SOCIAL SEGREGATION AND INSTITUTIONS IN BRAZIL OLD REPUBLIC

Thales A. Zamberlan Pereira

Preliminary and incomplete – please do not quote.

ABSTRACT

The objective of this paper is to analyze how an unequal distribution of Brazilian political power, at the beginning of the Republic (1889-1930), affected the distribution of economic resources for different social groups. Two of them deserve special attention, the recently freed slaves and European immigrants, brought to the country to be low-cost workforce. Since the distribution of economic resources is influenced by political institutions, the paper seeks to identify which social groups were favored or disserved by the institutional structure. For this study, classic interpretations of this period were used, along with theoretical framework of the New Institutional Economics, represented by the works of Douglass North and Daron Acemoglu. Qualitative evidence shows that federal governments played an important part in the discrimination of social groups, limiting access to citizenship. Current quantitative evidence shows that asymmetric institutional access was an important factor to explain the income disparity observed between these groups during the 20\textsuperscript{th} century.
1. Introduction

The debate about the causes of nation’s economic development is old and extensive. Over the last years, economists returned to use a wider field when studying their object of study, reincorporating political analysis. This has been so not only with the classical political economic development studies, but also with institutional analysis. The role of institutions in economic development is not new, dating from Adam Smith\(^1\) and in the 20\(^{th}\) century, Veblen and Commons\(^2\). Recently, the New Institutional Economics (NIE), mainly with the works of Douglass North, established a research program with a progressist character that resulted in a vast literature.

A large part of this literature focused the inequality between countries\(^3\), but more recently, important studies were developed in order to understand more specific aspects of this matter\(^4\). The objective of the present paper is to use these instruments to comprehend new forms of economic inequality that appeared in Brazil at the beginning of the republican period. Beyond the dichotomy between “senhor de engenho” and slaves - the common vision of the 19\(^{th}\) century - Brazilian social and economic dynamics gained a new shape with the entrance of immigrants during 1890 decade. However, this plurality did not allow the incorporation of groups that were previously outcast from Brazilian society, since the access to economic institutions, essential to development, remained discriminatory.

The first part of this paper elucidates what institutions are and how they affect economic development. Then, institutional access for immigrants and recently freed slaves is analyzed. And, in conclusion, it is showed that the asymmetric access to institutions resulted in the disparity on income between these groups in the 20\(^{th}\) century.

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\(^1\) BOIANOVSKY (2010) has an interesting study about the role of institutions in the classical economists thought.  
\(^2\) For a deeper analysis about different institutionalist approaches, mainly about the “old institutionalism”, see CONCEIÇÃO (2002).  
\(^3\) These will be commented in the next section, which explains the concepts of institutions that are used in this paper.  
\(^4\) About Brazilian studies of this kind, see SUMMERHILL (2010), MUSACCHIO and MARTÍNEZ-FRITSCHER(2010), CARVALHO FILHO and COLISTETE(2010), NARITOMI, SOARES and ASSUNÇÃO (2009).
2. Institutions and Economic Development

First, it’s necessary to define the concept of institutions that will be used in this paper. This concept becomes fuzzy and eventually is used as ad hoc explanation when not specified. Papers that use NIE usually define institutions as “the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction” (NORTH, 1990). Or they assert that “economic institutions matter for economic growth because they shape the incentives of key economic actors in society; in particular, they influence investments in physical and human capital and technology, and the organization of production” (ACEMOGLU ET AL, 2005). However, these definitions are insufficient to establish a link between institutions and development, since the structure of incentives might not be homogeneous among economic agents.

Numerous studies showed the negative relation between inequality and economic growth. Engerman and Sokoloff (2002) demonstrated that historical differences – dating from the beginning of European colonization in America – of land and citizenship access, like suffrage and education, are essential to comprehend income inequality. Institutional changes can be interpreted as a result of supply and demand of forces in a society (ALSTON, 2005); and wealth, human capital and political power are crucial to select which agents (or groups) will have more power to appoint their institutional arrangements, that is, the structure that allowed them to increase economic gains.

The implication is that institutions are not exogenous; they are shaped by agents with major political power, which does not establish a homogenous preference for the institutional arrangement. As economic institutions generate different resources’ distributions, there will be conflict of interests between individuals and economic groups in the structuring of these arrangements. The distribution of political power in a society is fundamental for its development along a historical process (ACEMOGLU ET AL 2005).

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5 SUMMERHILL (2010) has an excellent resume of this debate. ALESINA and RODRIK (1994) are also an important reference.
Therefore, prior to a more precise definition about which concept of institutions will be used for this analysis, it is necessary to stipulate kinds of political power that determinate unequal institutional supply. Initially, the difference between *de jure* and *de facto* political power must be clarified. The first one is the power that emanates from society’s political institutions. To have access to it, political actors must be legitimated before the law. The second one is the resulting power of social actors’ capacity - usually groups - to demand their rights and obtain the capacity to influence economic institutions.

However, these social actors’ must have another source of power, usually economic, as resources that are collectively meaningful. The major difficulty of this kind of political power is to solve the collective action problem, that is, to obtain coordination between agents that hold common objectives, but are initially unagregated. The overcoming of this problem leads to the capacity to collectively obtain relevance in the political arena, not only through the economic path, but also through physical force, as revolts and the use of violence (ACEMOGLU ET AL, 2005).

![Political Institutions Diagram](source)

Source: ACEMOGLU ET AL (2005)

The scheme above suggests that *de facto* political power is not a determinant to a subsequent economic performance. This occurs primarily because the central political institution is the State, which additionally must solve the fundamental problem of collective action within a society: provide social order. In order to accomplish it, there must be a state organization able to limit violence, through a coordinated action between economic and political systems. (NORTH; WALLIS; WEINGAST. 2006).
The paradox that supposedly exists between violence and institutional change must be clarified. Using the framework developed by North, Wallis and Weingast\(^6\), it is possible to elucidate some points:

“The historically, societies have been ordered in three ways. The first social order dominated pre-recorded human history: the primitive social order is a kind of hunter-gatherer society. The second social order has dominated the last 10,000 years, what amounts to recorded human history: limited access orders solve the problem of containing violence by political manipulation of the economic system to generate rents by limiting entry to provide social stability and order. As we show, violence jeopardizes the rents, so individuals who receive rents have an incentive to suppress violence and to support the current regime. The third social order arose over the last 300 years: open access orders sustain social order through political and economic competition rather than rent-creation. Open access orders have developed in about two dozen countries, and all are both economically and politically developed.”

Therefore, open access orders represent the set of political and economic institutions that foster incentives and opportunities to the larger possible part of the population. They represent democracy’s ideal concept: “in a democracy all forces must constantly fight to satisfy its interests. None of them finds shelter in its political positions” (PZERWORSKI, 1994). Limited access orders systematically present “rent-creation, market power, privileges, and differences between elites and others; (NORTH WALLIS WEINGAST, 2006), so that excluded political groups that do not have de jure political power but have de facto political power, have incentives to demand their rights.

When these demands are made through violence, force distribution is only momentarily altered, opening windows of opportunity\(^7\) for the group that demands its rights to influence its institutionalization (de jure political power). This occurs because institutional changes are mainly incremental, and the threat of the use of violence is more powerful to obtain rights than the use of violence itself.

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\(^7\) WILLIAMSON (2000) treats this subject as a wider NIE formalization, and points out that “windows of opportunity to effect broad reform [...] are nevertheless the exception rather than the rule”.

The use of force to obtain institutional changes probably will result in the substitution of a limited access order for another, that is, a new political group that keeps limiting institutional access to others. However, the decisive step towards more democratic structures “is given by power transference from a group of people to a set of rules” (PRZEWORSKI, 1994).

The transition to an open access order happens when different groups – with divergent interests – obtain wide political power, that is, when they manage to influence economic institutions. As we will see in this study, that is impossible in significantly unequal societies. Therefore, a democracy is consolidated when:

“[…] within given economical and political conditions, a specific institutional system becomes the common rule, when no one can imagine itself acting outside democratic institutions and when what all the defeated ones desire is to try once again, inside the same institutional frame where they have just been defeated” (PZEWORSKI, 1994).

Comprehending political institutions in a broader sense (de jure and de facto), it is possible to determine which economic institutions are essential to development. According to Shirley (2008), there are “two distinct and not necessarily complementary set of institutions: (i) those that foster exchange by lowering transaction costs and encouraging trust, and (ii) those that influence the state to protect private property”. The first one includes the capacity to legitimate contracts, whereas the second is better defined by Alston (2006): “In the economics of institutions, the term property rights refers to an actor’s right, which are recognized and enforced by other members of society, to use and control valuable resources”.

Hence, economic institutions alters the relative price individuals pay for their actions as economic agents, not only in exchange relations, but also for the price that is paid to sustain their ideas, ideologies and dogmas (NORTH, 1990). As access to information is asymmetric among members of a society, positive institutions are those that reduce uncertainty in contracts and private property
stability\(^8\). But this is only possible when different groups, that have heterogeneous demands, have the possibility to have equal *ex-ante* access to political institutions.

3. Foreigners, Freed Slaves and Institutional Political Access.

Thousands of immigrants arrived, mainly into São Paulo\(^9\) to work in coffee plantations in the onset of the Republic. This was not the country’s first migratory inflow, as the imperial policy established settlements since the 1820 decade in Espírito Santo, Rio de Janeiro, Santa Catarina and Rio Grande do Sul\(^10\). Later experiences, such as partnership system, made attempts to organize free labor due to the abolition imminence with the end of Atlantic slavery trade in 1850. During this period, immigrants were predominantly Germans, Swiss, Spanish and Portuguese. However, it was only at the end of the 19\(^{th}\) century, with the large inflow of immigrants - mainly Italians\(^11\) - associated with another important change, the abolition of slavery, that new important social groups emerge.

The foundation of Sociedade Promotora de Imigração, in 1886, institutionalized the workforce substitution, as slavery also had collapsed within its last fortress: the state of São Paulo and its coffee plantations. Dean (1976) asserts that federal government promotion of the foreigner worker paid 42 million mil-réis until 1904 for their transportation and allocation. This fact elucidates the relationship between federal government and paulista\(^12\) elite, which despite not been homogenous, was connected by coffee economic importance.

\(^8\) NORTH (1990) adds that “as soon we move away from choices involving personal and repetitive actions to making choices involving impersonal and non-repetitive exchanges the uncertainty about outcomes increases. The more complex and unique the issues we confront the more uncertain the outcome.
\(^9\) According to CARVALHO FILHO e COLISTETE (2010), 71,6% of immigrants that entered the country from 1894 to 1903 went to São Paulo state.
\(^10\) TRAMONTINI (2010) emphasizes the need for southern colonization since it was a litigious area of the empire, with undetermined borders and that should be occupied. Besides that, other incentives as agricultural development to supply neighboring urban centers and the racist statement of population “whitening” were cited as part of imperial policy.
\(^11\) Italians comprised 73% of all arrivals from 1887 through 1900 (HOLLOWAY, 1980).
\(^12\) Paulistas are those who are from the state of São Paulo.
In the republic’s early years, the PRP (Partido Republicano Paulista)\(^{13}\) was increasingly formed by farmers that had *de facto* political power to pressure the federal government. Different from Furtado (2001) thesis, to whom paulista elite dominated federal government, Love (1980) asserts that there were frequent conflicts between government and coffee interests. According to him, it happened primarily for external reasons, such as public debt funding and its relation with currency exchange rates.

The economic role of the paulista’s farmer, which gave them important *de facto* political power, enabled the transfer of the foreigner workforce payment to the rest of the population. Dean (1979) quotes Domingos Jaguaribe, who in 1892 severely criticized this financial structure, because “… at the moment the [working class] are witnesses and victims of the most scandalous of abuses: they labor day and night to pay the costs of travel of emigrants.” In contrast to the slavery commerce, which was highly profitable, the immigrant transportation was considered a cost; therefore, their contractors had incentives to dissolve among the society.

The better access to economic institutions by the immigrants was not only explained by the farmer’s preference of the worker’s nationality. In 1890, Italy had an income per capita twice as large as the Brazilian, despite the fact of being in a profound crisis and passing through a political fragmentation\(^{14}\). Resulting from this superior income, not only low skilled workers entered the country, but also immigrants with resources to invest.

Unlike slave transport, the basic unit of migrant transport was the family. All those under contract with the Sociedade Promotora were to be in family units, in one of these settings: (a) married couples under age forty-five with no children; (b) married couples with children or wards, with at least one working-age male per family; (c) widows or widowers with children or wards, with at least one

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\(^{13}\) PRP was the most important political party at the beginning of the Republic. It was created still in the empire, and could make open criticism to the monarchy.

\(^{14}\) In 1890, Brazil had a per capita income equivalent to 775 dollars/year, whereas Italy had 1.631 dollars/year and Germany 2.625 dollars/year. Inequality of World Data <http://62.237.131.23/wiid/wiid-documentation1.php>
working-age male per family (HOLLOWAY, 1980). This scenario resulted in different incentives to resolve the collective action problem between these groups.

Regarding slaves, the situation was different, because coffee landlords were continuously concerned about insurrections. So, in order to avoid concentration of slaves from the same region, in order to undermine their collective action, farmers preferred to buy them in small shares. This, along with the fact that the workforce average duration was 15 years and infant mortality sometimes reached 88%, illustrate the severe difficulties to the existence of a united social group that could fight for its political rights\(^{15}\) (COSTA, 2008).

Concerning European immigrants, the situation was flagrantly different. The provincial government valued family structure and did not pay the transportation for the non-married. This structure provided employment advantages for the married ones, because they were perceived to be less likely to leave the plantations. Family connections fostered information exchange even before the arrival in Brazil. This enabled immigrants to settle near their relatives, and gather information about their future working condition\(^{16}\) (DEAN, 1979).

Notwithstanding family bonds, immigrant workforce wasn’t static. They looked for coffee plantations with higher profitability levels, which contributed to a competitive labor market, despite the abundant workforce supply\(^{17}\). The wheathered slave system increased the demand for wage workers. In São Paulo, 10 years before the abolition, the quantity of these workers greatly surpassed the slave population (COSTA, 2008).

\(^{15}\) Slave revolts were obviously existent, but the involved groups didn’t possess economic resources’ (or other forms of power) to demand political changes. Besides that, the majorities of revolts occurred before the abolition process, and were considered an act of “banditism” after the liberation.

\(^{16}\) The information exchanges probably gain incentives after prior experiences with free labor. Immigrants were exposed to a near slavery regime, which resulted in several protests from international authorities, such as from the Swiss consulate in 1857. German, Italian and English authorities also criticized Brazilian government about this questions (COSTA, 2008).

\(^{17}\) The impossibility to retain workers in areas with smaller wages seems to have carried to a path dependence situation (NORTH, 1990) in places like Vale do Paraíba (SP). In this region, the smaller land productivity and the higher slave cost made not viable for them to compete with the coffee regions of west São Paulo.
The violence towards immigrant workers also existed, along with submission structures, such as the non-payment of wages and confiscation of cultivated goods. According to Scherer (2007), “devoid of organizations and in a context of a judiciary system that systematically favored the landlord, rural workers could not claim their rights”\(^{18}\). In these situations, it is perceived that the *de jure* political power was not established, nonetheless the transfer of unsatisfied workers to cities demonstrates that immigrants had options, not only to leave an oppressive structure (because they were not farmers’ property), but also to search for better ones.

Furthermore, immigrants’ political power also had exogenous components, for the report of abuses led the Italian government to promulgate, in 1902, the Prinetti decree, forbidding subsidized emigration to São Paulo\(^ {19}\). This led federal government and some states to offer better privileges to foreigners like the creation of the Agência Oficial de Colonização e Trabalho in 1906, responsible to inspect the execution of labor contracts. In 1911, another agency was founded, the Patronato Agrícola, that had the objective to solve rural labor conflicts. (SCHERER, 2007). That is, the existence of forces able to oppose immigrant work exploitation also made *de jure* political power possible and lead to the foundation of agencies and other forms of incentives\(^ {20}\). Another example is the 1904 decree\(^ {21}\), which established that labor contracts should be written and officially registered by the Agência de Colonização.

The reality experienced by freed slaves was completely different. They did not have any exogenous protection structure, partially because the Atlantic slave

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\(^{18}\) This remark is more appropriate to the paulista coffee region situation at the beginning of the Republic, since foreigners that came to Brazil before - to Rio Grande do Sul for example - in a different migratory pattern managed to gain their rights with different political pressures. See TRAMONTINI (2010). About social capital and regional development, see MONASTÉRIO (2002).

\(^{19}\) Even before the act, when labor recruiters began to publicize the migratory program, there were conflicts with Italian authorities. Holloway (1980) writes that in 1889, “after receiving reports that reception facilities were inadequate to handle the thousands of immigrants arriving in Santos every week, the Italian minister, Crispi, ordered a halt to recruitment and subsidized transportation.”

\(^{20}\) In 1906, “If officials received reports of fraudulent hiring, maltreatment of workers, or failure to pay wages as contracted, the planter in question was not allowed to use the employment office to obtain more laborers.” (HOLLOWAY, 1980).

\(^{21}\) Decree 1.150, January 5\(^{th}\), 1904 (BRASIL, Decreto 1.150, 1904), modified by the 1.607 law, December 29\(^{th}\), 1906 (BRASIL, Lei 1.607, 1906). Also see SCHERER (2007).
trade generated, in the African continent, a “limited formation of larger communities and states [and was responsible for] high levels of ethnic fragmentation” (NUNN, 2008). The slave demand generated a political instability that promoted social and economic fragmentation, resulting in the institutional deterioration of these regions\(^{22}\). Even though the 1888 law resulted in \textit{de jure} political power, there were no factors allowing freed slaves to acquire \textit{de facto} political power. Many of them kept working at the same plantations, without improvement of living conditions, and those that escaped or were freed before the law, now faced discrimination by immigrants, specially in urban areas.

This asymmetric condition was reinforced by United States immigration policy, which offered better incentives to immigrants (primarily access to land). Until 1880, the high price for transportation to Brazil – about twice the price to North America - and the existence of slavery contributed to limit spontaneous immigration to the country. Argentina’s policies also represented a significant competition. According to Timmer and Williamson (1998), “Argentina seems to [...] watch labor market conditions in Brazil, acting as if they knew those conditions could divert immigrants to or from Argentina’s borders”. Also, it seems that some “higher-quality immigrants, arriving in Brazil under subsidy plans, found conditions unsatisfactory and moved over the border to Argentina.”

The Brazilian government only managed to attract immigrants with the creation of incentives and also because, after the 1880 decade, United States government began to restrict the inflow of foreigners\(^{23}\). Not only quantity, but quality\(^{24}\) of the workforce mattered, and the aggressive Brazilian incentives

\(^{22}\) Nathan Nunn (2008) study shows that available data suggests that Africa’s most developed regions were the ones that supply the greater amount of slaves to the Atlantic trade. Also see ALENCASTRO (2008).

\(^{23}\) A New York Times report from August 23\(^{rd}\) 1888 demonstrates the relation towards immigrants: “We must trust to general rules and enforce them. It is not practically possible to determine whether an immigrant is an Anarchist or other criminal, nor even whether he is pauper, but it is possible to exclude undesirable immigration by classes. The trouble is that immigration is too cheap and easy, and if we do not mean to have this country made an almshouse and penal colony for the whole planet, it behooves us to make it more costly and difficult.” The report defends a 50 dollars tariff (that would double the voyage cost) to “select” those immigrants that could enter the country. NYT Archive: 1851-1980.

\(^{24}\) During this period, “São Paulo officials tried to enforce quotas not only for given nationalities, but for regions within European countries as well” (HOLLOWAY, 1980). Not only to block the inflow of “unwanted” nationalities, but also to bring immigrants from different countries, a form that government tried to limit potential \textit{de facto} political power. There were attempts to balance the preponderance of Italians.
affected even the United States in this matter. Timmer and Williamson (1998) study shows that “United States found its immigrant quality falling as Brazil subsidized immigration more heavily”. Needless to say, this structure of incentives didn’t apply to the former slave population.

According to Barbosa (2003), “immigrants left few opportunities to the local population […], since several nationalities of foreigners monopolized specific economic activities.” Silva (1976) quote a research demonstrating that 84% of São Paulo business men were foreigners. Dean (1971) reinforces this idea by showing that besides the unqualified mass of immigrants, groups that “lived in cities, were middle class families and had technical knowledge, or, at least, some experience at commerce and manufacturing”. Love (1980) also states that “immigrants quickly took the jobs in the capital’s newly opened factories, and blacks were generally relegated to the most dangerous, casual and menial jobs outside industry”.

In 1896, this active economic population replacement generated some protests against Italian immigrants in the city of São Paulo, but the incentives didn’t ceased. Foreigners represented 52% of paulista’s industrial workforce in 1920 (Love, 1980).

Immigrants took part in the most dynamic sectors of the economy (including commerce) not only as employees, but as employers also. This situation created a new social stratum in Brazilian economy, a transplanted foreigner middle class. Their main objective when coming to the Americas - to enrich – impelled them necessarily to monetary sectors of the economy (FERNANDES, 1976).

Regarding black population, the Eusébio de Queiroz law (1850) resulted in price increases that made less productive regions, as the Northeast, lose slaves to a more productive one, the coffee region. Furthermore, urban areas also were a

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25 This value was taken from Bresser-Pereira study, “Origens étnicas do empresariado paulista”. Besides being considered a contestable value, it can be used to elucidate the strong immigrant business man presence in the country.
26 The law forbidden the entrance of slaves in the country, considering it an act of piracy that should be punished as one (COSTA, 2008a).
source for labor shortage. At São Paulo’s capital, in 1855, slaves represented 26.3% of the population, but few months before abolition (1887), captives were only 1.1% (MORSE, 1953). It should be noted that in 1887, the slave regime was languishing, a considerable number of captives had already been freed and many others were leaving the plantations.

Despite now having the right to move, the influx to urban areas presented some barriers, since the more dynamic economic regions remained partially closed to them. The lack of urban access through residential areas with public services and the reduced job supply, made the freed slaves to reside in marginal city areas – the favelas (CAMPOS, 2007). Considerable segmented populations tend to establish disproportional interactions among certain groups, in detriment to others, because “allocation rules also establish relationship among people, based on assignment to distinct positions with corresponding rights, status [...] and patterns of interactions.” (BOWLES, 1998).

The immigration to Brazil at the end of 19th century brought in groups that had not only common languages, but also family and economic bonds. This promoted a close ethnic structure capable of collective action, positive for developing *de facto* political power within immigrants, but harmful for those that didn’t belong to these groups.

Despite being the majority of the population at the Republic’s beginning, the non-whites were also marginalized at the plantations, relegated to minor functions and frequently working in different areas from immigrants. Dean (1976) writes that “once the planters had a chance to hire Europeans, whom they considered racially superior, [...] they were bound to make operative their prejudices against mulattos, blacks and mestizos.” In the same study, the author supports that the foreigner’s employment advantage was largely based on discrimination27, using data from Rio Claro, he states that Italians didn’t increase coffee productivity, neither introduced new techniques28.

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27 COSTA (2008) quotes some critiques of the abolitionary process: “Em vista da mortalidade elevada, não seria necessária nenhuma medida que apressasse a extinção da escravatura, uma vez que, em alguns anos,
Labor opportunities for freed slaves were reduced not only in the plantations, but also in urban areas. Morse (1953) quotes a note from the journal “Frente Negra Brasileira”, founded in 1931, that analyses employment situation:

“Its founders claimed that unemployment and substandard living conditions were disproportionately high among Sao Paulo’s Negroes; that 80% of them were unable to concentrate on a steady profession and were forced to be jacks of many unskilled or semi-skilled trades; and that even if a Negro did manage to acquire an intensive education, he encountered discrimination at the skilled and professional levels.”

In limited access order societies like the Brazilian, only those who gained de facto political power managed complete access to economic institutions. The power struggle was restricted by unequal opportunities between different groups. Therefore, for make this issue clearer is important to formalize these relations.

As Timmer and Williamson (1998) noted, “the two central questions for any model of immigration policy formation are: Who gains and who loses? Who decides the policy?” The authors complemented that there is a “consensus regarding the first question. Wage earners - unskilled workers in particular- lose with immigration”. In order to illustrate these interactions, a dynamic game with complete information model will be used.

There are two games, one between government (G) and immigrants (i), and other between government (G) and freed slaves (e). In both games, government is represented by the coffee interest, that is, equal to paulista’s coffee planter’s deveria estar extinta a escravidão no Brasil”. This helps to understands that relative prices, not ideological principals, were responsible for the ruin of the slave system.

28 This idea was also supported by Sérgio Buarque de Holanda for the “settlement colonization”. He quotes a german’ colonos observer in São Leopoldo (RS): “[os colonos] nada trouxeram de novo ao país adotivo e se limitaram a plantar o que os brasileiros já plantavam e do mesmo modo, primitivo e grosseiro” (HOLANDA; 2008; p.66)

29 Discrimination was one of the determinant factors; however there are few quantitative studies of this matter. In this article, the author mentions a research about job offers that specified “white workers only” in Diário Popular journal in the 1930 decade. Only a minority declared that considered black people dishonest and other depreciative adjectives. The majority simply stated that “could not explain their preference but felt it a natural one”. Racism debate omission, event with staggering inequality, it’s an uncomfortable characteristic of Brazilian society, manly in this period. An important contribution for the debate is the chapter “O Mito da Democracia Racial no Brasil”, COSTA (1998).
interests. Government objective is to exploit workforce in order to obtain the largest coffee production possible.

Government plays the first move in both cases, deciding between exploring (E) or not (NE) the laborers. Government utility function is $U_g(\mu)$, where $\mu$ is the amount of workers. Immigrant’s utility function is $U_i(\varphi)$ where $\varphi$ represents de facto political power. Freed slaves utility function is $U_e(\varphi; \omega)$ where $\omega$ represents access to economic institutions.

The maximum government payoff ($a.U_g$; with $a > 1$) is to exploit workers without them leaving. At game 1, immigrants have two options: remain (R) or leave (L). These options are only possible because they had de facto political power: if government tried to exploit them, they could leave\(^{30}\), resulting in a $b.U_i$; with (0 < $b < 1$) payoff, which is better than been exploited but worse than have to option to work in a secure manner. Therefore, this game equilibrium is ($U_g; U_i$), that is, the government doesn’t exploit and the immigrant remains.

In game 2, options are limited for the freed slaves, because as seen previously in this paper, the large immigrant influx reduced the demand for their workforce. In addition to that, they don’t have the option to leave. Government is aware that employment supply is restricted for this group\(^{31}\), and because of it doesn’t have incentives not to exploit them. Therefore, in game 2, if government doesn’t exploit, its payoff is $bU_g < aU_g$ with (0 < $b < 1$). Without de facto political power, the only remaining option for freed slaves is to continue to work and being

\(^{30}\) As previously shown, there was also the option not to come to the country. Because of that, government had a series of incentives not to systematically exploit foreigners.

\(^{31}\) COSTA (2008a): “Most of them, apparently, did not get to abandon them [farms] and after abotion remained living in the same senzalas, doing the same work and earning a miserable salary. Freedom allowed them to move from one farm to another, but everywhere the conditions found were similar.
exploited ($bUe$). In this case, the equilibrium payoff is $(a. Ug; bUe)$, the government exploits the workforce, because the freed slaves don't have employment options.

4. Economic Institutions and Human Capital

Less unequal societies with homogenous populations tend to develop more democratic political institutions, resulting in larger investments in public goods and broader access to economic opportunities (Engerman and Sokoloff, 2002). The “slaves' kingdom”, as Brazil was known in the 19th century, produced an extreme unequal society, even regarding Latin American standards. The result was the development of institutions that selectively limited economic opportunities. However, with the advent of the Republic, a paradox occurred; “a decadent, agrarian, low-skilled slave society with traditional manufacturing and services, show a downward trend in income inequality, due to the decreasing income of the elites linked to the slave-economy.” (BERTOLA ET AL, 2008).

São Paulo’s capital, which during the 1880 decade already presented a decrease in slave population and significant influx of foreigners, helps to elucidate this paradox. While the literacy rates in Brazil were 15.3% in 1882, São Paulo’s was 42% (SOKOLOFF and MARISCAL, 2002). Regarding this, Carvalho F. and Colistete (2010) found a positive and persistent effect between immigrant presence and educational supply, and a negative effect between land concentration and educational access in São Paulo during this period.

According to the authors, “overall the expansion of new manufacturing and commercial activities tends to raise the demand for literacy, numeracy and skills in general”. The presence of immigrants with a level of education above average that came to the country to realize investments seems to have increased the demand for primary education. The fact that Italy, Germany and Japan - the countries that provided the majority of immigrants – already had an educational system far superior compared to Brazil’s, seems to validate the hypothesis that, on average, immigrants demanded more education than the domestic population.
Besides having capacity to demand this kind of services, foreigners also managed to have educational access even where proper educational supply initially didn’t exist. This was possible through community’ schools, where with the lack of local teachers, foreigner ones were requested\textsuperscript{32}. Trento (1989; \textit{apud} Carvalho F. e Colistete, 2010) refers to the presence of 115 primary schools in São Paulo’s state (from 232 in Brazil) that received some kind of subsidy from Italian government in 1908\textsuperscript{33}.

This exogenous connection was also important to the decrease in inequality observed during the Old Republic. Even before the 1890’ decade massive migratory wave, Brazilian commerce was dominated by foreigners\textsuperscript{34}. In Rio de Janeiro region, during 1880 decade, Portuguese merchants dominated what was the core of the country’s textile industry. Not only that, but they also had access to credit sources from European banks, important subterfuge to the precarious Brazilian credit system (VERSIANI, 1976).

During most part of the 1\textsuperscript{9}th century “institutions designed to mobilize impersonal sources of capital were largely absent in Brazil. [...] continual shift in regulatory policies prevented the development of even a tightly controlled, centralized banking system.” (HABER, 2002). Subsequent improvements in governmental regulations had important effects in industrial growth. For the author, “before 1890 the Law created disincentives for entrepreneurs to issues debt and for investors to purchase equity because an investor was held to be fully liable for a firm’s debts in the case of insolvency”.

\textsuperscript{32} The foundation of communities schools also were a characteristic of prior migratory processes, as the settlement colonies in Brazil’s south.

\textsuperscript{33} MUSACCHIO e MARTINEZ-FRITSCHER (2010) offered a complementary explanation about the better immigrant access to education: “We believe that the explanation of the increase in education expenditures is better captured by state competition to attract immigrants, investment, or as a way to increase the number of voters per state to increase the political leverage of a state at the national level.” SUMMERHILL (2010) also finds a correlation between education and nationality: “The key proximal determinant of local public goods provision in São Paulo was the share of immigrant land owners.”

\textsuperscript{34} Infra-structure sector was predominantly constructed by English companies. Brazilian government offered subsidies, but high transaction costs were an important problem. In the case of railways, besides the almost inexistence of capital markets before 1890, property rights also represented a problem. According to SUMMERHILL (2003), “… to provide land grants Brazil would have had to establish clearly defined property rights in land and sort out which lands were truly publicly owned and which were not. For both practical and political reasons such an approach to subsidy proved unfeasible.”
The set of institutional changes that diminished transaction costs and exchange uncertainty\(^{35}\) offered a favorable environment for investments. Immigrant groups that had resources benefited not only from that, but also because nationality links represented an important factor. The Brahma’s brewery\(^{36}\) debentures emission in 1887 is a significant example. According to Marques (2005), “the selling of bonds was placed at the financial center of Rio de Janeiro, but it seems that the major part was offered directly to members of the German community in Brazil”. Furthermore, when the company faced financial difficulties at the beginning of the 1910 decade, access to foreigner banks were crucial for its solvency.

Brazilian economy rapid transformations during the First Republic weren’t limited to laborers and business men ethnic changes. The 1891 new constitution established a federalist structure where states gained rights over the export taxes and also autonomy to request international loans. This fiscal resources’ decentralization was extremely favorable to exporting states, principally for the most important one, São Paulo.

It’s important to gather all these factors to comprehend the institutional change in this period and why it generated an asymmetric access to it. After all, the Brazilian workforce substitution was motivated by the coffee economy. Musacchio e Martínez-Fritscher (2010) found a positive relationship between public goods expenditures and revenue from export taxes after fiscal decentralization. São Paulo, with the larger revenue coming from coffee, considerably increased its expenditures with public goods, mainly education and infra-structure.

The fact that immigrants who arrived in the last decade of the 19\(^{\text{th}}\) century went mainly to the state with larger expenditures in public goods is not sufficient to demonstrate the differences in economic opportunities due to a better

\(^{35}\) As the definition by SHIRLEY (2008), where economic institutions are those that (i) foster exchange by lowering transaction costs and encouraging trust, and (ii) those that influence the state to protect private property.

\(^{36}\) Brahma brewery was created in 1888 by the suiss J.Villiger, in 1894 however, he sold his business to the brewer Georg Maschke. He, in turn, consolidated a society with German merchant J. Baptist Friederizi that also had business in other areas.
institutional structure. Slaves transported from other Brazilian regions due to the 1850 law, also went to São Paulo and probably remained there after the abolition. The difference is that geographic segregation resulted from immigrant’s transportation to more productive regions\textsuperscript{37} in the west and the permanence of freed slaves in Vale do Paraíba, at Rio de Janeiro border, which was a declining region.

Urban areas had also a non-white population well below national average, and this represented a problem because cities offered a different set of opportunities. Summerhill (2010) argues that “more prosperous areas were no doubt more literate, more urbanized, consumers had higher purchasing power, and those counties supported more newspapers in general, including newspapers with political content.”

In urban areas, which had more economic opportunities, including for those destitute of resources, private property was an important institutional access. According to Acemoglu and Johnson (2005a), “property rights institutions are intimately linked to the distribution of political power in society because they regulate the relationship between ordinary private citizens and the politicians or elites with access to political power.” In this study, the authors find a positive relation between private property access and economic growth, investment and financial development.

As previously mentioned, the greater immigrant \textit{de facto} political power was determinant for their land occupation and appropriation. In rural areas, labor contracts – based on the colono system – offered free housing as a standard provision. Also, foreigners preferred plantations where food crop was possible because that earned an important economic surplus\textsuperscript{38}. The immigrants preferred this to a plantation with higher wages but with restricted food crops and livestock (HOLLOWAY, 1980).

\textsuperscript{37} Denominated generically as “terra roxa” regions, with a more productive type of soil. Subsequently studies showed that São Paulo’s western region soil is relatively diversified, and “terra roxa” turned into a denomination for any type of red tone soil – \textit{terra rossa}; for the Italians. (SUMMERHILL, 2010).

\textsuperscript{38} Especially in a period with high inflation where money wages rapidly lost value.
In the Pre-Republican period, “laws over the colonial land were subordinated to labor organization form, as colonial property was essentially determined by captive possession (ALENCASTRO, 2008). Schulz (1996) notes that at the end of the Republic, this remained very much the same: “If, after all, a poor man accumulated funds to buy a small piece of land, he found all kinds of obstacles to obtain his property title”.

Without income, freed slaves occupied not only urban marginal areas, but also rural ones, with quilombos’ formations. In 1870, with the foundation of the first favelas by freed slaves who fought at the Paraguay war, it could be seen that economic institutions were not made available for everyone. For Campos (2007), “if the access to land was legally forbidden to a determinate social segment, the agrarian question was always treated as a police matter.”

The settlement of non-whites in precarious regions, with no public goods access and without security from property expropriation, established a structure that offered no incentives to invest in human capital and property improvements. Additionally, the limited employment options in the dynamic sectors of the economy represented another barrier for any capital accumulation.

This is not saying that everything was perfect for immigrants. They were also exploited and regional distinction within immigrant groups also existed. But their sets of possibilities were different. The international protection and economic resources allowed them the possibility to gain de facto political power. Better educational levels, information exchange, food crop and pasture privileges – the colono system – offered better economic access in rural areas. Immigrants that came to Brazil to invest and a better labor market access in industries for those that came to work generated access to economic institutions.

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39 Initially, “The colonos were politically powerless, socially inferior, and economically weak relative to the planter class, but they were not wage slaves replacing the chattel slave of the earlier era. [However, they had] several alternatives open.” (HOLLOWAY, 1980).
5. Conclusion.

Brazilian poverty was not homogenous during the 20th century, but it had a predominant color. The astonishing inequality between a majority white population that was part of the nation’s economic development and a segregated non-white one, with marginal opportunities, brings up some questions about how this situation was established. With the imminent rise of the Republic, the country’s wealthiest region brought in both immigrants and slaves to be low cost workforce, but didn’t bestow equal opportunities to them. Despite a preference for European workers, the different access to political institutions was not simply a matter of a concession given to them by those that already had economic power. Immigrants had something that former slaves didn’t have: freedom to choose.

The arrival of a heterogeneous economic population allowed for the existence of a middle class with de facto political power to demand public goods. The necessity of rural labor, in a context where free workforce had the possibility to move to countries such as the United States and Argentina, led the government to offer these groups a series of incentives. For the former slaves, these incentives weren’t necessary. Without a country to come back to, or a land to emigrate to, and with limited access to urban work, this group remained confined to a repressive social economic dynamics. With the abolition of slavery, de jure political power didn’t become de facto political power.

The obtention of de facto political power resulted in more access to economic opportunities and education. Differently from those that they replaced, immigrants became part of the new Republic and interacted with a completely different institutional framework. Not so with the former slaves. No longer needed now, in a different form, they remained not being considered citizens.


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