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THE INTELLECTUAL ORIGINS OF CHILEAN FREE BANKING: JEAN GUSTAVE COURCELLE-SENEUIL AND ADAM SMITH

BY

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Chile's 1860 Banking Law established a system of free banking that seems similar to the Scottish one. It may not be a coincidence. The drafter of the law was Jean Gustave Courcelle-Seneuil, an admirer of Adam Smith on money and banking and of the Scottish free banking system, thus making Adam Smith's banking ideas a contributing influence (so far, unrecognized) on Chilean free banking.

I. INTRODUCTION

Chile had a system of free banking from 1860 to, formally, 1898. The system worked remarkably well but started to crack as the government required more and more help financing its (mostly war) debt. Rene Millar (1994), Ignacio Briones (2002, 2016), Briones and Hugh Rockoff (2005), Juan Pablo Couyoumdjian (2016), Ricardo Couyoumdjian (2016), Ignacio Muñoz (2016, 1996), Cesar Ross (2003), and George Selgin (1990), among many, amply demonstrate this point.

In a separate article (Paganelli 2023), I show in detail how the free banking system implemented in Chile is similar to the Scottish one that Adam Smith described. My hypothesis is that the similarities between Scotland and Chile are not a coincidence. In what follows I show the previously unrecognized indirect influence of Adam Smith in the drafting of the Chilean free banking system. It is known that Jean Gustave Courcelle-Seneuil drafted the Banking Law of Chile. I show that Courcelle-Seneuil also played a major role in the approval of the law, and how big that role was, through a description of

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the previously unstudied parliamentary debates. Courcelle-Seneuil's knowledge and admiration of Adam Smith's idea of banking have also been previously overlooked. Showing the influence Smith had on Courcelle-Seneuil's thought, and the depth of the role Courcelle-Seneuil played in the shaping of the Chilian banking system, highlights how Adam Smith, via Courcelle-Seneuil, was one of the intellectual influences on the banking system of Chile.

Ideas migrate through times and places and can have a significant impact on policies and institutions. I exemplify this—after a brief description of the functioning of free banking in general, a brief introduction of Courcelle-Seneuil, and a description of the Chilean political and banking context before the arrival of Courcelle-Seneuil—through a discussion of the changes Courcelle-Seneuil offered to the teaching of economics and a discussion of his presence in the parliamentary debates of the passage of the Banking Law. Lastly, I show Adam Smith's presence in Courcelle-Seneuil's works and his recognition of Smith's ideas of money and banking.

II. FREE BANKING

Free banking is an institutional system in which there is competition among private banks of issue. Usually, a free banking system is opposed to a system where a central bank, or a privileged bank, has the monopoly on issuing notes. A free banking system is generally not an unregulated system, so much so that some scholars would prefer calling it a "lightly regulated" banking system (Briones and Rockoff 2005; see also Cowen and Kroszner 1989). Putting aside the appropriateness of the name, what is generally called free banking is a system characterized by (relative) freedom to issue banknotes, (relative) freedom to enter the system, (relative) freedom to lend, and (relative) light regulation (Briones and Rockoff 2005, p. 283).

There have been several examples of free banking in the world (see, for example, Dowd 1992; Schuler 1992). The example of free banking in eighteenth-century Scotland is among the most long-lasting ones and among the most described ones (see, e.g., Cameron 1967; Checkland 1975b; Hamilton 1956; Munn 1981; L. White 1994; L. H. White 1990; West 1997; Curott 2017). And Adam Smith was among the first to describe and praise the functioning of the Scottish system, even if some adjustments were required (among the many accounts, see Checkland 1975a; Curott 2017; Goodspeed 2016; Paganelli 2015, 2016; Rockoff 2011a, 2011b, 2013; West 1997).

For Smith, a well-functioning and stable banking system would see among its most important features free entry and competition among banks of issue, and convertibility upon demand of their notes in gold or silver (the banking regulations he favors are meant to ensure convertibility). These features would ensure price stability. It is not in the interest of banks to overissue. If they do, their notes would come back to them for redemption, as it is costly for consumers to hold more than they demand. If banks are required to redeem notes on demand, overissuing becomes an expensive practice that can lead to bankruptcy. A bank would need to borrow species from other banks at a cost often higher than the returns they could make on their notes (*Wealth of Nations* [hereinafter *WN*] II.ii.27–86). It is not a feasible long-term practice. Yet it can happen, as it did happen, that banks overissue. But, for Smith, this is due mostly to inexperience and ignorance (*WN* II.ii.53). For Smith, one of the advantages of competition is that it is a good teacher. A competitive decentralized system is the most effective instrument to discipline banks, and decentralization keeps possible negative shocks local (*WN* II.ii.106).

As documented (Paganelli 2023), free banking in Chile from 1860 for the first two decades of its functioning resembled closely the system of free banking that Smith describes for the Scotland of his time. Both systems had free entry and competition of banks of issue, and in both systems banks were required to redeem notes on demand. The similarities extended further. In Scotland and in Chile, the banking practice was to give short-term loans, while large capital investments were financed by foreign direct investment or by the public. And in both countries, there were regulations on the size of the notes as well as unlimited liability. Paganelli also showed that the second two decades of the free banking period in Chile introduced practices that worried Smith, such as inconvertibility, legal tender, and involvement with government borrowing, which in their turn introduced instability and turbulences and eventually led to the formal abandonment of free banking in 1898.

What has yet to be shown, and what I propose to show here, is that the similarities between the Chilean and the Scottish free banking experience, as described by Adam Smith, may not be accidental. It is possible to connect the (indirect) intellectual origins of the Chilean banking system to Adam Smith's views on banking, via the drafter and promoter of the 1860 Banking Law of Chile.

III. A LIBERAL WITHOUT ADAM SMITH

The 1860 Chilean Banking Law was drafted by a French economist, Jean Gustave Courcelle-Seneuil (1813–1892). The government of Chile invited Courcelle-Seneuil to teach economics at the University of Chile, to advise the government in economic and financial matters, and to diffuse economic knowledge to a wider audience. This is well documented. Jimena Caravaca (2019) describes him as the first money doctor, even if not an itinerant one (see also Glasner 2023). The influence of Courcelle-Seneuil on the Chilean policymaking of the time is also well documented (Bernedo, Camus, and Couyoumdjian 2014; Caravaca 2019; Cot 2022; J. P. Couyoumdjian 2016, 2021; Fuentealba Hernández 1944; Hirschman 2018; Garay Vera 2013; Mac-Clure 2011; Subercaseaux 1921).

In addition, it is also well recognized that Courcelle-Seneuil was a "liberal" in the sense of favoring free market policies and that he was a lover of liberty (cf. Rivera Carreño 2024). He was associated with the debates among the French liberals of his times and his "liberalism" is usually connected to Jean-Baptist Say and Alexis de Toqueville (Hurtado 2007), Frédéric Bastiat (Garay Vera 2013), and with John Stuart Mill (Mac-Clure 2011) since he translated his *Principles of Political Economy* into French. But as far as I am aware, the connection with Adam Smith has not been made yet. In particular, nobody so far has made the connection between Courcelle-Seneuil, free banking in Chile, and Adam Smith. I believe the connection is there.

IV. THE CALL

French liberal ideas were more valued in Chile than in France itself, according to Soledad Reyes (2020, p. 364), and French culture was particularly influential especially in Santiago. The "ports elite" of Valparaiso was more affected by the British economic and technological power (Reyes 2020, p. 391). It may not be surprising, thus, that the Chilean government looked for a French person when it sought advice.

Courcelle-Seneuil was a journalist and one of the editors of the *Journal des Economistes,* "where he maintained a lifelong strict liberal editorial line" (Cot 2022, p. 4). During the Chilean government of Manuel Montt (from 1851 to 1861), he was called to consult with the Chilean government on economic matters. Albert Hirschman (2018) implies that the choice of consultant was due to Courcelle-Seneuil's ideological positions. But Juan Pablo Couyoumdjian (2021) implies instead that the Chilean government's choice was a little serendipitous. Apparently, Courcelle-Seneuil was not the first choice; the journalist Andre Cochut was. But he turned the offer down and suggested Courcelle-Seneuil instead. So Courcelle-Seneuil was offered and accepted a five-year contract in which he was expected to advise the Ministry of Finance, teach economics at the Instituto Nacional (and then at the University of Chile), and publish articles in the popular press to educate the general population.

He arrived in Chile in 1855, went back to Europe for two years on a governmental mission to secure finances for the building of the railway system in Chile, came back to Chile, and then permanently left Chile in 1863. He is considered the most influential economic figure in nineteenth-century Chile (Bernedo, Camus, and Couyoumdjian 2014; Caravaca 2019; Cot 2022; J. P. Couyoumdjian 2016, 2021; Fuentealba Hernández 1944; Hirschman 2018; Garay Vera 2013; Mac-Clure 2011; Subercaseaux 1921). And the passing of the Banking Law may be an example of his influence, given the aversion to banks present in Chile previous to his arrival. (His influence in Chile was also tangible in his reform of tariffs and accounting practices, which I do not deal with here.)

V. THE POLITICAL CONTEXT: PRESIDENCY OF MANUEL MONTT

Courcelle-Seneuil was invited to Chile during the presidency of Manuel Montt and the Banking Law was passed during the same presidency. Montt's presidency is generally seen as either a success or a failure (Palma 1862; A. Edwards 1932; Garcia-Huidobro 2009). He was generally admired but had several long-standing enemies as well (Garcia-Huidobro 2015, p. 25). He was formally part of the *pelucones* (big wigs), a conservative party with aristocratic sympathies, and opposed by the *pipiolos* (youngsters without experience) or liberals.

Among Montt's claims to fame are the introduction of a civil code, the construction of the railroad—the most important tool and sign of economic and technological progress at the time—and immigration policies to increase the population in the "inhabited" South. Education was always one of his main priorities. Even before becoming president, he was the vice-rector and then rector of the Instituto Nacional, the main higher education institution of Chile. As minister of the interior under President Bulnes, in 1842, he created the Universidad de Chile (Garcia-Huidobro 2009, p. 88). During his presidency, he worked assiduously to promote basic public education. His presidency started with eighty-six primary schools and ended with about 600 (Reyes 2020, p. 388). At the time, higher education required Latin, and in 1832 Montt proposed a plan of study for the Instituto Nacional, where Latin was mandatory (Donoso 1967, p. 240).

At the same time, his presidency saw two violent civil wars, one at the beginning and one at the end of his presidency, and the closure of the Parliament in 1858 (Garcia-Huidobro 2009, p. 152). Five of the ten years of his term were under a state of emergency with extraordinary powers and a state of siege (*estado de sitio*) (Reyes 2020, p. 386). His opponents would loudly accuse him of authoritarianism.

In a recent book on Antonio Varas, a prime minister under Montt and one of his closest advisors and friends (a statue of Varas and Montt together is in front of the Palacio de los Tribunales in the center of Santiago), Gonzalo Arenas Hodar (2024) explains this apparent contradiction of praise for freedom and suppression of freedom with violence. It was exactly that love of liberal ideas that induced Montt and Varas to defend a strong government. Once the political order was solid enough to support liberty and liberal values, the need for authoritarian support could be loosened, they claimed, but not before (Hodar 2024, p. 231). It was in this context, which José Victorino Lastarria (1909, pp. 440–458) attributes to the influence of (revolutionary) French thought in Chile, that the free Banking Law of 1860 sailed through without a fight.

VI. BANKS IN CHILE BEFORE COURCELLE-SENEUIL

In January 1811, shortly after the declaration of independence from Spain on September 18, 1810 (followed by years of war with Spain and the securing of independence in 1818), the first attempt to create banks in Chile took place. The project was to establish a state bank. However, the project was perceived to convert the state into a bank and it failed to be implemented (Subercaseaux 1921, p. 96; see also J. Edwards 2018, pp. 371-375).

Between 1837 and 1839, in Coquimbo, in the mining district of northern Chile, some *casas de comercio* (commercial/mercantile companies) issued vouchers that circulated as bills convertible into official money. The government attempted to curb these activities by passing a law on November 3, 1839, prohibiting the establishment of banks without prior authorization from the government. The measure failed because there were actually no banks in operation, just commercial companies (Subercaseaux 1921, pp. 101-103).

But discussion against banks continued, in particular against the establishment of a state bank. In 1847, the minister of finance went on record against a state bank because of the fear that nobody would be able to stop a national bank from overissuing. This did not prevent Lastarria from proposing a project for a state bank (Lastarria 1850), a proposal that again failed. The popular sentiment in the 1850s was a general "repugnance" (Subercaseaux 1921, p. 110) towards anything that would introduce paper money into the country. Leonardo Fuentealba Hernández (1944) suggests that indeed most businesspeople of the capital and of Valparaiso, the main port of Chile, were against the proposal (p. 146).

But, as Guillermo Subercaseaux explains, citing Agustin Ross (1886), between 1850 and 1860 there was a major change among the members of the government and of Congress, culminating in a "powerful influence" from an important and well-respected foreign expert (Subercaseaux 1921, p. 122). Differently from 1850, when there was a strong resistance against the circulation of vouchers and bills of the Banco de Arcos y Cia (p. 121), in 1854 the commercial company of Bezanilla MacClure Cia was allowed to circulate its vouchers. The following year, in 1855, Banco de Valparaiso was created as the first anonymous society, although with the following clause: "the bank is forbidden from issuing bearer bills, or circulating documents or vouchers that act like paper money" (quoted in Subercaseaux 1921, p. 173; my translation). In 1859, the anonymous society of Banco de Chile came to life, and was accepted. And, finally, in 1860, the Banking Law was passed.

Subercaseaux attributes this remarkable change to the "powerful influence" of Courcelle-Seneuil. Oscar Mac-Clure (2011) concurs on the "powerful influence" Courcelle-Seneuil had on the economy of the country. He attributes it not only to being a foreigner, and thus more impartial, but also to Courcelle-Seneuil's teaching of economics.

VII. UNIVERSITY TEACHING OF ECONOMICS

Before Courcelle-Seneuil's presence in Chile, economics teaching was in a dismal state. According to Leonardo Fuentealba Hernández (1944), economics books were rare until the 1850s, and the few found in libraries had uncut pages. At the university level, economics was first taught with Latin texts, by priests (Fuentealba Hernández 1944, pp. 121-122). Eventually, they started to use a handful of chapters of Jean-Baptiste Say, "with value judgments, personal prejudices, and political preferences" (Mac-Clure 2011, p. 97; my translation). According to Juan Bello, the translator of Courcelle-Seneuil's textbook, students were to memorize what the professor said, without the possibility of discussing it, or understanding it, for that matter (Courcelle-Seneuil 1859, vol. I, pp. 5–6). Jose Edwards (2018) notes that the studies of economics were done abroad, mostly with French texts.

The arrival of Courcelle-Seneuil brought about a significant transformation. He presented economics as an objective science, with specialized and technical knowledge, allowing it to become a credible scientific discipline. Zorobabel Rodriguez goes so far as to claim that Courcelle-Seneuil was the first economist to clearly separate the arts and science, and strictly place economics within the realm of science (Rodriguez 1893, p. 184).

Courcelle-Seneuil's classes were not only attended by his regular students but became so popular that former students returned to sit in his lectures, accompanied by others who were interested. In addition, *El Ferrocarril*, a local newspaper, published summaries of his lectures (Fuentealba Hernández 1944, p. 126).

The teaching of economics, and of money and banking in particular, saw a radical change. Courcelle-Seneuil taught the importance of banking and of free banking in particular. The "powerful influence" he had can be seen in the 1860 Banking Law.

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VIII. THE 1860 BANKING LAW HISTORY

Courcelle-Seneuil drafted the Banking Law. The law proposal came from the executive power of the government, with a presentation to Congress by President Montt, and seemed to be taken straight from Courcelle-Seneuil's economics articles (more on this later). The proposal consisted of twenty-seven articles and two additional articles as transitional provisions. It was sent to Congress on June 13, 1857, and read in Parliament on June 18, 1857. From there, it was sent to be printed and then passed to the Finance Commission, which prepared a counter-proposal, printed on July 24, 1858. The law was finally debated in the House of Representatives and the Senate starting from June 1859 until its approval on July 23, 1860 (Sessiones Legistativas del Congreso de la Republica de Chile 1858–1860, Index). The counter-proposal contained eighteen articles and one additional article as a transitional provision. The final law contained thirty articles and a transitional provision.

There are a few things in particular to note about this law. As President Montt declared in his presentation of the law project, it is a law establishing free banking. The options were a state bank or a privileged bank, both of which would have placed the banking system in the hands of the state, but the "government knows that it is not convenient for itself to become a merchant" (Proyecto de Lei Presentado por el Govierno sobre Bancos de Circulacion 1859, p. 3; my translation). The alternative was free banking. Within free banking, there was the option of complete free banking or free banking with some regulation. The government deemed it better to have some regulations since Chile did not have much experience with banking, but the regulations proposed were minimal: transparency, responsibility, and capital requirements. This seems a reflection of Courcelle-Seneuil's belief that the principal functions of a government, from an economic perspective, are only corrective functions (Courcelle-Seneuil 1859, vol. II, p. 187).

The transparency requirements—the regular publications of the banks' books—marked a deviation from the Scottish system at least in its early stage, but they reflected its later stages. Originally in Scotland, no such requirement existed, as transparency in Scotland was guaranteed voluntarily. The first publication of a bank's books in Scotland was indeed done voluntarily, as a form of advertisement of its stability, and only then did it become a common practice (White 1994, p. 34). In Chile, however, the books needed to be published regularly and checked by the president himself. Falsification of the books carried severe punishment. Unlike in Scotland, the law also established the right to issue bills up to 150% of the bank's paid-up capital. These light regulations deviate from a strict laissez-faire approach, possibly because Courcelle-Seneuil, like Adam Smith in Scotland, was not bound by a strict ideology but was more willing to adapt ideas to the variances of different social contexts (Rivera Carreño 2024; Paganelli 2025; cf. Cot 2022).

Regarding the law, the differences between the original proposal, the counter-proposal, and the actual law were minor. The main changes in the counter-proposal were the elimination of a few articles that determined the denominations of the bills and the kind of signatures required on the bills. What is remarkable is that the justification for these changes explicitly cited Courcelle-Seneuil's work and the benefit of more rather than less freedom (Proyecto de Lei Presentado por el Govierno sobre Bancos de

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Circulacion 1859, p. 17). These changes were not approved in the parliamentary debate. There are several situations in which representatives directly cited from Courcelle-Seneuil's work. For example, sentences such as "I have in my hand the work of Mr. Courcelle-Seneuil," said by a representative in session 19 of August 4, 1859 (Sessiones Legistativas del Congreso de la Republica de Chile 1858–1860, p. 96; my translation), were common. Chile, like Smith's recommendation for Scotland (*WN* II. ii.90–91), would legally limit the issuing of notes to large denominations.

The main change in the final law was the introduction of hours of operation, intended as an additional guarantee for convertibility and thus against overissuing. If a bank can open and close when it wishes, it may choose not to open when in difficulties, which increases the incentives to get itself in problematic situations (Camara de Diputados, session 6 ordinaria, 16 Junio 1859; Camara de Senadores, session 8 ordinaria, del 6 Julio 1860).

Most of the remaining debates were about definition: Who is a "person" eligible to open a bank? Does a branch count as a different bank? Who should check the banks' books? With minor language changes, all the issues reverted to the original text.

IX. THE INVISIBLE HAND OF ADAM SMITH?

Through Courcelle-Seneuil, Adam Smith's influence lurks behind free banking in Chile. Needless to say, Smith's influence was not the only one, but, as far as banking, it deserves recognition. Juan Bello, the translator of Courcelle-Seneuil's textbook, condemns the dismal state of economic education in Chile prior to the arrival of Courcelle-Seneuil, as mentioned above. There was no textbook. Things changed with the arrival of Courcelle-Seneuil. He wrote his own textbook, and the Chilean government immediately commissioned its translation into Spanish (Courcelle-Seneuil 1859). In his Preface, Courcelle-Seneuil states that he is not going to cite any authors directly, both for the sake of clarity and because the ideas matter more than their originators (p. xiv). Yet, immediately after, in the Introduction, he states what matters for my argument: "Adam Smith clarified the ideas regarding the origin of wealth and described, with great acumen, the benefits of the division of labor and its powers.… His ideas on money and banking remain superior to almost everything that has been written on the topic" (Courcelle-Seneuil 1859, p. 3; my translation). Note, though, that his admiration for Smith's understanding of money and banking is not blind. He acknowledges that even the best can make mistakes: Smith's ideas on money and banking are superior to *almost* everything, not unconditionally everything, because Smith was in fact mistaken in supporting usury laws (Courcelle-Seneuil 1867, p. 219).

Highlighting the importance of Smith's analysis of money and banking and of the division of labor is also the motivation Courcelle-Seneuil gives in his French edition of the *Wealth of Nations* (Courcelle-Seneuil 1888), edited after his return to France. In the Introduction, he tells his readers that he used the Germain Garnier translation (contrary to claims by some commentators, he did not translate it himself), omitting its annotation apparatus to minimize distractions and increase clarity. The choice of publishing only the first three books, without the "Digression on Silver," was due to the immense

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popularity of the other two books and, as said, the need to bring to center stage the role of division of labor and money and banking.

In the same Introduction and introductory note on the life of Smith, he positions Smith as a sort of extension of the French tradition: Smith as a new and better physiocrat, as another Anne Robert Jacques Turgot. He claims that the main difference between the two is that Turgot was actively involved in politics, and thus his ideas and his legacy are attached to the fate of the political conditions. Smith, being detached from any political position, could grow to "a lasting monument" (1888, p. xix). A few years later, Zorobabel Rodriguez (1893), in his account of the achievements of Courcelle-Seneuil, also recognizes that Courcelle-Seneuil stood on the shoulders of Adam Smith, but that Adam Smith in "England" was closely aligned to the French physiocrats, and in particular to Turgot and Say. Maybe this "French-izaton" of Smith was necessary to get a British protestant accepted in the Catholic world (Astigarraga and Zabalza 2022).

While it is true that the "liberal" position of Adam Smith may have arrived to Courcelle-Seneuil via Say, it is also true that Courcelle-Seneuil does not mention Say with regards to money and banking; he mentions only Smith. Say is mentioned solely for his methodological views; he tried to separate "facts related to wealth from other political ramifications" (Courcelle-Seneuil 1859, p. 4; my translation). It may not be an accident. Say differed from Smith regarding the effect of bank notes on prices. As Alain Béraud, Philippe Steiner, and Jean-Jacques Gislain (2004) summarized, Say believed that excessive issuing of banknotes was possible and was responsible for crisis. Government intervention was thus necessary, and free competition would not necessarily be favorable to the public. Courcelle-Seneuil, like Smith, however, was convinced that with full convertibility, excessive notes would go back to their issuers, thus not causing a price increase or crisis. Béraud, Steiner, and Gislain also point out how Say described Smith for his ideas of productive and unproductive labor. But Courcelle-Seneuil tells us in his introduction to the *Wealth of Nations* that the division of labor, instead, was worth focusing on. So while I am not denying the influence of Say on Courcelle-Seneuil, I am trying to show that Smith appears to be a (so far, unrecognized) presence in Courcelle-Seneuil's money and banking thought, and thus indirectly an influence on free banking in Chile.

Similarly, despite the praises of Turgot in the Introduction of his edition of the *Wealth of Nations* and the linking of Smith to Turgot, Courcelle-Seneuil does not mention or praise Turgot in matters of banking. In the *Tratado* Turgot may be highlighted for his theory of interest rate (Courcelle-Seneuil 1859, p. 4), but it is Smith who is admired for his theory of banking. Turgot, after all, was much more skeptical about banking competition than Smith.

Another notable aspect of Courcelle-Seneuil's Introduction to his edition of the *Wealth of Nations* is his deep knowledge and understanding of Smith's work. He immediately points out the connections with Smith's *Theory of Moral Sentiments* and the importance of scientific observations to understand morality and human conduct (Courcelle-Seneuil 1888, p. v). He also criticizes Smith for basing exchange on a natural propensity and not utility. For Courcelle-Seneuil, the primary instinct is not to exchange but to grab with violence (p. xx). The criticism highlights his deep understanding of Smith's position, an insight often lacking in subsequent authors.

Courcelle-Seneuil's admiration for free banking, and particularly the Scottish free banking system, preceded his work in Chile. He was an adamant promoter of the abolition of the privileges of the Bank of France to establish a free banking system (Courcelle-Seneuil 1840). He presents a detailed account of the well-functioning free banking in New England as well as in Scotland, commenting that the excellence of the Scottish banks deserves more serious study (1840, p. 95). According to Hirschman (2018), he was never taken seriously in his home country. Nevertheless, he persisted in his attempt to convince the French that free banking, as in Scotland, was the best form of banking.

After his return to France, he kept engaging in the central bank/free banking debate, which emerged again when France incorporated Savoy in 1860. In France, the Bank of France was the monopolistic issuer of notes. But with the union with Nice and the Savoy, now also the Bank of Savoy could issue notes in France. The debate, from 1860 to 1875, is well documented by Jean-Paul Domin (2007).

La Banque Libre (Courcelle-Seneuil 1867), written after his experience in Chile, is part of this debate. Here, Courcelle-Seneuil gives a detailed description of the functioning of free banking in Scotland, to counter claims that free banking is a utopian system that does not work in reality (pp. 115–116, 198, 205). Here he cites a full paragraph from Adam Smith where Smith presents his account of how free banking in Scotland is a source of development and prosperity of the country, and not of ruin (p. 43). The book presents answers to all the objections to free banking he encountered. His responses to criticisms are remarkably similar to Smith's description of how free banking operates. For example, to the main objection that free banking leads to overissuing and price increase, Courcelle-Seneuil answers, just like Smith (but differently from Say and Turgot), that the self-regulating mechanism of bills circulation would prevent it. Paper cannot go abroad, so if a bank overissues, its note would come back to it, forcing it to reduce its issuing (p. 65). This is the so-called law of reflux, which Smith uses to explain price stability as well as banking stability in Scotland (*WN* II.ii.48), and Courcelle-Seneuil uses to defend free banking. But the law of reflux, which differentiates Smith's free banking from other sympathizers of free banking—that is the impossibility of overissuing and of banking having an effect on price level—is reiterated even in his earlier essay *Bancos de Circulacion* (Courcelle-Seneuil 1857), where he explains to his Chilean audience the benefits of having a free banking system in Chile.

> Do banks have the power of issuing an unlimited quantity of notes? In no way. Banknotes replace [metallic] currency and consequently can never exceed the amount of money that the market demands…. It is enough to study the needs of merchants to be convinced of this. Each merchant requires a certain amount of money to carry out his usual business, no more no less: as soon as he holds more money than he needs, he rushes to sell it off, either by purchasing something or by lending it out. The country proceeds in the exact same way. When there is more money than is needed, it is either melted or exported, what is kept is only the amount needed to trade. Banknotes cannot, it is true, be exported or melted, but if they are in excess quantities, commerce will be forced to demand the money that the banker is obliged to pay the bearer, and which then will be melted or exported. In this case there is no credit that can prevent the holders of notes from redeeming them. Thus, the most reputable bank could never have in circulation a quantity of banknotes greater than what commercial needs require. Excess issuing is therefore impossible while banknotes are payable on demand to bearers and

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> while their acceptance is not violently forced by an act of public authority. (Courcelle-Seneuil 1857, p. 43; my translation)

Courcelle-Seneuil explains that the only circumstances under which overissuing can occur in a free banking system is the suspension of convertibility or the imposition of legal tender (1857, p. 43), both practices strongly condemned also by Smith (*WN* II.ii.100).

Smith favored the abolition of the option clause (*WN* II.ii.98) in Scotland, the option of postponing redemption (a practice never possible in Chile). The Banking Law in Chile instituted regular checks on banks' books, and the parliamentary debates introduced also the statement of opening hours for banks, as discussed above. These regulations (proposed or instituted into laws), even if different, are both meant to fulfill the same purpose: guarantee full and immediate convertibility, which is seen as key for the functioning of a competitive system of banks of issue.

In the same article, Courcelle-Seneuil, again like Smith (*WN* II.ii.64), tells his readers that the prudent practice of banking is to offer only short-term loans, "the payment of lent capital be made safely at the end of sufficiently short term to be able to meet the bank's commitments, if necessary" (1857, p. 41; my translation), and only to reliable customers. (On the importance of real bills doctrine in Smith, see, for example, Rockoff 2011a, 2011b.)

Montt's presentation of the Banking Law to Congress reads very similarly to Courcelle-Seneuil's 1857 article. Here, too, there is the description of four different kinds of banking system: a state bank, a privileged bank, a free banking system with some minimal regulation, and a completely free banking system. And just like Adam Smith before him, and President Montt in his presentation later, Courcelle-Seneuil claims that politicians and businesspeople should maintain their roles and not do what the other does: government officials would make irresponsible bankers (1857, p. 45). A state bank thus is not a good idea. Privileged banks are not much better than state banks because they lack independence from the government (p. 46). In terms of free banking, less regulation is better than more. Legislators are not bankers, so they are unlikely to know the art of banking better than the bankers themselves (p. 46). While Adam Smith uses this logic to condemn mercantilist policies, and Courcelle-Seneuil seems to be concerned just about ignorance, the parallels in the language and understanding here are significant. Yet, neither Smith nor Courcelle-Seneuil suggested a system with no regulation at all. Fuentealba Hernández (1944, pp. 149–150) credits the publication of this article to the collapse of any resistance against free banking.

X. LEGACY

Courcelle-Seneuil's Chilean students eventually succeeded him at the university and as government consultants on economic matters. Their positions were more radically in favor of free market than Courcelle-Seneuil's. Despite his scientific rigor as an economist, Courcelle-Seneuil was a pragmatist. Like Smith, he preferred a completely free banking system but saw the need for some regulation as a safeguard in a country with little to no banking experience. He was in favor of free trade, but he saw the need for some fiscal measures to cover the needs of the state. His students, however, were less pragmatic. They favored the abolition of duties, the government's primary source of revenue, leaving the government with a fiscal crisis when it needed to engage in international conflicts (Mac-Clure 2011).

His followers' more radical positions seemed to have led to a backlash. In 1887, Courcelle-Seneuil's textbook was replaced with Fredrick List (Hurtado 2007). Fuentealba Hernández (1944, p. 155) attributes the crises of 1865, 1878, and 1898 to the free-market policies of Courcelle-Seneuil and his followers and suggests that Chile should have followed the protectionist example of the United States much earlier than it did (pp. 200–201). Interestingly, Fuentealba Hernández concludes by citing Pedro Urzua, who compared Courcelle-Seneuil not only to J. B. Say and Bastiat but also to Adam Smith. Maybe his critics understood his intellectual origins better than his followers.

COMPETING INTERESTS

The author declares no competing interests exist.

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