782,834$</td>
<td>1864-1865</td>
<td>14,083,922$</td>
</tr>
<tr>
<td>1855-1856</td>
<td>12,860,282$</td>
<td>1865-1866</td>
<td>19,247,941$</td>
</tr>
<tr>
<td>1856-1857</td>
<td>17,863,374$</td>
<td>1866-1867</td>
<td>16,202,328$</td>
</tr>
<tr>
<td>1857-1858</td>
<td>13,419,612$</td>
<td>1867-1868</td>
<td>22,264,583$</td>
</tr>
<tr>
<td>1858-1859</td>
<td>15,465,592$</td>
<td>1868-1869</td>
<td>21,547,032$</td>
</tr>
<tr>
<td>1859-1860</td>
<td>10,822,944$</td>
<td>1869-1870</td>
<td>19,762,786$</td>
</tr>
</tbody>
</table>

Source: BAHIA, 1978c.

The behavior of Bahian exports over the 1860s points to a substantial dependence on external factors for the recovery of the provincial economy. The fragility of the internal market, of low monetization, high concentration of income around the elite linked, mainly to sugar activity, but also to foreign trade, of low dynamism due to the incipience of its manufacturing and services sector, revealed the situation of lukewarmness in Bahian economy. This scenario only reinforces the understanding that the auspicious winds could only come from international economic relations or national policies through State actions. The improvement in export performance and the policies of the imperial government summed up the breath of hope for the revival of economic activity in the province after the depressive years of 1850, in its last five years.

If, on the one hand, the American domestic war depressed its export segment, favoring Bahian production, especially of cotton, which was one of the beneficiaries of this gap in the international market, on the other hand, the war in Guarani lands, which the southeastern, center The northwest and south of Brazil were more directly involved, equally, favoring the Province of Bahia, due to its greater distance from the territories involved in the conflict against Paraguay. The significant increase in the issuance of paper money with the objective of heating the economy, mitigating the damaging effects of the Souto Crisis, as seen, but also to finance war efforts, helped in the resurgence of the provincial economic dynamism in the period, as well as exchange rate devaluations, frequent in this period.
The implicit exchange rate, for example, starts the 1860s, according to the IBGE (1990, p. 568-569), at the value of 93$302 réis. At the end of the Paraguayan War, in 1869-1870, this rate was depreciated, reaching 12$751 reis, which represents a devaluation of approximately 37.8% in relation to the beginning of the decade, helping favorably in the behavior of exports. The authorization of the imperial government for the expansion in the issuance of paper money by Banco do Brasil and other issuing institutions, such as Banco da Bahia, also, played a fundamental role for the province to experience a more favorable economic moment.

According to IBGE (1990, p. 528), the volume of paper money held by the public was 76,200 thousand réis in 1860 and the total amount issued was 86,200 thousand réis. At the end of the Civil War in the United States, in the year 1865, these values were already 99.8 and 108.9 thousand reis, respectively, which meant that the paper money held by the public had grown about 31%, while emissions rose 26.3%. When faced with the figures at the end of the Paraguayan War in 1870, the growth was even more astonishing: the amount of paper money held by the public reached 184,800 thousand reis, while emissions reached 193.8 thousand reis. This represents an increase of 85.2% in the amount of paper money held by the public and 78% in total issues! In spite of a higher price increase in the wake of monetary expansion, the growth in exports, as well as in the trade flow, are justified after the imperialist expansionist policy. There is no doubt that exchange rate devaluations, the expressive growth of the circulating environment and the retraction in the international supply of goods produced by competitors from the Province of Bahia contributed to the scenario of an upsurge in international economic relations experienced by the Province of Bahia in the period in question.

The figures of the Companhia Bahiana de Navegação a Vapor, for example, which provided the service of transporting passengers and goods from the south of Bahia to the Province of Alagoas, serving the main coastal cities of the coast of Bahia, Sergipe and Alagoas, between the years 1865 and 1869, that is, with the Paraguayan War (1864-1870) in full swing, they contribute to reinforce the interpretation of improvement in the provincial economic situation in the period under analysis:
3. Table of revenues of Bahian Steam Navigation Company (1865-1869)

<table>
<thead>
<tr>
<th>Years</th>
<th>Coastal Navigation</th>
<th>Concave Navigation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1865</td>
<td>205:813$675</td>
<td>128:988$090</td>
<td>334:846$765</td>
</tr>
<tr>
<td>1866</td>
<td>347:310$292</td>
<td>141:833$713</td>
<td>489:144$005</td>
</tr>
<tr>
<td>1867</td>
<td>396:059$615</td>
<td>153:179$316</td>
<td>549:238$931</td>
</tr>
<tr>
<td>1868</td>
<td>515:427$587</td>
<td>169:716$180</td>
<td>685:143$767</td>
</tr>
<tr>
<td>1869</td>
<td>586:038$262</td>
<td>189:856$580</td>
<td>775:944$842</td>
</tr>
</tbody>
</table>

Source: SAMPAIO, 2014, p. 154. Table adapted by the author.

As can be seen, the revenues earned by Bahian Company with freight freight and passenger transportation increased significantly during the course of the Paraguayan War. Coastal navigation revenues alone grew around 185% between 1865 and 1869! Inland navigation, which connected Salvador to the main cities of Bahia's Concave, increased its revenues by approximately 47.2%. There is no doubt that they are expressive numbers, especially in a context of war. These figures reinforce the interpretation that the economy of the Province of Bahia improved its economic performance, also, during the war on Guaraní lands, making the 1860s a favorable moment for the productive and commercial structure of the province. The 1870s will collect the bill for the unbridled monetary expansionism of the 1860s, mainly with the increase of the Brazilian external debt and the inflationary increase. The belligerent interstice, however, served to alleviate the economic suffocation faced in Bahian lands.

The Province of Bahia reacted to the unfavorable economic moment experienced in the second half of the 1850s, thanks to events external to its market, such as the two wars that occurred in the period and the actions of the imperial government, both due to the constant exchange devaluations, which stimulated the sector exporter and the expansion of the national monetary base, through an expansionist policy. The winds blew favorably for the Bahian economy in the 1860s, from an exogenous dynamic, revealing its insertion and increasing dependence on the international capitalist system of English liberal matrix.

2 The figures for the year 1869 were doubled due to the original numbers found in primary sources referring only to the first half of that year. Despite the inaccuracies that may exist for adopting this strategy, the final figures obtained do not differ so much from the growth trend shown in previous periods.
Final considerations

The Bahian economy experienced a period of economic recession in the second half of the 1850s due to endogenous factors, such as the prolonged drought and the deleterious effects of the cholera-morbo epidemic, combined with exogenous factors, such as the 1857 Crisis, which broke out in the American market and had significant repercussions on the world economy as a whole and the Crisis of 1860, as a result of the change in the monetary policy of the imperial government, inaugurating a period of greater restriction in the issuance of paper money. The advent of the Civil War (1861-1865) in the United States contributed strongly to the beginning of the reversal of this depressive scenario in the provincial economy. The interruption in the supply of some important goods to the European market, especially cotton, benefited Bahian production, which increased its exports in the period.

The Souto Crisis, in 1864, led the imperial government to adopt an expansionary monetary policy, expanding the national monetary base, which contributed to oxygenate the business environment, asphyxiated by the credit crunch. Issuances of paper money remained at a higher level throughout the late 1860s, too, due to the outbreak of the Paraguayan War (1864-1870). The need to finance the army and maintain the dynamism of economic activity at a time of greater instability due to the conflict with the Guarani nation justified the permanence of the more flexible issuing policy. This environment favored the expansion of economic activity in the Province of Bahia, evidenced by the important improvement in the performance of the export sector, as well as in the trade chain. Data related to revenues from the transportation of goods and passengers by Bahian Steam Navigation Company reinforce this argument. In addition, exchange rate devaluations also contributed to the more favorable numbers of the provincial export economy.

The combination of these effects led to an increase in exports as well as international transactions, stimulating the domestic economy and allowing its recovery and growth, after the turbulent years of the second half of the 1850s. The Bahian economy demonstrated its dependence on external events to promote some improvement in its economic results. The primary-export model, with a high concentration of income, remained as the main driver of the provincial economic
dynamism, reacting positively or not, according to external events and their developments. The belligerent decade recovered the economy of the Province of Bahia, after a previous decade of peace and economic recession. The Province of Bahia thus becomes a classic example of the peripheral and dependent insertion of the Brazilian economy in the context of the expansion of the English liberal capitalist system in the course of the 1800s.

References


