

# Economic Policies and Bankruptcy Institutions: Brazil in a Period of Transition from Colony to Independent Nation

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## Abstract

This paper studies the legislation on bankruptcy introduced into Brazil by D. João VI (1808-1821) and shows how this legislation was used in this period as an instrument of protection for certain specific economic activities. On one hand, this work deliberately seeks to incorporate institutions into the study of Brazilian economic history, based on the assumption that the lack of interest in the role played by these institutions has hindered a better understanding of the country's economic development during the Nineteenth Century. On the other hand, this paper introduces new material for the purpose of re-assessing the economic policies enforced in this period. In fact the study of the bankruptcy legislation suggests that one of the Government's main concern at the time was to promote the development of activities directly related to gold and sugar exports. Therefore the general and popular acceptance of the revolutionary character of the economic policy in this period is challenged.

*Keywords:* Institutions, Bankruptcy, D. João VI, Legislation

*JEL Classification:* N26

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## Resumo

Este trabalho estuda a legislação sobre falências implementada no período Joanino (1808-1821) e mostra como essa legislação foi usada no período como um instrumento de proteção a determinados setores da atividade econômica. Por um lado, o trabalho tem o propósito deliberado de incorporar as instituições no estudo da história econômica do período, considerando que um descaso sobre o papel das instituições na história da economia do país tem prejudicado um melhor entendimento do desenvolvimento econômico observado no país ao longo do século XIX. Por outro lado, o trabalho tem o propósito de trazer subsídios para uma reavaliação da política econômica de D. João VI. De fato o estudo da legislação sobre falências implementada no período sugere que o principal objetivo do Governo era promover o desenvolvimento de atividades direta ou indiretamente relacionadas à produção de ouro e açúcar.

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Portanto, o trabalho questiona visão da política econômica joanina, como uma política econômica revolucionária, visão predominante entre os historiadores econômicos.

*Palavras-Chave:* Instituições, Falências, Legislação, D. João VI

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## 1. Introduction

Changes in Brazilian bankruptcy law introduced in Brazil in 2004 providing improved conditions for the recovery of indebted firms have been seen as a major step towards modernization of Brazilian legislation. The new law expresses a greater concern of economic policy for growth and employment rather than with the safeguarding of creditors' rights. Such a trend is not new in Brazilian history. It prevailed in colonial times as part of a package of incentives introduced by Portugal to promote economic activities in its colonies in accordance with the purposes embodied in the mercantilist policies then prevailing.

Considering the definition of institutions as “the rules of the game in a society, or more formally...the humanly designed constraints that shape human interaction”,<sup>1</sup> one cannot say that the relevance of institutions in shaping Brazilian economic development in the Nineteenth Century has been either denied or ignored by economic historians. However, studies of these impacts have not followed the principles and methodology suggested by recent literature. The effects of institutions on economic growth have been mostly assumed and not duly investigated. Consequently, some spurious relationships of cause and effect have been established and become widely accepted. This has been the case, for instance, for one type of institution, the rules embodied in legal texts. On one hand, such institutions are many times called forth to explain developments that took place in the economy without major investigation regarding their ability to account for the phenomena observed. On the other hand, the possibilities that such institutions may be the explanation for the course of certain events are frequently not even taken into consideration. Even though some exceptions may be always mentioned, these attitudes reveal a certain lack of interest in the real role played by legislation in shaping the observed development. Laws have not been properly studied, leading economic historians either to ignore significant institutional changes, or to misinterpret them.

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<sup>1</sup> Douglass North, *Institutions, Institutional Change and Economic Performance*, Cambridge USA, 1990.

The study of the origins of Brazilian industrialization in the Nineteenth Century is a good example of this claim. Although the literature has emphasized the role of protective policies as responsible for attracting investments in industrial production, most of these studies are restricted to fiscal privileges: concession of financial subsidies, exemption or reduction of import tariffs on machinery and inputs, prohibitive import tariffs on similar products, etc. Such privileges, either reducing the costs of production for domestic firms or enlarging the demand for their products, would have given rise to more favourable forecasts regarding the profitability of the sector. Protection given to industry by means of other institutions, such as bankruptcy legislation, has been overlooked.

As to the specific period of the Government of D. João VI, a few pieces of legislation towards industries enacted by D. João VI in 1808-1810 have been viewed by some economic historians as revealing an official purpose of developing manufactures in the country, a scheme which would have been rendered ineffective by the Commercial Treaty of 1810 that gave privileged import tariffs to British products. Such was, for instance, the point of view of Roberto C. Simonsen in 1937, later on extended by Nícia V. Luz.<sup>2</sup> Furtado was the first to minimize the effects of the Commercial Treaty of 1810 in delaying the emergence of an industry in Brazil and to doubt that “an intelligent policy of industrialization” could have been implemented in a country dominated by a class of great landowners”.<sup>3</sup> This notwithstanding, Alice P. Canabrava’s observation in 1962 that most of the historical studies on Brazilian industrialization date the start of the modern Brazilian industry to the D. João VI period still seems valid.<sup>4</sup>

Nonetheless, prevailing bankruptcy regimes may have significant effects on economic performance and changes to such regimes have been used from colonial times to our days as one of the protective devices intended to direct investments to specific sectors.

Any person or firm unable to pay their debts is insolvent. If their state of insolvency is legally recognized, they become bankrupt. Once acknowledged as bankrupts, the payment of their debts must be made according to bankruptcy laws and, when this is the case, they may become subject to legal penalties. According to the legislation in force, losses from individual bankruptcies may be extended to firms as long as they are entirely or partially owned by bankrupt individuals. Thus, the bankruptcy of a firm may result from bad administration – fraudulent or not –, from unfavourable fortuitous business conditions and from individual bankruptcies of their owners.

<sup>2</sup> Roberto C. Simonsen, *História Econômica e Política do Brasil (1500/1820)*, 6<sup>a</sup> ed., São Paulo, 1969), p. 397. Simonsen’s book was published for the first time in 1937. Nícias Vilela Luz, *A Luta pela industrialização do Brasil (1808-1930)*, São Paulo, 1961, pp. 13–17

<sup>3</sup> Celso Furtado, *Formação Econômica do Brasil*, São Paulo, 1970, p. 107.

<sup>4</sup> Alice Piffer Canabrava, *História Econômica: Estudos e Pesquisas*, São Paulo, p. 86.

The consequences of firms' bankruptcies are not restricted to the expulsion of inefficient firms from the market. According to the nature of the firm, its size, and the characteristics of its production process, such consequences may extend at different rates of speed and different degrees of intensity to other firms and sectors. Considering that bankruptcy laws establish the legal limits to property rights of creditors and debtors, alterations to those laws and changes in these limits may have significant results on the performance of the economy as a whole.

Changes to bankruptcy laws have different effects, not only among various firms, but also among different agents involved directly or indirectly in the productive process of this firm. Legal measures protecting the property rights of the owners over the firms' assets clearly reduce their individual risks. Such a reduction in risks, everything else being constant, will favour investments in these firms and, as far as labour is concerned, will provide a safeguard against unemployment in the case a firm becomes insolvent. However, it must be considered that, given such increased protection, the firm may face credit restrictions as creditors might perceive their property rights as adversely affected. Therefore, the concession of privileged bankruptcy legislation for specific firms or sectors may work as an efficient protective device only if their protective effects are not counteracted by the adverse effects on the availability of credit.

The purpose of this paper is to investigate the use of bankruptcy legislation as one of the instruments of economic policy used by the Government of D. João VI (1808- 1821) by means of a thorough examination of the legal texts promulgated in this period. This policy, stimulating investments in the production of commodities like gold and sugar, had long-term effects on the development of the Brazilian economy in the Nineteenth Century. The assumption is that such legislation was part of a package of economic policy measures imposed for the main purpose of increasing revenues collected by the government in order to meet the increased costs of the Portuguese administration. In this sense the paper expands Furtado's argument, mentioned above. It would not be reasonable to expect the implementation of an efficient policy towards industrialization by a government which heavily depended on revenues provided by international trade.

The period under examination is particularly interesting as it was a time of transition from a colonial regime to an independent government. In fact, as far as Latin-American countries are concerned, the transfer of the Portuguese Court to Brazil, in 1808, and D. João VI's stay in Brazil until 1821 created conditions for a singular experience of transition from colonial to independent status. Not only was the transition relatively peaceful, there was no drastic rupture of institutions. On the contrary, as it has been pointed out by some authors, the government of D. João VI restricted itself to transplanting Portuguese institutions to Brazil. In fact, the administrative apparatus required by the Government to exercise its functions from its new seat was copied from

that existing in Lisbon, without taking into consideration the peculiarities of the new setting where the court was being established.

However, the impact of a great and most diversified set of external factors called for changes in the institutions. Such changes were introduced through legislation suitable to the new role to be played by the colony under the changed circumstances. New institutions were created and old ones modified in order to build an institutional structure compatible with an altered economic and political situation. The new institutional arrangements, the result of exogenous factors, were to be bequeathed to the independent Government of D. Pedro I in 1822.

As far as insolvency is concerned, D. João VI's legislation for the colony followed the same pattern as that in Portugal. No general law on bankruptcy was promulgated in Brazil until 1850, but protection to insolvent firms was given to firms operating in specified sectors in order to stimulate investments in those areas more likely to generate higher revenues for the Government.

A thorough and close investigation of the period's legislation show that the protective devices of a special legislation on bankruptcy aimed at encouraging investments in specific sectors directly or indirectly connected with exports, and, thus, with tax collection. In fact, not only sugar producers and miners generally benefited by such special legislation. Given that the conditions faced by miners in the early decades of the Nineteenth Century required large investments, incentives were created by means of special legislation on bankruptcy to encourage the constitution of joint stock mining companies. Similar reasons led the Government to extend bankruptcy benefits to marine insurance companies, as well as to the Bank of Brazil .

An examination of the legislation on bankruptcy established by the Government of D. João VI not only allows the incorporation of a new variable to the study of economic development in the period, but also reveals some of the purposes behind the economic policy enforced. Thus, this paper aims not only to present the body of legislation on bankruptcy created or modified in the period, but also to throw some light on the reasons behind such innovations. By doing so, it hopes to contribute to a general review of the nature and characteristics of D. João VI's protectionist economic policy in Brazil.

The first section describes changes introduced into the Portuguese legislation on bankruptcy law, before the arrival of D. João VI in Brazil, with the purpose of stimulating investments in those activities most capable of producing revenues for metropolitan Portugal: gold mining and sugar production. The increase of such protection for gold and sugar activities in the government of the D. João VI is examined in the following section. The third section investigates the incentives provided for the constitution of capital partnerships and presents the bankruptcy legislation for gold mining societies. The fourth section shows how bankruptcy laws were adjusted to deal with the joint stock companies authorized to be constituted in the period. The conclusions are presented in the last section.

## 2. Bankruptcy Laws in Colonial Brazil Previous to the Transfer of the Portuguese Court to Brazil: Privileges for Miners and Sugar Producers

In the colonial period, Portuguese laws were enforced in Brazil: the *Ordenações Manuelinas*, from 1521 to 1603, and the *Ordenações Filipinas*, thereafter. As to bankruptcy, this legislation did not establish a clear distinction between insolvent individuals and insolvent firms, and did not show any special concern in setting conditions for their rehabilitation.

The *Alvará* of 13 November 1756, enacted by the Marquis of Pombal a year after the Lisbon Earthquake, has been considered by some jurists a landmark in the history of Brazilian legislation on bankruptcy by introducing “very original and authentic proceedings in commercial courts restricted to merchants, traders or business men”.<sup>5</sup> This *alvará* had the purpose of rehabilitating credit in the Lisbon market which had become chaotic in the wake of the earthquake of 1 November 1755, resulting in a great number of bankruptcies and encouraging fraudulent actions on the part of debtors.<sup>6</sup>

As a first step, the bankrupt was to present himself before the Commercial Court. On the same day – or, at the latest, on the following day – he was supposed to pay his debts according to the contracts. He also had to declare all his possessions, present his books with all entries chronologically registered, declare under oath the causes of his insolvency and hand over the keys of his establishment. After that, an inventory was to be made of all his possessions that would be deposited in Court and entrusted to a businessman officially nominated as depositary. Then, news about the bankruptcy was to be duly published so that all those interested could make themselves known. Once this first stage was concluded, a lawsuit would be filed. If the bankrupt were considered guilty, he would be put in jail and submitted, later on, to a trial. Finally, all the bankrupt’s possessions would be publicly auctioned. Out of the liquid proceedings from such an auction, ten per cent would be put aside for maintenance expenses of the bankrupt and his family, in case the bankruptcy process was not considered fraudulent. The remaining liquid proceedings would be distributed among the creditors.

In spite of the general bankruptcy legislation in force, new legal texts were issued from time to time granting special privileges to some specific sectors that the Government intended to protect and stimulate. In fact, as early as 1618 all mining enterprises in the *capitanias* of São Paulo and S. Vicente, independent of their size were exempted from debt execution and impoundment.<sup>7</sup> Such

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<sup>5</sup> Waldemar Martins Ferreira, *Instituições de Direito Comercial*, 5<sup>a</sup> ed., São Paulo, 1955, p. 20. *Alvará* was a royal decision that, at least in principle, had a temporary character.

<sup>6</sup> The main objectives of this *Alvará* are stated in its introduction. This *Alvará* gives a new version to be enforced from then on, with the Title LXVI of the *Ordenações* Book V.

<sup>7</sup> *Alvará* of 8 August 1618, § 13.

a privilege was part of a set of incentives to promote the discovery of new gold deposits in the region. In the 1750's, when, after reaching its peak, gold production started to decline, this privilege was extended to all miners with more than thirty slaves.<sup>8</sup>

A significant reduction in the revenues collected by the Portuguese Government, resulting from the decrease in gold production in the second half of the Eighteenth Century as well as from increasing tax evasion, led the Government to intensify its protection for gold miners. As the decline in gold production was seen to be a result of the exhaustion of deposits which could be explored at low cost, the Government started stimulating the organization of capital partnerships. Such partnerships were expected to be able to attract the resources necessary for gold mining under the new circumstances.

The *Alvará* of 13 May 1803 introduced a new regulation for the organization and administration of diamond and gold mines in Brazil with the purpose of increasing their production and discouraging tax evasion. This *Alvará* gave privileges to companies and capital partnerships, but did not include any references to the bankruptcy regimes to be followed. According to the first paragraph of article VI, preference would be given to companies and partnerships in the distribution of mineral lands that required more labour and diligence. The following article prescribed, that in the case of large rivers, work should be given to companies because "...for their work, much more larger expenses are necessary, superior to the faculties of only one individual..."

These capital partnerships and companies were to be incorporated at the initiative of the General Mining Intendant and supported by the Administrative Council of Mines and the Governor of the *capitania*. The share of those companies and partnerships would be divided among the partners or shareholders according to the number of slaves they had provided. The expenses would be shared by all shareholders according to the number of shares they owned.<sup>9</sup> Even though this *Alvará* made no innovations to the bankruptcy legislation, it created strong incentives for the formation of companies and capital partnerships in gold mining. Once partnerships under the format of joint stock companies began to be formed, they required specific regulation on bankruptcy. Such regulation was provided to each company through its statutes.

Special bankruptcy legislation in the colonial period was not restricted to gold mining; it was also extended to sugar producers. In accordance with the Resolution of 22 September 1758, and the Provision of 26 April 1760, the ownership of sugar mills and sugar farms in Rio de Janeiro was exempted from execution and impoundment, claims being restricted to the profits. In 1807,

<sup>8</sup> Decree of 19 February 1752 and Resolution of 22 June 1758.

<sup>9</sup> *Alvará* of 13 May 1803, article VII, paragraph 3. Out of the 128 shares which would form the company's capital, two shares would go to the Government and were not subject to the payment of expenses.

these benefits were extended to all Portuguese ultramarine dominions.<sup>10</sup>

In the case of the gold mining sector, it is reasonable to assume that this special legislation on bankruptcy encouraged investments, even though the available data does not allow a quantitative measurement of such effects. The high degree of uncertainty associated with gold mining activities in this period was reduced by the legal guarantee that the enterprise's assets would not be lost in case of bad luck and consequent bankruptcy of the owners. As the capital value of the enterprise was almost always restricted to the value of the slaves for whom there were alternative uses, it seems clear that such exemption from execution and levy was welcomed by potential investors. Although slaves, working or not, had to be clothed and fed, the costs of keeping an mine in operation were relatively negligible. Thus, as variable costs were relatively low, it is reasonable to think that a miner at this time did not have to resort to loans for working capital. Therefore, it is possible to conclude that any adverse effects on the credit side, if any, were minor ones.

### **3. The Transfer of the Portuguese Court to Brazil and the Maintenance of Protection for Gold and Sugar Activities by Means of Special Legislation on Bankruptcy**

Protection for gold and sugar production by means of special legislation on bankruptcy was maintained during the Government of D. João VI (1808-1821). References in the literature to the economic policy enforced by the Government of D. João VI (1808-1821) have emphasized incentives given to industry. Such emphasis is understandable, given that one of the first measures adopted by D. João VI after his arrival in Rio was to abrogate the prohibition relating to the production of cloth in Brazil.<sup>11</sup> Freedom given to industry and the opening of Brazilian ports to international trade on 28 January 1808, may suggest a departure from previous mercantilist policies.<sup>12</sup> However, an analysis of the legislation makes it clear that the purposes of the economic policy were still predominantly mercantilist. Brazil, either as a colony, or as part of the Royal Kingdom of Portugal, was expected to continue producing primary commodities and provide increased revenues for the Royal Treasury. The study of this period's legislation reveals these objectives and points out the sectors that received greater incentives: iron and gold mining, transportation, colonization and banking. This section will examine such incentives in order to detect privileges related to special bankruptcy regimes in the case of gold mining and sugar production.

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<sup>10</sup> *Alvará* of 6 July 1807.

<sup>11</sup> *The Alvará* of D. Maria I on 5 January 1785 prohibited the production of cloth in Brazil, except cloth for "use and dressing of slaves, for sacking and wrapping cloth and other similar uses." By the *Alvará* of 28 April 1809 everyone in Brazil and in other Portuguese Domains became free to establish any kind of manufacture in the country.

<sup>12</sup> *Carta Régia* 28 January 1808.



Reliable data on Brazilian exports during the colonial period are not yet available. However, even if estimates from contemporary sources diverge significantly in absolute values, they tend to coincide in relative values. There is no doubt that gold and sugar were responsible for most of Brazilian exports during colonial times.<sup>13</sup> However, by the first decade of the Nineteenth Century, mining production was in frank decline and sugar exports, even though in recovery, were far below levels reached in the Seventeenth Century. Considering that the main source of revenues for the Government were taxes on gold production and taxes levied upon imports and exports, it is no surprise that, in spite of the growth of the domestic market and all measures taken to tax it, mining and international trade received major attention from the Government. Therefore, it is easy to understand why the Government of D. João VI would try to reverse the process of decline in mining production and to create incentives for sugar exports. This was done not only by providing direct privileges and incentives to these activities, but also to those connected with the construction of the infrastructure necessary for the transport of exportable goods.

Although protection given to all these sectors took different forms, this paper will restrict itself to examining one of them: special bankruptcy regimes.

### 3.1. *Special bankruptcy regimes for miners*

In 1813, miners who employed less than thirty slaves requested that privileges related to exemption from execution and impoundment given to large-scale miners in the 1750's be extended to them. They claimed that, without such benefits, their businesses could hardly subsist.<sup>14</sup> The *Alvará*, besides complying with such requests, established other dispositions to be followed in the case of bankruptcies in gold mining businesses. In fact, this was the first piece of legislation to deal exclusively with regulation of specific privileges granted to bankrupt gold miners and to reveal an explicit concern for the rights of their creditors. Among the justifications for the new legislation, not only are the needs of the Royal Treasury, once more, invoked, but also the need to reconcile the privileges granted to gold miners with those of their creditors.

This *Alvará* had four articles. The first one granted to all miners engaged in gold production and employing any number of slaves the privilege of protection from impoundment and levy in execution of debt of "... either their mines, or their slaves, tools, instruments and other of their belongings". Such privilege covered all type of debts, including not only those incurred before the possession and exploitation of mines, but also debts for which buildings, slaves, and

<sup>13</sup> According to Simonsen these products would have been responsible for 88% of the exports in the colonial period. Roberto C. Simonsen (1937), *História Econômica do Brasil (1500/1820)*, (6<sup>th</sup> edition), São Paulo/Brazil: Companhia Editora Nacional, 1969, p. 381.

<sup>14</sup> A reference to this appeal from small miners is in the introductory part of the *Alvará* of 17 November 1813.

tools had been given as guarantees. The article following makes it clear that such privileges would also comprehend fiscal debts. The last two articles were concerned with creditors' rights and show that the purpose of the legislation was not to protect individuals, but to keep the gold mines in operation.

In fact, the third article stipulated that, in order to be reimbursed, creditors would have to look to other possessions of the debtor for securing repayment of debt. Among those possessions could be included one third of the business's profits.<sup>15</sup> The fourth article introduced the possibility of impoundment and execution of gold mining establishments. Such establishments would be liable to levy and execution if their values were equal or inferior to their owners' debts. In this case, plots of land, slaves, tools and remaining belongings could be subject to levy and sale upon execution under the condition that the establishment was neither destroyed nor bought by one person alone. If there was no bid at the auction, the ownership of the establishment would go to the creditor, who could neither close it down nor divide it.<sup>16</sup>

The requirements for debt proceedings against a mining establishment in this *Alvará* make it clear that the spirit of the legislation was not to protect creditors, in the case of insolvency of miners, but to establish certain rules to avoid reduction in gold production. Any lessening in gold production would cause a significant decrease in revenues collected. As mentioned in the introduction to the *Alvará*, one reason for its publication was the Prince Regent's wish "to promote the increase of this important branch of the mining sector, which is the source of the prosperity of my States and of revenues for my Royal Crown".

Doubts about the real meaning of the expression "remaining belongings" used in the *Alvará* of 1813 led to another *Alvará*, in 1819, that specified what exactly should be understood by this term: miners' houses built on the mine lands they exploited, repair shops, windmills, store houses for preparing and storing food for slaves as well as the stores kept in them, animals, and anything else necessary for the operations of the mine.<sup>17</sup> Given that many gold miners were evading the payment of taxes on gold, the privileges of the 1813 *Alvará* became restricted, in 1820, to those bankrupt miners who could prove, with documents duly authenticated by the competent office, that they had taken their production to places authorized to melt the gold and to extract that portion due as taxes. In addition, creditors would be allowed to show that miners who had failed to do so be denied such privileges and forced to pay them.<sup>18</sup>

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<sup>15</sup> *Alvará* of 17 November 1813, article 3.

<sup>16</sup> *Alvará* of 17 November 1813, article 4.

<sup>17</sup> *Alvará* of 8 July 1819.

<sup>18</sup> *Alvará* of 28 September 1820.

### 3.2. *Special bankruptcy regimes for sugar cane producers*

Special bankruptcy privileges for sugar producers were also maintained and amplified during the Government of D. João VI. The *Alvará* enacted on 21 January 1809 responded to a plea from small sugar producers, who requested that privileges conceded to sugar producers of the *Capitania* of Rio de Janeiro in the 1750s be extended to all producers. The *Alvará* of 1809 makes it clear that the main purpose of the Government was to create a legal apparatus that would allow producers facing financial difficulties to continue to work. In fact, the benefits for the economy, for the Government and for creditors in maintaining the continuing operation of these establishments are emphasized in the text:

“in the present circumstances of great weakness in Commerce, it would be convenient to my service that the use of the mentioned privilege were more largely extended to the farmers able to keep their establishments at work for the general utility of the inhabitants of this State and in favour of the culture what conciliated with the interests of their creditors”

In fact, this *Alvará* reaffirms the privileges of exemption from impoundment and execution of the ownership of sugar mills and farms operating regularly and the limitation of a possible debt execution to one third of the establishment's yield. It also allows the possibility of execution of writs when the debt was equal or greater than the value of the sugar cane farm or the sugar mill, and establishes that the evaluation of the mills should include slaves, cattle, lands and tools. In this case, debt proceedings should follow the rules prescribed by the law of 20 June 1774. However, this *Alvará* introduces an extra protection for the creditor. Referring to paragraph 3 of the *Alvará* of 1807, it determines that, in order to prove that debts had reached the value required for proceeding with debt execution, the creditor could add other debts incurred by the debtor. But in order to do so, certain procedures were to be followed by the creditor. The *Alvará* of 21 January 1814 made it clear that fiscal debts were included in the privileges conceded to sugar cane and sugar producers.

### 4. D. João VI's Incentives for the Constitution of Capital Partnerships and his Bankruptcy Legislation for Gold Mining Societies

As discussed above, the Portuguese Government had started to encourage the constitution of capital partnerships for gold exploration even before the transfer of the Portuguese Court to Brazil. This same policy was pursued by D. João VI. In a *Carta Régia* to the Governor of the *Capitania* of Minas Gerais on 12 August 1817, D. João VI remarks that “the state of decadence of the works in the gold mines, each day more expensive, not only because most of the lands

easy to be worked on have already been worked on, but mainly because miners do not have the necessary practical mining knowledge". In order to facilitate the introduction of new technology, he ordered that stock capital partnerships should be constituted in Minas Gerais. The constitution of those partnerships was to be at the initiative of the Mining General Inspector or his substitute and should occur under the authority of the Governor of the *capitania*. The statutes to be adopted by those partnerships, signed by the Minister and Secretary of State for Internal Affairs, were enclosed with the *Carta Régia*.<sup>19</sup>

Even though the format of these partnerships, as suggested by the statutes, are similar in many ways to the usual structure of joint stock companies, there is no explicit mention of the restriction of the shareholders' responsibility to the value of their shares, one of the main characteristics of the joint stock companies. Besides, it was made clear that shareholders would not have any right to interfere in the management of partnership.<sup>20</sup> An interesting peculiarity of these societies was that the value of the share was expressed in terms of money and in the number of slaves. According to article III, each share would correspond to 400\$000, or to "three young and healthy slaves aged from 16 to 26 years." As to the privileges to be given to those partnerships, the preference accorded them in the distribution of any mineral lands to be discovered, granted by the *Alvará* of 1803, was reaffirmed.<sup>21</sup> Besides, they would be able to use the services of mining specialists who had been brought from Germany by the Government. Government expenses in the partnership would be reimbursed by the profits corresponding to one or two shares, according to the size of the firm.<sup>22</sup> A major indication of the Government's great interest in encouraging investments in gold mining is given by article XV, which concedes a tax reduction on gold production from 20% to 10%, two years after the firm had begun operations, and as long as it was proved that the appropriate technology had been used. This *Alvará* may be seen as one of the first attempts of the Brazilian Government to launch public and private partnerships.

According to article XV of the statute, shares could be transferred, by sale, inheritance, or by impoundment, but the new owner would not be allowed to withdraw either the money or the slaves. In the case of insolvency of one shareholder, the slaves corresponding to his shares could not be sold for the payment of his debts. However, the ownership of those shares could go to his creditors, who would receive all corresponding dividends. Thus the creditor's rights to receive the payment from their credits were postponed to the future and the value to be received became uncertain. It is also worth considering that, inasmuch as they were constituted as joint stock companies, the peculiarities

<sup>19</sup> *Estatutos para as sociedades das lavras das minas de ouro, que se hão de estabelecer na Capitania de Minas Geraes* enclosed to the *Carta Régia* of 12 August 1817.

<sup>20</sup> *Estatutos para as sociedades das lavras*, art. II.

<sup>21</sup> *Estatutos para as sociedades das lavras*, art. V.

<sup>22</sup> *Estatutos para as sociedades das lavras*, art. IX.

of such partnerships have to be taken into consideration. In a joint stock company, the responsibility of a shareholder is restricted to the value of his shares. Therefore, in principle, if the bankrupt shareholder's possessions were subject to debt proceedings, this would mean impoundment of that part of the assets of the company corresponding to the value of his shares. In the case of gold mining and sugar farms and mills, such debt executions were already prohibited by the legislation in force. In other undertakings that did not have such protection could the shares of bankrupt shareholders be entrusted to a depository and afterwards sold in public auction, the proceeds from such sale reverting to the creditors? Considering the non-existence of a capital market, this could hardly be a solution.

Even though the responsibility of a shareholder was limited to the value of his shares, his property rights were not restricted to shares, but encompassed dividends distributed to shareholders. Could then the property rights on those future dividends be credited to shareholders? No general legal solution was given to this problem, leading companies to create their own rules regarding the matter. Those rules were included into their statutes and were therefore subject to Government's approval. In fact, by then, any joint company in Brazil, in order to exist legally, had to be authorized in order to function and have its statutes approved by the Government. Thus, each company created its own bankruptcy regime.

The transfer of a share corresponds to a change in the ownership of part of the physical assets of a firm. If the shares could be seized and liquidated, the continued operations of a firm would be jeopardized. Therefore, in order to assure protection, joint stock companies introduced dispositions in their statutes giving their shareholders the privilege of exemption from debt execution and levy against their shares.

## 5. Joint Stock Companies Authorized by D. João VI

Joint stock companies facilitate the assemblage of financial resources from the private sector and they have been used by various governments in different countries to attract savings for investments considered a priority. In order to induce the private sector to invest in such undertakings, and to make feasible government projects, different benefits and privileges are offered to investors. It has been no different in Brazil and this role played by joint stock companies in carrying out economic policies is not new. Trade companies created in the early colonial period to operate in Brazil certainly helped the Portuguese Government achieve its mercantilist goals.

Until 1882, authorization from the government was a necessary condition for incorporating any joint stock company in Brazil, even though the need for such authorization was only regulated in 1849. The requirement of such approval created the grounds for the establishment of public and private partnerships.

On one hand, the format of joint stock companies was in itself attractive to individual investors, as it created further possibilities for their investments. On the other hand, the need for authorization provided the government with means to attract such savings for projects of its own interest. In fact, the acquiescence of the private sector in entering into these partnerships was many times obtained by conceding various benefits to shareholders and to the company.

This section lists (Table 1) all the joint stock companies authorized to be constituted in the period and investigates the bankruptcy regime adopted by them. At this point it should be noted that, in spite of the requirement of legal authorization, some companies were organized and operating without such permission. Therefore it should be pointed out that the list presented does not comprise all joint companies in operation.

Table 1  
Joint stock companies authorized by D. João VI (1808-1821)

Years	Legal document	Company name	Object of the companies	Companies headquarters
1808	Decreto 24/02/1808	Cia de Seguros Boa Fé	Maritime insurance	City of Bahia
1808	Alvará 12/10/1808	Banco do Brazil	Deposit discount and issue	City of Rio de Janeiro
1808	Carta Régia 24/10/1808	Cia de Seguros Conceito Público	Maritime insurance	City of Bahia
1810	Decisão N.5 05/02/1810	Cia de Seguros Marítimos Inemnidade	Maritime insurance	City of Rio de Janeiro
1817	Carta Régia 16/01/1817	Cia de Mineração do Cuyabá	Gold Mining	Na
1819	Decisão N.55 15/12/1819	Sociedade de Agricultura, Comercio e Navegação do Rio Doce	Fluvial transportation	Na
1821	Carta Régia 21/02/1821	Cia de Mineração dos Anicuns	Gold Mining	Na

Sources: Legislation and companies' statutes mentioned in the text.

As shown in Table 1, only seven joint stock companies received legal approval in the period 1801-1821: three marine insurance companies, two gold mining companies, one bank and one river transportation company. How those companies protected themselves against the unfavourable effects of the legislation, in case of a future bankruptcy, is investigated in the following sub-sections.

5.1. *The maritime insurance companies*

As shown in Table 1, only three joint-stock maritime insurance companies were authorized to be constituted in this period. It has been mentioned in the literature that seven insurance companies were formed in the city of Rio de Janeiro during the government of D. João VI.<sup>23</sup> Either some of the four companies were not constituted as joint-stock companies or they were informally constituted as such, but did not receive government approval.

The provision of maritime insurance services, in high demand in an economy specializing in the production of commodities for exports and based on African slave labour could hardly be financed by one individual. Therefore, it is to be expected that those services were offered by firms constituted by capital partnerships. Besides, considering that such services responded to pressing needs from export and import merchants, they did not require from the government special privileges in order to be constituted.

As soon as D. João VI arrived in Bahia, he signed a decree authorizing the constitution of a maritime insurance company, the Companhia de Seguros Boa Fé. According to the text of the decree such authorization was needed by the merchants of the city of Bahia.<sup>24</sup> Article 4 of this company's statute characterizes this company as a joint stock company: "the shareholders' responsibility does not go beyond the value of their shares."

Insurance companies presented, then, peculiar characteristics. They required very little investment in physical assets and their operational costs were relatively low. Therefore, the company's capital corresponded mostly to the amount of available financial resources eventually needed for the payment of insurance premiums. In consequence, shareholders joining the company were not required to pay for the whole value of their shares. This meant that a significant part of the capital remained with the shareholders and away from the control of the management of the company.

Assuming that an insurance company was well managed and responsibilities beyond its ability to pay were not undertaken, it could be expected that a temporary liquidity difficulty be solved by the payment of unpaid shares. If some shareholders refused to do so and the firm went bankrupt, there were no possessions that could be subject to debt execution and levy as the firm's capital did not correspond to its physical assets. If the company's capital was inferior to its debts, there was no way shareholders possessions could be seized and sold because, in a joint company, the shareholder's responsibility would not exceed the values of his shares. Besides, impoundment and execution of shares belonging to an individual bankrupt shareholder would be a complicated

<sup>23</sup> Lenira M. Martinho and Riva Gorenstein, (1993), *Negociantes e caixeiros na sociedade da Independência*, Rio de Janeiro/Brazil: Secretaria Municipal de Cultura, Turismo e Esportes, Departamento Geral de Documentação e Informação Cultural, Divisão de Editoração, pp. 160.

<sup>24</sup> Decree of February 24, 1808. D. João disembarked at the City of Bahia on January 24, 1808.

process whenever those shares had not been paid for. Thus, trust among shareholders was the basis of such companies. Consequently, it would be reasonable to expect that insurance capital partnerships, joint stock or not, were formed by a small group of individuals linked to each other by family, friendship or business ties, those ties being more important than the format of the association among them. In fact, this seems to have been the case.<sup>25</sup> There is some evidence that, besides these three joint stock companies, formal and informal partnerships were formed in the cities of Bahia and Rio de Janeiro to operate as insurance business.<sup>26</sup>

In the case of Companhia de Seguros Boa Fé, protection against bankruptcy given to investors – besides limiting the shareholder's responsibility to the amount of his shares, given to investors in any joint stock company – were the severe penalties to be imposed on shareholders who refused to pay for their shares whenever they were asked. Its capital was fixed at 400 *contos* and the statute did not establish any deadline for the payment of the shares to the company.<sup>27</sup> This payment would only become mandatory when the amount of financial resources kept by the company were insufficient to pay for the losses of the insured. In this case, shareholders were supposed to pay for their shares, within eight days, the value required to cover the company's debts – the responsibility of each shareholder being proportional to the number of shares he had subscribed. Should a shareholder refuse to comply with his obligations, he would be immediately expelled from the company without any rights.<sup>28</sup>

Another insurance company authorized to be established in 1808 in the city of Bahia was the Companhia de Seguros Conceito Público, also an enterprise of local traders.<sup>29</sup>

The first joint stock maritime insurance company formed in the city of Rio de Janeiro, the Companhia de Seguros Marítimos Indemnidade, received Government approval in 1810.<sup>30</sup> According to the company statutes, each shareholder was to immediately pay a value corresponding to 10% of the shares he had subscribed, the remaining amount being paid whenever required by the circumstances.<sup>31</sup> The process of official approval of this company's statutes

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<sup>25</sup> Manolo Florentino, in *Em Costas Negras: Uma história do tráfico de escravos entre a África e Rio de Janeiro*, Rio de Janeiro, 1997, p. 126–128, calls attention to the great demand for insurance services from the slave-trade between África and Brazil. According to him, the insurance business in the city of Rio de Janeiro was mainly financed by slave-traders.

<sup>26</sup> Manolo Florentino, *op.cit.*, p. 128 mentions ten insurance companies operating in the city of Rio de Janeiro in 1829.

<sup>27</sup> *Condições da Companhia de Seguros da cidade da Bahia*, article 2. These statutes were enclosed in the Decree of February 24, 1808.

<sup>28</sup> *Condições da Companhia*, art. 11.

<sup>29</sup> *Carta Régia* of October 24, 1808. The statutes have yet to be located.

<sup>30</sup> N. 5 BRAZIL Resolução de consulta da Real Junta do Commercio, Agricultura, Fabricas e Navegação de 5 de fevereiro de 1810.

<sup>31</sup> Although this capital partnership carried the name of the company, usually given to partnerships constituted as joint stock companies, the responsibility of the shareholder was not restricted to the value of the shares.



reveals the Government's concern with the creditors' rights. According to a statement from the Junta do Commercio Agricultura, Fabricas e Navegação that supported D. João VI's decision, the statutes originally presented had to be modified in order to make all shareholders responsible for the company's capital in case some of them went bankrupt. The Junta emphasized that the mutual trust among shareholders that allowed them to keep ninety per cent of the value of the shares to be used in their own benefit should not be detrimental to the insured. Similarly, problems caused by issuing insurance policies in excess of the company's capital should not be harmful to the insured. Accordingly, in the statutes approved, the responsibility of shareholders was "in solidum", not only in relation to the capital of their shares, but also in relation to everything they exposed to risks.<sup>32</sup> "The shareholder who did not fulfil his obligations relating to the payment of their shares would lose his right to past profits, would share the responsibility for losses brought on the company by adverse conditions and would be subject to the payment of interest".<sup>33</sup>

## 5.2. *The Bank of Brazil*

The transfer of the Portuguese Court to Brazil made radical institutional monetary and fiscal reforms imperative. The scarcity of currency in circulation increased with the intensification of international trade after the opening of Brazilian ports on January 28, 1808. A monetary reform was necessary to introduce liquidity to the economy so as to support the expansion of commercial activities. Increased administrative expenses to be made in Brazil, as well as the financial difficulties faced by a home country at war, also created a substantial need for new sources of government revenue. An examination of the legislation enacted in the period shows that an increase in the financial resources at disposal of the Royal Treasure was in fact the main objective of D. João VI's economic policy. Not only were a great variety of new taxes levied, but those activities most able to generate public revenues, such as, for instance, mining, were stimulated. In this context, the establishment of a public bank in Brazil to provide financial resources for the Royal Treasure and to increase money circulation was seen as a top-priority measure to be taken by D. João VI's Government as soon as the Portuguese Court was installed in Rio de Janeiro. The *Alvará* of October 12, 1808, ordered the establishment of a public bank in the city of Rio de Janeiro.

Unable to finance such undertaking, the Government had necessarily to turn to private investors and this first public bank may be seen as the first example

<sup>32</sup> *Condições da Companhia de Seguros – Indemnidade confirmadas por sua Alteza Real o Príncipe Regente Nosso Senhor, pela immediata Resolução de 5 de fevereiro de 1810, estabelecida nesta praça do Rio de Janeiro pelos negociantes abaixo declarados*, enclosed to N. 5 BRAZIL Resolução de consulta da Real Junta do Commercio, art. 2.

<sup>33</sup> *Condições da Companhia de Seguros – Indemnidade*, article 3.

of a private and public partnership.<sup>34</sup> According to the statutes enclosed to the *Alvará* and signed by the Minister of Finances on October 8, 1808 the bank, denominated *Banco do Brasil*, would be formed by a joint stock company. In fact, its capital would be divided into shares, and the responsibility of the shareholder would be limited to the value of his shares.<sup>35</sup> Although a joint company to be constituted with private savings, the bank to be created was basically a public undertaking. Government interference in the creation of the bank was not limited to the initiative behind its establishment and the elaboration of the statutes. The company's statutes created conditions for governmental interference in the administration and management of the bank, and limited shareholders' rights.<sup>36</sup>

As far as bankruptcy is concerned, this company introduced a significant innovation. According to its statutes, "any impoundment or execution, either fiscal or civil on the bank's shares was null and prohibited".<sup>37</sup> No other clauses of the statutes mentioned any rights of bankrupt shareholders' creditors either to future dividends or past profits. Notwithstanding this protection assured to the shareholders by the statutes, the Government had difficulty in attracting private savings to constitute the bank's capital. The legislation in this period, as well as some contemporary stories, reveal that pressures of varying natures were used to force people to subscribe shares. Historians dealing with the creation of the first *Banco do Brasil* have described the most bizarre concessions and privileges offered to subscribers, but none of them mentions those related to a special regime of bankruptcy. In fact, protection offered by the statutes was not enough to encourage private investors in the first years to be willing to allocate their savings to this Government undertaking.

### 5.3. *The gold mining companies: Companhia de Mineração do Cuyabá and Companhia de Mineração dos Anicuns*

Considering that very few capital partnerships were legally constituted in the sector of gold mining, the bankruptcy legislation promulgated until 1817 dealt exclusively with the properties of the mining establishment and did not mention what would happen to the shares of bankrupt shareholders. The constitution of those companies followed, in general, the legislation on gold mining in force

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<sup>34</sup> The creation of the Bank of Brazil, attending not only to the demands from the government but also from those dealing with commerce, implied a very significant institutional change that would have, in the short and long run, critical direct and indirect effects over future institutional arrangements.

<sup>35</sup> *Alvará* of October 12, 1808.

<sup>36</sup> *Estatutos para o Banco Publico estabelecido em virtude do Alvará de 12 de Outubro de 1808* enclosed to the *Alvará* of October 18, 1808, articles IX to XIII. The first directors and the members of the of the Bank Board were nominated by the Decree of January 24, 1809.

<sup>37</sup> *Estatutos para o Banco Publico estabelecido em virtude do Alvará de 12 de Outubro de 1808*, art. VI. Those statutes were signed by D. Fernando José de Portugal, appointed Minister of Finance by the decree of March 26, 1808.

which imposed a great degree of government interference in their management in order to assure the collection of taxes due from increased gold production.

The Companhia de Mineração do Cuyabá was the first joint stock gold mining company to have its statutes officially approved by the Government. These statutes, sent by the Governor of the *capitania* of Matto Grosso for royal approval on 31 May 1814, were approved by the *Carta Régia* of 16 January 1817, eight months before the new legislation regulating the constitution of capital partnerships to explore gold in Minas Gerais was enacted. The approval of such a document reveals not only the persistent interest of the Government in the constitution of capital partnerships to exploit gold mines, but also in extending such operations to areas outside the *Capitania* of Minas Gerais. The reason for such interest was once more made explicit in the text: the possibility that these undertakings would increase revenues collected through taxation. In fact, in this document, D. João VI refers to “the advantages that such establishment may bring to my Royal Treasury”.<sup>38</sup>

The capital of the company was to be formed by shares, each share corresponding to 100\$000 in currency to be paid at the time of subscription and two slaves dressed and equipped with tools to be handed over to the company as soon as the mining operations had begun. The payments in currency would be used to finance the preliminary works necessary to prepare the mines to be exploited.<sup>39</sup>

As the mining activities, up to then, were not constituted – at least officially – as capital partnerships, legislation in force related to the consequences of bankruptcy was restricted to the properties and profits of the mining business. According to the legislation in force as given by the *Alvarás* of November 17, 1813 and July 8, 1819, mining establishments were only subject to execution for debt under very special conditions, while profits subject to debt execution were limited to one third of the total.

The adoption of the joint company as a format for new capital partnerships in the sector introduced the possibility of increasing the protection given to creditors of bankrupt miners. This protection was given, not by any general law, but by the statutes of the company seeking Government approval. That these companies to be formed would demonstrate great interest in safeguarding creditors’ rights is easy to understand. Those companies were created to explore gold deposits of more difficult access and, thus, expected to incur larger expenses. Not only would equipment have to be imported, but also the assistance of foreign technicians was required. Such new operations would be more dependent on credit. Thus, the company’s statutes not only had to provide incentives for a large number of individuals to invest in the new undertaking, but also had to safeguard creditors’ rights.

<sup>38</sup> *Carta Régia* of January 16, 1817.

<sup>39</sup> *Estatutos para o Governo da Companhia de Mineração do Cuyabá*, enclosed in the *Carta Régia* of January 16, 1817.

In the case of the *Companhia de Mineração do Cuyabá*, its statutes gave greater protection to both debtors and creditors. The dispositions of the statutes of the *Carta Régia* of 12 August 1817 regulating the establishment of companies to explore gold mines to be established in Minas Gerais, had admitted, in its article XIV, the possibility of impoundment of the companies' shares.<sup>40</sup> In the case of the *Companhia de Mineração do Cuyabá* such possibility was drastically denied: "The shares of this company are exempted of any fiscal or civil impoundment or from the Judge of Orphans, Deceased and Absents."<sup>41</sup> In spite of the legislation in force that limited the possibility of creditor's rights to debt levy and execution on gold mining profits to one third, the statutes of the *Companhia de Mineração do Cuyabá* did not establish such a limit.<sup>42</sup> However, as one sixth of the profits owed to each subscriber were to be kept on reserve by the company, the creditor's appropriation limit decreased, in fact, from one third to one sixth. According to article X of its statutes, the debtors' shares would not be transferred to the creditor, but his debts would be paid by future dividends on his shares: "The creditors' rights will be restricted to the profits coming from these shares, requiring them only when they are distributed to all shareholders".

The *Carta Régia* of 21 February 1821 approved the statutes of another gold mining joint stock company, the *Companhia de Mineração dos Anicuns*. This company replaced a previous unsuccessful partnership that had been constituted with the purpose of mining for gold in this province but had gone into bankruptcy. In his letter to the governor of the *capitania* giving his approval to the constitution of a new company, D. João VI complained about "the meager profits My Royal Finances have taken from the rich discovery of the Anicuns under the management of the previous partnership."<sup>43</sup>

The value of a share of the new company would correspond to 12\$000 and one slave between 16 to 35 years of age, free from disease, and dressed and equipped with tools.<sup>44</sup>

Even though legislation concerning privileges given to gold miners in 1813 and 1819 did not take into account the peculiarities of societies constituted as capital partnerships, the statutes of these new companies extended to their shares the privileges of not being subject to debt levy and execution. In fact, according to article 48 of its statutes, their shareholders, so far as their shares and respective profits were concerned, would enjoy the privileges granted by the *Alvarás* of November 17, 1813 and July 8, 1819.

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<sup>40</sup> *Estatutos para as Sociedades das lavras das minas de ouro, que se hão de estabelecer na Capitania de Minas Geraes*, enclosed to the *Carta Régia*, August 12, 1817.

<sup>41</sup> *Estatutos para o Governo da Companhia de Mineração do Cuyabá*, enclosed to the *Carta Régia* of January 16, 1817, article X.

<sup>42</sup> *Alvará* de 17 de Novembro de 1813, artigo 3.

<sup>43</sup> *Carta Regia* of February 21, 1821.

<sup>44</sup> *Estatutos para a companhia de Mineração dos Anicuns na Província de Goyaz*, enclosed with the *Carta Régia* of February 21, 1821.

#### 5.4. *Sociedade de Agricultura Commercio and Navegação do Rio Doce*

The Government's concern in promoting activities able to produce higher public revenues, one of the outstanding characteristics of D. João VI's economic policy, implied other measures in addition to granting privileges and concessions to sugar and gold producers. Taxes on imports were another significant source of income. In this context, the development of a transport system that created conditions for an intensification of the import and export trade was seen as an important goal. It is in this context that the great interest of the Government in colonizing the north-eastern regions of Minas Gerais and in opening roads from Minas to the ports of the *capitania* of Espírito Santo should be understood. On one hand, those lands and rivers were expected to contain rich deposits of gold. On the other hand, the establishment of navigation on the river Rio Doce would allow the old gold regions of the central areas of Minas Gerais and the potential gold areas of the north-eastern areas access to the sea ports of the Espírito Santo *capitania*. Such possibilities may explain the Government's persistence in fighting the indigenous people who lived in the region and in promoting the colonization of the region.<sup>45</sup> The policies implemented by the Government were not successful. It was only in 1819 that a company – Sociedade Agricultura Commercio e Navegação do Rio Doce – was constituted with the purpose of promoting navigation on this river by offering transport and trade services.

In the process of obtaining governmental approval for its statutes, some modifications had to be made to the company's proposal. One of these alterations was related to the article dealing with the vulnerability of the company's shares to debt levy and execution. According to the legal text that approved the company's statutes, the shareholders' payments to the company were completely subject to debt levy and execution. Legal procedures for levy and execution on the resources of the shareholders up to the value of their debts, and in accordance with judicial decision, could be taken by their creditors. However, these resources could not be withdrawn from the company, but the subrogated creditors would have the right to receive the dividends whenever distributed and under the same conditions of the other shareholders. The same procedure would apply to fiscal creditors.

## 6. Final Remarks and Conclusions

The study of legislation on bankruptcy passed by D. João VI suggests that the development of a manufacturing sector in Brazil was neither the only nor, perhaps, the major concern of the Portuguese administration of Brazil, contrary to what has been emphasized in the literature. In fact, this legislation would

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<sup>45</sup> *Carta Régia* of May 13, 1808.

seem to imply that the Government gave great attention to the development of activities related directly or indirectly to exports. Thus, neither the opening of Brazilian ports to international trade nor fiscal protection for manufactures should be viewed as an abandonment of mercantilist policies. Freedom to trade and establish domestic manufactures were more the result of difficulties faced by a metropolitan Portugal occupied by French troops, than of a sudden adherence to the liberal ideas of Adam Smith. In fact, legislation of the period reveals constant interference by the Government in the economy.

The investigation of legislation on bankruptcy enacted in the period confirms this point of view. This legislation was used as a device – among many others – to induce investment in activities able to produce, in a shorter period of time, greater resources for the Royal Treasury. Such activities were seen as those oriented to the supply of commodities in great demand in European markets: gold and sugar. The acceptance of Smith's theory of comparative advantages did not imply adherence to the classical principle of non-intervention of the State in the economy.

In this context, legislation on bankruptcy of sugar and gold mining establishments would have operated to create incentives for new investments. As long as such activities were not highly dependent on credit, legislation tended to give higher protection to bankrupt producers so as to keep their establishments at work. In the case of mineral producers, some regard to creditor's rights was shown once the degree of insolvency of an establishment became too high, and thus creating the possibility of a reduction in production. The legislation of 1813 granting such protection to creditors was introduced in a period when the gold production began to require more sophisticated technology and thus became more dependent on credit.

Once capital partnerships began to be formed as joint stock companies and the physical assets of an establishment were not owned by one individual, changes had to be made to the rules to be applied in case the company, or some of the shareholders, became insolvent. Such changes were not made through special legislation for joint stock companies, but through the statutes of these companies. As the constitution of a company was subject to official approval of their statutes, a channel was opened for Government interference.

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