

RESEARCH IN THE HISTORY OF  
ECONOMIC THOUGHT AND  
METHODOLOGY

Including a Symposium on Latin American  
Monetary Thought: Two Centuries in  
Search of Originality

# RESEARCH IN THE HISTORY OF ECONOMIC THOUGHT AND METHODOLOGY

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RESEARCH IN THE HISTORY OF ECONOMIC THOUGHT  
AND METHODOLOGY VOLUME 36C

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Monetary Thought: Two Centuries in  
Search of Originality**

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# VOLUME INTRODUCTION

The third and final volume of *Research in the History of Economic Thought and Methodology* to be published in 2018 features a symposium edited by Andrés Álvarez on theories of money and banking in post-independence Latin America. Contributors to the symposium include Matías Vernengo and Esteban Pérez Caldentey, Ricardo Solís Rosales, Florencia Sember, and Edna Carolina Sastoque Ramírez.

Volume 36C also includes general research contributions from C. Tyler DesRoches and Dorian Jullien. DesRoches's essay considers the development of the concept of *natural capital* in the work of the eighteenth-century Swedish naturalist Carl Linnaeus. Jullien's essay constitutes a significant new addition to the literature on the methodology of behavioral economics.

Luca Fiorito

Scott Scheall

Carlos Eduardo Suprinyak

The Editors of

*Research in the History of Economic Thought and Methodology*

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**PART I**  
**SYMPOSIUM ON LATIN AMERICAN**  
**MONETARY THOUGHT: TWO**  
**CENTURIES IN SEARCH OF**  
**ORIGINALITY**

Guest edited by Andrés Álvarez

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# AN INTRODUCTION TO A SYMPOSIUM ON LATIN AMERICAN MONETARY THOUGHT: TWO CENTURIES IN SEARCH OF ORIGINALITY

Andrés Álvarez

Monetary ideas in Latin America have received ambiguous attention. While the twentieth century, especially during the 1960s–1970s, is considered a prolific period of economic ideas in the region, the nineteenth century is considered a period of economic and intellectual backwardness in the region. The selection of chapters that make up this volume may help us challenge these ideas.

The building of the Latin American nations after their rupture with the colonial powers was a promising social experiment, maybe one of the most interesting experiments of the nineteenth century after the relevant example of the United States. Latin American searched for an original path toward its politic and economic development during their first two centuries of independence. With divergent results among them, from Mexico to Argentina, all the countries achieved a process of consolidation of their national economies and political systems. The political economy of the construction of a modern monetary system was amid the most important tasks necessary to attaining this goal.

The intellectual and political debates behind the construction of the modern national states abound. Tenure of the general discourse was the desire for originality. It was a quest for a unique strategy to reach modernity and economic development. Novelty without departing from the international discussions. To the contrary, Latin American intellectuals and policymakers were never

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disconnected from the global trends, and by the first half of the twentieth century, they irrupted in the international scene with the CEPALian<sup>1</sup> approach to development and the attempt to consolidate an alternative to economic policy receipts for underdeveloped countries.

In this collection of articles, we selected a representative sample of the evolution of modern monetary ideas in Latin America. Starting from the debates of the nineteenth century about the adoption of a centralized payment system and the abolition of a free banking scheme with decentralized issuance of banknotes, we arrived at an analysis of an outstanding figure of the Latin American monetary ideas of the twentieth century, which breaks into the international scene, both in the academic debate of the academy and in the local implementation of contemporary monetary architectures: Raúl Prebisch.

This chronological walkthrough will show how the political economy is in the background of the discussion. Speaking of currency without talking about the way in which the other political institutions were delineated is impossible. In the case of Latin America, the construction of the monetary system corresponds to the formation of political parties and democracy itself. The analysis of the Colombian debate by Edna Sastoque-Ramirez is an example of how the political forces of centralists vs federalists, nationalisms vs regionalism, conservatives vs liberals, and merchants vs manufacturers defined the intellectual discourse on money during the nineteenth century.

The study of the debates of the beginning of the twentieth century in Mexico echoes what was happening in Colombia at the end of the nineteenth century. However, the position of Barrera Lavalle (the main actor in Solís Rosales's text) reveals a more contemporary vision of the monetary system. The need for a coordinating institution of the monetary system, what we would call today a central bank, is the object of the discussion. It is no longer a question of choosing between a decentralized system of payments and a monopoly of the issuance of notes, but of providing a coherent policy of intervention by a monetary authority in the context of a pyramidal banking system.

The twentieth-century debate on monetary policies in Latin America opens with a discussion tightly linked with the insertion of the economies in the global economy. The management of the international constraint and the possibilities of a small economy to manage an orthodox policy based on the Gold Standard was the main theme of the period. The first half of the twentieth century, the crises and the wars, led the Latin American economists to explore the particularities of their own economies and to propose to implement alternative policies, challenging the international orthodoxy.

Barrera Lavalle's idea is an epitome of the way in which the coordination between the insertion of Latin American economies in world trade could not be separated from a coherent monetary system. Balance of payment imbalances and considerations on the exchange rate are central to the discussions of the early twentieth century. These debates join the fundamental theme of the modern Latin American economic ideas: the role of monetary policies in development.

Prebisch represents the way in which the monetary ideas of the middle of the first part of the twentieth century in Latin America cannot be understood outside the theories of development. In the texts by Florencia Sember, Esteban Pérez Caldentey and Matías Vernengo, we find Prebisch as a local money-doctor, an architect of monetary institutions who challenges ideas that arrive with foreign money-doctors.

Beyond the orthodox ideal of stable monetary system, conceived under the ideal of the neutrality and stability of money as its main goal, Prebisch, among others, proposed an alternative way of thinking about the potentialities of monetary policies to boost the engines of growth and to manage economic cycles. Sember shows how the pragmatic knowledge of the local economic conditions put a Latin American intellectual on a better position than a foreign expert (Otto Niemeyer) to offer original receipts on how to deal with local problems.

Building up from local experiences, with a deep knowledge of the international scholarly debates, theories, and institutions, was the successful receipt for Prebisch. What once was a source of suffering for Latin American intellectuals becomes their strength. While the nineteenth century is a period in which the economic and political reality of the peripheral countries collides with the knowledge produced in other latitudes, in the twentieth century, the roles are reversed. The own experiences of the Latin American development are creative source for economic ideas with international reach. This is the ambiguity and richness of the study of economic ideas in Latin America. We hope that this set of texts will impel you to deepen your study in the future.

## NOTE

1. The United Nations, Comisión Económica para América Latina (CEPAL), marked the apogee of these ideas. For an excellent recent reappraisal of these ideas and its originality in the international context, through one of its main figures, Celso Furtado, see Boianovsky (2010).

## REFERENCE

Boianovsky, M. (2010). A view from the Tropics: Celso Furtado and the theory of economic development in the 1950s. *History of Political Economy*, 42(2), 221–266.

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# THE REGENERATION – BETWEEN THE DOCTRINE AND THE NEED: THE DEBATE OVER FREE BANKING AND THE LEGAL TENDER IN COLOMBIA (1880–1903)

Edna Carolina Sastoque-Ramírez

## ABSTRACT

*This article studies how the Regenerative Government (1880–1903) in Colombia positioned monetary policy as one of the central subjects in the political arena by the end of the nineteenth century, and how the struggles of this attempt transformed the political economy of the period. In the background of the monetary, debates were some relevant characteristics: the country was facing serious difficulties as a consequence of an uneven integration of sectors to international trade, the de facto bimetallic regime, the formation of conglomerates of regions, and the difficulty of implementing paper money. Facing this situation, the Regenerating Governments found themselves in the need of imposing monetary and credit rules. They attempted to implement the scientific rules prevailing at the time and the possibilities that the national reality allowed them. As a consequence, the interests of the merchant elites and bankers had eroded the existing free banking system. Some bankers took advantage of the situation of the dubious management that the State gave to the monetary issue and succeeded on speculative finance increasing their wealth. Others, on the other hand, tried to strengthen their relations with the*

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*State. In this perspective, this article will synthesize the main aspects by agents of the debate between free banking and forced course.*

**Keywords:** Monetary ideas; free banking; national bank; bimetallism; Colombia; Latin America

## INTRODUCTION

From the second half of the nineteenth century, the debate on what would be the best form of organization of its monetary system was ubiquitous in Latin America. A debate was also taking place in most of the economies in Western countries. On the one side were those who considered that the monetary system should be in the hands of private banks, in a competitive manner, which would issue liabilities with the view that they could be redeemed by a commodity currency, defined as not controlled by the authorities<sup>1</sup>. On the other side, there were those who, on the contrary, considered that the legal tender was the most functional monetary system for the consolidation of the sovereignty of the nation state, since it created a financial institution through which the legal tenders issued by the State or by the authorized banking institution could not be converted to their metallic equivalent, maintaining the obligation to accept them with both acquisitive power and releasing power.

Colombia was not alien to this debate, particularly in the last quarter of the nineteenth century. At the beginning of the 1880s, moderate liberals gradually began to reconceptualize the main elements of Radical liberal discourse until they were completely renewed. This is how the so-called independent liberals – with Rafael Núñez at the helm – proposed to systematize and unite their interests in a new political movement, the National Party, and with it also bring together some conservative nationalists – whose main representative was Miguel Antonio Caro. This period became to be known as the period of Regeneration.

This new party built its own political–economic project on the principle that the country should be renewed through the centralization of the State and the establishment of a strong government that was capable of guaranteeing order and progress, for which it was necessary to leave behind the political, administrative, economic, moral chaos, and civil wars that proliferated during the attempt at federal organization of the country, in the United States of Colombia (1863–1885).

In the field of political economy, the effort was concentrated in the fight against the spread of the dogmas of economic liberalism – the work had to find its own price in the market, the money had to be provided by a self-regulated mechanism, and the goods had to be free when circulating from one country to another. On the contrary, the Regenerators advocated the ideas of the protection to nascent industry and the establishment of a monetary order of legal tender under the central power of a national bank. They also focused on the need