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The Financial Market Immaturity in Hispanic America, from the Independence to the Liberal Reforms

El mercado financiero inmaduro en América Latina, desde la independencia hasta las Reformas Liberales

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ABSTRACT

Hispanic American economic history has puzzled scholars due to its particularities. The region is known for its abundance of natural resources and land, but since its independence, it has not been able to transfer those endowments into sustainable modern economic growth. Some researchers affirm that "we are still far away to understand the causes of the slow growth of Latin America". This essay is a literature review, which assesses the debates around the question of why Hispanic America did not have a financial revolution after its independence? It also provides a nuanced explanation of the immaturity of the Hispanic American financial markets, the persistence of the *Censo Eclesiastico***,** a type of loan/mortgage widely used as a source of credit during the colonial era, which was only prohibited in the mid-nineteenth century. This type of loans had some unique characteristics, like rent-seeking and close interpersonal relationships between providers and takers within the capital market of the region at that time. Those characteristics could explain the lack of interest of the elites in the establishment of modern financial institutions. The persistence of the *censos* caused the immaturity of the capital market in Hispanic America. However, more studies are needed it to assert this with confidence and this essay is a call for further studies on the matter.

Keywords: economic history; Latin America; debt; financial Markets

JEL Codes: I38, J16, J24, O21

RESUMEN

La historia económica hispanoamericana ha llamado la atención de los académicos por sus particularidades. La región es conocida por su abundancia de recursos naturales, pero desde la independencia no ha podido transformar esta riqueza en crecimiento económico moderno. Algunos investigadores afirman que "aún estamos muy lejos de entender las causas para el lento crecimiento de América Latina". Este articulo revisa y evalúa la literatura y los debates acerca de la pregunta ¿Por qué Hispanoamérica no tuvo una Revolución Financiera después de la independencia? Además, propone una explicación novedosa sobre las razones de la inmadurez del mercado financiero en Hispanoamérica, la persistencia del Censo Eclesiástico, un tipo de préstamo ampliamente utilizado como fuente de crédito durante la dominación colonial que solo fue prohibido a mediados del siglo XIX. Este tipo de préstamos tenían características muy particulares, como las monopolísticas y cerradas relaciones interpersonales entre los prestamistas y prestatarios en el mercado de capital de la región de la época, lo cual puede explicar la falta de interés de las elites en el establecimiento de instituciones financieras. La inmadurez del mercado financiero en Hispanoamérica es un síntoma de la persistencia de los censos. Sin embargo, más estudios son necesarios para sostener esta afirmación, por lo que este artículo es un llamado para investigaciones en el tema.

Palabras clave: historia económica, América Latina, deuda, mercados financieros

Códigos JEL: I38; J16; J24; O21

Introduction

Latin American economic history has caught scholar's attention due to its specificities. The region is known for its abundant natural resources and land, but since its independence, it has not been able to transfer those endowments into sustainable modern economic growth. The multiple explanations to this phenomenon include factors such as endowments, the institutions settled during colonial times, the political instability, and the lack of state capacity in the region (Acemoglu et al., 2001; Sokoloff & Zolt, 2006; Cardenas, 2010). But as Marichal & Llopis affirmed (2009), "we are still far away from understanding the causes of the slow growth of Latin America" (p. 11).

Hispanic American economic history is characterized by an overabundance of comparative analyses. Most of the studies on the economic development of the region are comparisons with its Northern neighbors. Hence, Hispanic America's development measurements yield a staggering difference across the New World's countries, especially when compared to the United States, a country that outperformed industrial leaders during the nineteenth century (Broadberry, 1998; Wright, 1990) and which, from that moment onwards, has been the pulling ahead economy of the world. Under that perspective, comparing the north and the south of the American continent only magnifies the already impressive performance of the United States.

Nonetheless, comparisons are suitable to identify how different regions of the world reached their economic development. It also enables us to reflect on the fact that the case of the industrialized countries—the United Kingdom, France, Canada, Germany—are not the rule but the exemption. At this point, the following question arises: why do some countries pull ahead, and others lag? The comparative studies illustrate and underpin the divergences between regions. Przeworski & Curvale (2008) stated that at the beginning of the eighteenth century, the differences in the GDP per capita between North America and Spanish America was unremarkable, even more, Cuba outperformed the GDP per capita of the North American colonies. The Maddison Project's (2020) estimates show that from the late 1700s until now, both regions' GDPs have diverged, and the gap has only grown, raising the following question: why did the economic performance of Hispanic America backslash with that of the United States?

As stated before, many scholars have posited multiple answers to this puzzle. The answers are keen to explain the current economic performance with the New World colonial past. In this framework, the debate follows the institutions set by the colonial country—whether the United Kingdom or Spain—and factors such as endowments, population, and natural resources in the continent (Robinson, 2008). Yet, one moment seems to have had a profound impact on the economic path of the new republics: the Independence Revolutionary Wars. Some scholars have even introduced the idea that delaying independence wars had profound costs that affected the later development of the countries (Przeworski & Curvale, 2008, pp. 108-109). After its independence, the United States of America underwent an incomparable rise in its economic performance, fueled by a financial revolution led by Alexander Hamilton, which "modernized" the financial market of the new nation (Rousseau & Sylla, 2003; Sylla, 2002). Whereas the Latin American countries went through the "lost decades" (Bates et al., 2007), a time of unremarkable economic performance that lasted until the first wave of globalization, when the region entered the international markets. So, why Hispanic America did not have a financial revolution after its independence?

As a literature review, this essay assessed the debates that have led the answers to this question from a financial history perspective. It also attempted to provide a nuanced scope into a legacy institution from colonial times, the **Censo Eclesiastico**, which was a type of loan/mortgage widely used in the Spanish empire as a source of credit during the colonial era that was used until the mid-nineteenth century. The goal of this essay is to widen our understanding of the reasons behind the development—or lack of it—of the financial institutions after Hispanic America independence wars.

Our hypothesis for this review is that the persistence after the independence of ***censos*** and other private sources of loan explains the immaturity of the banking and financial industry in Latin America. This idea complements that of the political institutions (Haber, 2012), and the absence of an effective state as the main reasons behind the low economic performance of the new republics. The persistence of this institution hampered the ability of the nations of having a financial revolution in the region that might have allowed them to keep up and catch up with the leading economies.

To prove such hypothesis, first, on section I, I conducted a literature review on the financial innovations that provided economic growth in the leading economies on the global north, following the Richard Sylla and Peter Rousseau's perspective (2003), which characterized the modern financial system with the example of the Dutch Republic. Then, section II analyses the literature related to the performance and development of Latin American economies since their independence under the proposition of Sylla and Rousseau. Section III examines the ***censos*** and its incidence in the credit market before and after the independence until its demise during the liberal revolutions of the mid-century. Finally, the conclusion establishes a research agenda around the Hispanic America financial history that will help to further clarify the reasons behind the causes of Latin America's slow growth.

The Financial Revolution

The history of the so-called financial revolution is the formation of what is known in the literature as a "good" financial system. The financial revolution entailed the devising of financial innovations that were the response to the different challenges that traders and entrepreneurs faced during their economic activities (Atack, 2010). The first notable commercial revolution took place in northern Italian cities of Venice, Genoa, and Florence in the late Middle Ages. To fulfil the necessity of creating and maintain a constant exchange of goods, innovative financial devices like the bill of exchange, double accounting, and insurance to nautical ventures emerged. Those were mainly banking alterations that secured the constant trade between the West and East (Abulafia, 1998). Although those cities-states had a spur in economic growth due to the banking novelties, they did not develop modern economic growth. In that sense, what kind of financial nuances created a good financial system with its modern economic growth?

Before answering that question, it is crucial to understand why a financial revolution is desirable. According to Richard Sylla and Peter Rousseau's "Financial Systems, Economic Growth, and Globalisation" (2003) article posits that the Dutch, English and American economic growth was grounded on financial development. They suggest that trade and industry flourish when a country has "good" financial institutions and a "good" financial system. In a nutshell, their economic performance was finance-led**.** Then, which are the traits of a good financial system? They propose that a "good" financial system is an entanglement of factors that acted intertwined. Those factors or conditions are: "(a) sound public finances and public debt management; (b) stable monetary arrangements; (c) a variety of banks, some with domestic and others with international orientations, and perhaps some with both orientations; (d) a central bank to stabilize domestic finances and manage international financial relations; and (e) well-functioning securities markets" (Rousseau & Sylla, 2003, pp. 374-375). Thus, a financial revolution occurs when all those factors come together at the same place and time. Nonetheless, each factor aside can help to spur economic growth. But when they interact collectively, a profound shift in the economic performance can be achieved. Alongside those factors, they also identify other elements—such as central institutions, political representation, rule of law, property rights—with a degree of importance, but they do not address them in-depth.

Still, the prerequisites provide a framework to analyze the development of the financial revolutions, keeping into account that the debate around the evolution of what is called a "good" financial system is deeply correlated with the emergence of the modern state and the state capacity (Tilly, 1990; Dincecco, 2015; Johnson & Koyama, 2017). The case of the Dutch Republic is exemplar as it reunited all the elements at the time of the emergence of capitalism. From that moment on, the financial revolutions started to spread. The Dutch case also sheds light on the way the prerequisites act intertwined.

The Dutch financial revolution is directly linked to the Dutch Revolution, which confronted the northern region of the Low Countries with the rule of Phillip II. The cities of the north territory needed revenue to wage war against the Habsburg rule. To obtain the essential income they resorted to issue annuities backed by the republic's different sources of revenue (Neal, 2015). The main characteristic of those annuities was their lifespan, which could be either redeemable annuities or lifetime annuities. The former were redeemable on-demand and had low-interest rates, which could also be heritable and tradable (on a secondary market of securities). The latter ran until the holder died, had higher interest rates, and could not be traded or inherited (Fritschy, 2017). The redeemable annuity was highly desirable due to the "easy redemption of the notes at the offices of the local tax receivers, (...) ease of transfer, as they were payable to bearer" (Neal, 2015, p. 60).

Yet, the annuities were not attractive to the public as they were unsecured. They had to entail a stable and assured source of revenue to meet the debt maturity. The government credibility was at stake. The challenge was in the capacity of the government to yield taxes (Gelderblom & Jonker, 2011). In the case of the Dutch Republic, the income consisted of different sources like loans, direct taxes, and indirect taxes that shifted their importance during the seventeenth and eighteenth centuries. Indirect taxes (excise, custom, grain milling taxes) started as the major source of revenue with a share of 50% in 1600, but it lost ground to direct taxes (land, wealth, houses) that grew from around 35% to a staggering 48% in 1720 (Fritschy, 2017, pp. 180-184). The share of loans is remarkable because at some point accounted for 20% of revenue, as Gelderblom & Jonker estimated, the debt issuance grew at the same rate as the revenue (2011, 12). So, a codependent equilibrium between the government, which kept rolling the debt to meet the compromises, and the creditors, that continued lending with the promise of payback, was created. The fragile balance was achievable due to the growth of the Dutch economy, which in return increased the States revenue. Albeit, what was driving the economic growth?

The answer to that question is the soaring commerce driven by the different Dutch merchants, but mainly by the Dutch East India Company (VOC in Dutch). The chartered company was created to consolidate the existing individual ventures into just one, which also monopolized the Asian trade. The corporation was established as a joint-stock company with limited liability. Stockholders shared equity with the profits and by 1622 dividends were paid every two years. Its shares could be sold and bought in a secondary market (Neal, 2015; Gelderblom & Jonker, 2014). The secondary market, or securities market, grew in importance because the VOC stock became a highly regarded collateral that opened the threshold to loans and lowered interest rates (Neal, 2015, p. 62), increasing the circulation of capital and expanding the trade.

Yet, the booming trade brought a concern related to the continuous flow of foreign currency. A variety of coins minted at different metal ratios began to circulate within the republic borders. The minted differences caused uncertainty among debtors and creditors. To address this mistrust the city of Amsterdam established the Bank of Amsterdam (Wisselbank). This bank acted as an exchange bank that ensured the payments in a reliable exchangeable coin, away from the debased unreliable foreign coin. The Wisselbank became the *de facto* central bank that acted as an intermediary to operate a large-value payment system, create a corresponding type of money unredeemable for coins but equally valuable, and manage the cost of money through market operations (Quinn & Roberds, 2003).

The establishment of a central bank, a debt management system, sound monetary arrangements, and securities market were some of the innovations spread on the North Atlantic (Sylla, 2002; Diekmann & Westerman, 2012). Its influence can be seen in the establishment of the London Stock Market, the Bank of England, the first Bank of the United States, the New York Stock Market, and the rising number of limited liability companies, as in the rising number of commercial banks on those places. The introduction of those financial institutions paved the way to the economic growth and financial development of the North Atlantic.

The Latin American Path Towards the Financial Revolution

After the Hispanic American Independence Revolutionary Wars in the 1820s, there was a frenzy about the opening markets on the novel republics of the New World. Precious commodities, such as silver, gold, sugar or cacao, that were held and controlled in the territory by the inelastic and restrictive infrastructure of the Iberian empires were now accessible. Unfortunately, the economic growth of the Hispanic American republics right after their independence was not as expected. Bates et al. (2007) named this period as the "lost decades" and stated that the political instability and its never-ending conflicts led to an economic stagnation that deterred the inclusion of the countries in the global markets. This view was expanded by Przeworski & Curvale (2008), who affirmed that the political institutions were unable to solve the rising conflicts in the region. This analysis was framed within the Neo-institutionalist paradigm by frontrunners North (1990), Acemoglu et al. (2001), and Robinson (2008), who posited the importance of the political-institutional framework that created incentives towards innovation and economic performance. According to them, the bequeathed institutions settled by the Spanish colonizers did not promote economic growth and acted as a barrier to the economic development of the region. Furthermore, those institutions are still affecting the economic development of the region. In the same sense, Sokoloff & Engerman (2002), Engerman & Sokoloff (2012) and Gelman (2009) argued that it was not the Spanish rule, but the factor endowments of the region which set the institutional path settled by the colonizers, thus, setting the track towards inequality and low economic performance. Because those endowments did not change after the independence, the institutions endured.

In contrast, Prados de la Escosura (2009) is skeptical about the tag "lost decades" and stated that the Hispanic American economic performance after the independence was, with regional differences, fairly decent in comparison with European periphery countries. It only lagged in comparison with the core industrialized countries, their expectations, and potential. This view can also be complemented with the Arroyo-Abad & Zanden (2016) analysis about economic growth under the considered "bad" institutions. The authors say that the so-called "bad" institutions did not impede economic growth in the viceroyalties of New Spain (Mexico) and Peru. The mining sector in those economies was dynamic, as Sempat Assadourian (1982) described it in previous works on the colonial period. He indicated that growth under said institutions faced some limitations, however, those limitations were not developed by the author.

In addition, more studies aimed at the same direction as that of Prados, like the compilations of Llopis & Marichal (2009) and Bordo & Cortes-Conde (2001). They showed a different image of the Hispanic American economies after the independence. Although, the region suffered from an economic downturn through the 1820s, because of the revolutionary wars of Independence and its impact in everyday life, by the 1830s the economies were showing signs of recovery in significant areas like mining. Still, the growth was not exceptional as in the US. Yet, it is undeniable that at that time some aspects of the Hispanic American economies were dynamic. However, can it be stated that those economies were in the path to a financial revolution?

Sylla & Rousseau's analysis of the financial revolution provides a way to answer that question. The first factor they examine in answering the question is the "sound public finances and public debt management." In that regard, the struggles of the Hispanic American economies are more than evident. Right after the independence, those countries were in a deficit mainly caused by the large military expenses and the difficulty of collecting taxes in an unstable environment under a depressed economy. On top of that, the new governments initiated a profound fiscal reformation. For those reasons, many taxes were dismantled, such as the *tributo* (a poll tax only for the Indians), the *diezmo minero* (mining tax), and the taxes for salt, tobacco, and liquor, among others. Those actions were aimed at liberalizing the economies. The idea was to ease the access of investors to industries like mining and to increase the flexibility of the labor market. However, the shift towards more direct taxes did not happen.

Despite those actions, revenue was deeply hurt. In the case of Mexico, the *mining tax* was the main source of revenue for the government since colonial times (Marichal, 2006), and the forego of that source stretched the public finances, turning the government into taxing other sources to collect revenue. Similar actions echoed across the region, as the case of the *tributo* in Peru (Quiroz, 1993). However, later on the government reinstated *tributo*. Something similar happened in Colombia. The monopoly of tobacco was the main source of revenue, and it was dismantled during the 1820s, just to be later re-established to cope with government expenses (Jaramillo et al., 2001); the Hispanic Empire taxation system endured beyond the independence, hampering the consolidation of sound public finances.

Due to the meagre levels of revenue from the taxing system and to keep up with the expenses of war throughout the conflict, many Hispanic American countries resorted to issuing debt. Most researchers have focused on the behavior of the issuing, the defaulting of foreign debt, and the role of intermediaries during the nineteenth century. Those were the linkages between governments and the markets centers, in this case London and the London Stock Exchange (Marichal, 1989; Zendejas, 2020; Buchnea, 2020; Llorca-Jaña, 2012). The most remarkable treat is the cyclical behavior of the issuance with pull and push effects from the international creditors, who were very keen to loan when money was available disregarding information asymmetry. However, they were the most strenuous in the sight of some downturn or default when money was scarce. This situation resulted in waves of defaults that reflected the performance of the exporting sector of Hispanic American countries. In contrast, studies for internal debt are not as numerous (Quiroz, 1993; López-Bejarano, 2015) and their focal point is the forced loans and the consolidation of existing debt. The debt consolidation process from 1820 included debt that was taken during the colonial period and gave way to endless discussions related to whether this debt was to be settled by the new governments, or it could be rejected. In the cases of Peru and Colombia, although the bequeathed debt was recognized and consolidated, it was rolled over unto new internal debt every time that a consolidation process was underway.

The resonance of exportations, which issued and defaulted debt, is key as it became the driving sector of the economy. Due to the size of the national markets and the fragmentation of the Spanish markets, the main source of revenue of the states were indirect taxes like the *alcabala* or the *almofarijazgo* (customs taxes for internal and external trade). Those taxes remained after the settlement of new governments and increased their yields with the countries opening to international markets (Bulmer-Thomas, 2014; Marichal, 2006). The foreign trade taxes represented almost 50% of the revenue for the federal government of Mexico in the 1825-1831 period (Marichal & Carmagnani, 2001). The custom taxes proved to be an efficient and easy way to collect revenue. It did not require high levels of labor and physical infrastructure. Due to the importance of the custom tax revenue to the total income of the government, the bulk of the national debt issuance ended up being brought back by this tax. The case of Colombia in the 1830s is remarkable: according to Jaramillo et al. (2001) the government managed to have a balanced budget. However, the maintenance of "sound public finances and public debt management" was a challenge that the Hispanic American governments did not match.

Concerning "stable monetary arrangements", Irigoin (2009) indicates that after the independence the monetary union of the region under the Spanish Silver Peso broke due to regional disputes of elites. The fragmentation opened the threshold to competition between regional and national mints to raise revenue via "inflation tax." The result was a circulation of coins with different metal ratios in the entire region as within each country, just as it happened in the Dutch Republic. However, in this case no institution was founded to function as the *Wisselkank* did. The opportunity-cost of exporting bullion was high—opening profitable opportunities by the arbitrage—due to the soaring process of silver and gold in the world, this reduced the amount of silver circulation in domestic markets (Marichal, 2006). Thus, the silver scarcity became a trait of the region during the nineteenth century. Due to the disintegration, each country employed a different monetary standard (bimetallism, paper money, only silver). This situation increased the transaction costs within regions and only augmented the costs of the transactions in regional market due to the custom taxes on every country. It also stimulated capital flight and affected the prices and interest rates. Money was scarce and expensive in the region, and the used of *inflation tax* in some zones yielded weak monies and climbed inflation. Thus, political, and economic instability were two sides of the same coin.

Regarding the existence of "a variety of banks" and "a central bank", those financial institutions were not consolidated in the region until the late nineteenth century. That is why the region is called as "late banking". However, there were a few attempts of banking before the 1850s, many of them unsuccessful due to the political conditions. In accordance with Calomiris & Haber (2014), political institutions were unable to provide the fragile equilibrium needed to have banks. These authors introduced the notion of "Game of Bank Bargains," a concept that entails that the banking system of any country is the result of bargaining between the government and the private sector (bankers, minority holders, depositors and debtors). Each actor defends its interest, and the resulting deal is the creation and distribution of the economic rents that the banking industry yields. The goal here is to maintain the rulers in the political power as to provide enough incentives to the private bankers to risk opening banks. Those incentives could be privileges, such as monopoly in note issuance, controlled access to the chartering of banks, and many others (Calomiris & Haber, 2014, p. 39). Yet not all actors intervene in the negotiations. In their view, the players of the "game" are determined by the institutions, like property rights and political representation of the country. In this framework, the weakness of the Hispanic American governments and the power of regional elites, as the levels of representation of those in the state's institutions, determined the type of banks that could be established in the region.

Under this paradigm, the political institutions shaped the resulting banking system. This approach helps to understand the Latin American banking development. For example, the Brazil empire founded the first *Banco do Brazil* in 1808 with the arrival of the fleeing monarchy to the territory. This bank functioned as a central bank, chartered by the government with the monopoly of issuing the legal tender. In return, the bank provided short-term and long-term loans to the government, which was in dire need of revenue. This was the only way to rise revenue, as increasing taxes were out of the question due to the strength of the local and scattered elite of the vast territory. So, to keep financing the government, the bank resorted to augment the number of banknotes, making the "inflation tax" a common trade during the Brazilian nineteenth-century (Calomiris & Haber, 2014, pp. 390-400). Although this early experience examples an early development of a central institution, it proved insufficient due to the closed ties of the Bank with the Central Government (Marichal, 2021, p. 192).

The case of Argentina is also of an early bank, the *Banco de Dépositos de Buenos Aires*, which was founded in 1822 and later became the *Banco de Buenos Aires,* and later *Banco Nacional*. This bank was created to supply the means of payment to external merchants, which were in abundance in Buenos Aires due to the starting boom of Argentina thanks to its easy access to the Atlantic. The bank was also the internal trade supplier of liquidity to the producers of the commodities that passed through the port of the Buenos Aires. The common trait of both trades was the silver's scarcity, but the bank also serviced the government in their deficits (Cortés-Conde, 1999). The bank also acted as the financial agent of the government. One of the privileges granted to this bank was that it did not have to comply with sound banking practices, and its owners were allowed to capitalize it with loans from the same bank. Because it was controlled by a narrow elite, it created the possibility for "crony" capitalism (Haber, 1997), a phenomenon in which banks "allocated scarce credit among politically influential insiders" (Calomiris & Haber, 2014, p. 22) distorting the market by providing lower interest rates to the inner elite and rationing the credit. The Banco Nacional modernized the credit supply during its existence but the inconvertibility of its issuances, and the reliance on the government's fiscal capacity resulted in inflationary pressure, causing distrust on the banknotes, which circulated at a discount (Marichal, 2021, pp. 199-201). A similar experience was visible in the *Banco de Avio*[1] and later banks that were set up in Mexico during the nineteenth century (Calomiris & Haber, 2014, pp. 331-354).

To complement the view on the underdevelopment of banks in the region, Zegarra (2006 & 2014) identified the importance of the demand-side for banking and financial services and stated that this was the most defining factor to the establishment of banks, rather than the political walls and requirements set by the government. He affirms that the economy growth is the causation factor of the soaring demand for financial services and banking, which in return created the incentives to the foundation of banks, thus fostering the financial revolution. This view is consistent with the establishment of banks in the region, because of the great number of commercial banks established in the late nineteenth century. The Hispanic American economy grew propelled by the export sector during the first

[1] An Industrial Development Mexican bank established in 1830.

wave of globalization. The increased in the export activity produced a demand for financial services that did not exist before. Thus, if we consider the recession and scant economic growth of the Hispanic American countries right after the independence, it is logical that there were not high levels of demand for this type of institutions. But this is not what Sylla & Rousseasu affirmed, hence, the discussion spins around the causal relationship between economic growth and financial development. In the case of Hispanic America, it is because of the unremarkable performance after the independence that the region did not develop financial institutions or is it because of the lack of financial institutions that the Hispanic American countries did not perform as expected? Even more, the Calomiris & Haber's proposal only stands when the players (government and private sector) are willing to endorse in the Game of Bank Bargain. What happens when one of the players are unwilling to commit into this bargain because there is no need for it? What if there is a supply of credit that coped with the demand? The answer to those questions might be in the existence and persistence of *censos eclesiasticos*.

The *Censos eclesiásticos*

The *censos eclesiasticos* were a type of loans provided by religious institutions, such as churches, parishes, convents, *capellanías*[2], among others. *Censos* were in use in all the Spanish territories since the time of the *Reconquista*, when the Catholic Kings expelled the Muslims of the Iberian Peninsula in 1492. From then on, the *censos* underwent numerous changes until the nineteenth century (Wobeser, 2011; Lavrin, 1998; Bauer, 1983; López Martinez, 1989). By the late eighteenth and nineteenth century, the *censo* had become a type of mortgage that functioned as follows: a real estate owner signed a contract in which he promised to give a stipulated annuity in exchange for a payment or loan that was laden in his real estate (which could be a farm, a house, a store in some cases, or even livestock). The annuity was settled at 5% of the loan, the tariff was imposed by law, and it was inelastic. The immoveable debt did not change ownership, and the usufruct was retained in the owner. The annuity only expired until the debt was settled, and because the debt was charged on the landed

[2] A Capellanía is a means of payment for a pension created by a person in favour of a chaplain, which promises to perform masses in his name in a determined parish. The sources of the pension could consist of land or money.

property, the debt could run for various lifetimes (Cascavita-Mora, 2016, pp. 20-25).

Due to its specificities, like its restricted access, some scholars like Colmenares (1974), Lavrin (1998), Ferreira (1999) and Ortiz (2016) assumed that only landowners or *hacendados* could use this source of credit for their agricultural activities. However, recent approaches to the subject have identified this assumption as inaccurate. Wobeser (2010), Del Valle Pavón (2020) and Cascavita-Mora (2016) show that by the late eighteenth century the merchant class used this type of credit to fund their endeavors by mortgaging their urban properties. More notably, in Cascavita-Mora's (2016) analysis in Colombia, the mortgaged proprieties like *haciendas* (large states and ranches) or *estancias* (cattle farms) acccounted to only to 25 to 30 per cent of all loans and the urban properties took 45%. These proportions can be seen by the time the *censos* were forbidden (Cascavita-Mora, 2013, p. 44). Although the bulk of those studies are on the late colonial period, they are important because the *censos* were only banned until the mid to late nineteenth century in the region (Knowlton, 1969). Unfortunately, the studies of the capital markets in Hispanic America right after the independence are scarce, although recent work of Carlos Marichal address this issue (Marichal, 2021)

In all the existing works, the idea of prestige and social networks represent an important role in the granting of loans. Furthermore, the relationships between the landowners and merchants with the abbots, or priors (heads of the convents), and the parish priest seem to play a prominent role. The acquaintance between the loan maker and takers could assure the annuity's payments, which was a way of dealing with the information asymmetry factor but implying a regional characteristic on the loans. Also, many of the convent's heads and priests were members of the ruling elite, so the membership on a familiar network could also act as a helpful factor in the acceptance of loans. Those closed relationships with a flat rate of 5% on the annuities, could explain the unwillingness of the private sector to enter the Game of Banking Bargain. If the elite already had access and certain control over the credit supply, why would they sit to concede and share those privileges with the government? This situation could also have acted as a driver to the persistent inequality the region.

Evermore, recent studies have focused on private loans, which incidentally remark the inelasticity of the interest rates. The flat 5% rate provided by the ecclesiastical institutions was lower than the offered by mercantile credit during the late colonial period, at least in the Colombian case (Granados & Torres, 2023; Torres, 2014).

Another characteristic of ecclesiastic loans is their "rent-seeking" nature. Wobeser (2010) indicates that the main objective of those loans was to provide the clergy and nuns with a sustained source of revenue for their subsistence and maintenance, and the sources of those loans were the silver and coin from the ecclesiastical dowry. The dowry provided the convents and parishes with a surplus of currency which, if it was not allocated in those mortgages, would probably end up idle. The interest was in allotting those loans in the more stable and long-living assets. The mentality was clear in that aspect, and at the same time, the control of those resources allowed them to consolidate the stable relationship with the privates who were the loan takers. Furthermore, if we follow Zegarra's (2006 and 2014) idea, in the environment of recession and low economic growth, like the one after the independence, where the demand for credit was low, and the allocation of that capital was profitable to the loan makers and enough to the loan takers. The circumstances allow me to raise the question about the incentives towards the foundation of financial institutions like banks.

The *censos* were forbidden in the Hispanic American countries during the wave of liberal reforms of the mid-nineteenth century. In Mexico, the *Ley de Lerdo* in 1856 removed the ownership of the land from ecclesiastical institutions in favor of the renters, thus removing the capacity to create new *censos*; in Colombia *La Ley de Desamortización de Bienes de Manos Muertas* in 1861 clearly stipulates the restriction to this type of loans. The dismantling of those loans was an attempt to undermine the political and economic influence of the Catholic Church (Uribe-Castro, 2018) which, by the time, had managed to maintain ties with a sector of the ruling elite. But this also broke the market of capitals that existed since colonial times, shifting the circumstances, and undermining the existing bargain system. Once this system disappeared, a new one was necessary to cope with the soaring demand for financial services resulting from the commodities export boom of the late nineteenth century. In the case of Colombia, the first commercial bank, *Banco de Bogota*, was established exactly ten years after the law of 1861. In the region, the number of commercial banks started to rise at the same time, raising the following question: was there a causation between the interdiction of the *censos* and the consolidation of private banking in the region?

Conclusion

The Hispanic American Economic History of the nineteenth century has focused on the insertion of the region in the international markets, so the attention has been skewed towards the export-led growth that came with the first wave of globalization (Bulmer-Thomas, 2014; Bulmer-Tomas et al., 2006; Ocampo & Ros, 2011; Ocampo & Bertola, 2012) when the prices of transportation plummeted, and the commodities prices skyrocketed. However, the doubts cast by Prados de la Escosura about the "lost decades" have led the attention to that period. Additionally, recent studies are starting to focus on that, yet the studies of Hispanic American economic development in the period after the independence are still in its infancy. There is still a long road to cover on that field. Even though the heterogeneity of each country experience is remarkable, some similarities could be found. Case studies country by country are still required, and the aim of this article is to foster new approaches.

Nonetheless, the existing works allow us to establish that a financial revolution, as in the case of the United States or the Low countries, could not be devised in the region. The sound public finance and debt management, and stable monetary arrangements were far from achieved. The political and economic instability impeded the development of a securities market. Also, the lack of establishment and consolidation of financial institutions like banks is more a symptom of the immaturity of the capital market. Unfortunately, further works are needed to characterize the capital market of the region, and for every country, after the independence. Despite that, it can be stated that in the region existed a supply of credit that might have coped with the demand for those services, making the case that there is no one-size-fits-all approach to understand the Hispanic American financial evolution. Furthermore, the unique characteristics of those loans, like rent-seeking and close interpersonal relationships between providers and takers, might be one of the reasons behind the immaturity of the capital market, which was only overcome with the demise of the *censos,* during the liberal revolution of the mid-nineteenth century. Further research is necessary to asseverate this with confidence.

It is undeniable that more studies are needed. Topics like the size of the capital market, the supply and demand of credit in the region, the sources and uses of the loans in the region after the independence are foremost. Further research will provide insight to understand the causes of the slow growth of Latin America.

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