Latin America's experience with the Gold Standard

Nektarios Aslanidis
Universitat Rovira i Virgili, Spain
Gastón Díaz
Universidad de la República, Uruguay
Matthias Morys
University of York, UK

CRETE, Ios, Greece
7 July 2026

The Gold Standard: Core

- **“Rules of the game” literature** (Keynes; Nurkse 1944; Bloomfield 1959) whereby monetary authorities alter the discount rate and/or change domestic credit to speed up the adjustment to changes in external balance.
- **Core countries** with central banks violated the “rules of the game” due to credible institutions and their monopoly over the issuance of paper currency (Bloomfield, 1959).
- **“Macroeconomic trilemma” literature** reformulates this with focus on interest rate as the main adjustment tool (Goodhart, Capie and Schnadt 1994, Obstfeld and Taylor 2004, Obstfeld et al. 2005).
- This new emphasis has led to a strong focus on **interest rate pass-through**.
- Obstfeld, Shambaugh and Taylor (2005), and Bazot, Monnet and Morys (2022, 2024) provide **multi-country empirical evidence** by estimating interest rate pass-throughs for a large group of countries. Pass-through rates: 20%-50%.

The Gold Standard: Periphery

- Literature is typically on peripheral countries **with central banks** (Aceña and Reis, 2000; Ögren and Øksendal, 2012; Morys, 2013).
- Basic idea: their adherence is more difficult; **exposed to external shocks** and had difficulty maintaining the Gold Standard because trade balance adjustments had to occur through changes in income; **core-periphery dichotomy.**
- Our research focuses on peripheral countries **without central banks**.
- Before 1913, (proto-)central banks existed only in Europe (Forrest Capie), with the Bank of Japan as the sole exception (Bazot, Monnet, and Morys, 2024).
- Bazot, Monnet and Morys (2022) find that in the **United States** (a country w/o central bank before 1913), the rules of the game were adhered to more strictly than in central bank cases (= higher interest rate pass-through).

The Gold Standard: Periphery

- Latin America offers the largest number of such cases.
- The precise reasons for this Latin American *Sonderweg* are unclear (and form part of our research), but the basic facts are well-established.
- Nordic countries and South-East European countries all had central banks before WW I (Ögren and Øksendal, 2012; Morys 2014, 2017, 2021).

  (NB: no other regions with multiple independent countries pre-1914).
- Aslanidis and Díaz (2025) examine Uruguay's gold adherence 1876-1913, making it the non-European country with the longest track record.
- Other Latin American countries adhered to gold for a shorter time, with most joining around the turn of the century.

This Research

- How did Latin American countries operate the gold standard **without** central banks?
- **Test Ford's (1989) famous hypothesis**—based on Argentina's experience under the gold standard before 1914—that the country had less discretion than other central banks and was, indeed, a more wholehearted follower of the rules of the game.
- Our benchmark: **Interest rate pass-through** of Bank of England rate on domestic interest rate.
- There is an important political economy question (doesn't figure importantly in today's presentation)

    -- What explains the peculiar institutional setting in Latin America in the first place?

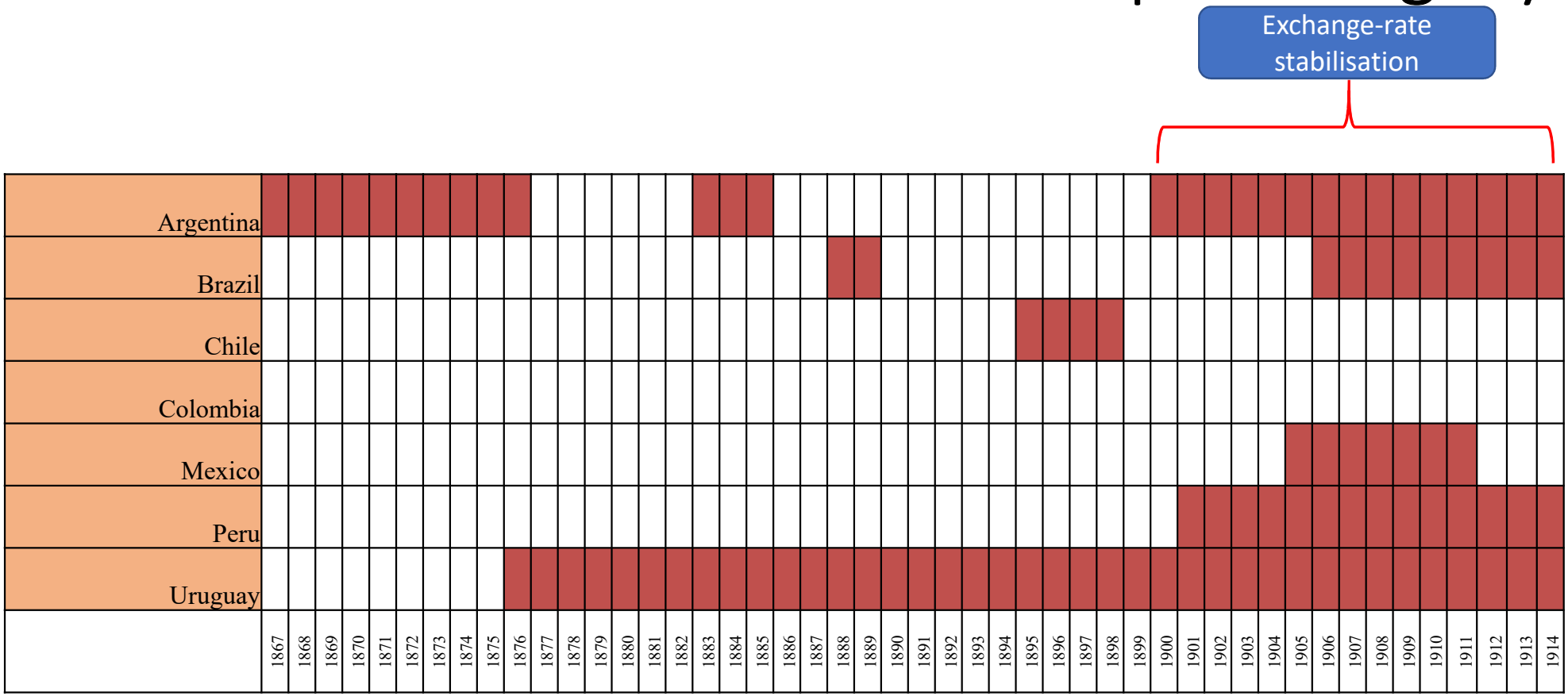
- Relevance: Latin America has long favored stable exchange rates, and even in the 21st century we see examples of hard pegs (Argentina), dollarization (Ecuador) and managed floats (Brazil, Chile, Mexico, Uruguay).

This Research (con’t)

- Latin American economies during **first globalization era** benefit from:
- Integration into the world economy (O'Rourke and Williamson, 1999).
- Increased global demand for primary products (Bértola and Ocampo, 2012).
- Transportation advancements—railways and steamships (Fishlow, 1966).
- Large capital inflows (Fishlow, 1985; Ford, 1989; Stone, 1999).
- Britain enjoys strong **economic and financial links** with Latin America. e.g., countries see a significant presence of foreign banks (*London and River Plate Bank*, *London and Brazilian Bank*).
- Transition to the gold standard (for most cases) at the turn of the century (Argentina 1899, Brazil 1906, Mexico 1905, Peru 1901, Uruguay 1876).

.

Gold Standard Adherence of LA-6 plus Uruguay



Source: Reinhart and Rogoff (2010), with adjustments based on country-specific literature.

Example 1: Uruguay

- Aslanidis and Díaz (2025): Uruguay operates the gold standard (1876-1913), almost uninterruptedly, both under **free banking** (1876-1907) and, subsequently, with a "quasi-central bank" (1907-1913).
- The **1865 Banking Law** established free banking: Multiple bank note issuers and absence of hierarchy between them (Sudrià-Triay, 2016).
- **Gold convertibility** was strictly enforced, the government was prohibited from forcing banks to offer credit/offering privileges to specific banks, and no minimum metallic reserve ratios.
- Uruguay succumbs to the Baring crisis (1890). In response, government launches in 1896 a state bank (*Banco de la República*), which initially competes with two private note-issuing banks (*London and River Plate Bank*, *Banco Italiano*).
- **Wealthy merchant class** of Montevideo (regional commercial hub) involved in transit trade favoured fixed exchange rates.

Example 2: Argentina

- Argentina's *Belle Époque* period (Della Paolera and Taylor, 2001).
- Initially, multiple currency issuers but with **large state and provincial banks** dominating the banking system.
- **Rural landowners** (*oligarquía terrateniente*) play a dominant role with considerable influence over the country's development and less keen on exchange rate stabilization (consistent with de Cecco, 1974).
- The Baring Crisis 1890 prompts policy makers to institute a drastic reform of monetary, banking and fiscal institutions.
- **Large state bank** (*Banco de la Nación* 1891) engaged in commercial banking and had a special role as the banker to the state.
- **Conversion Office** (Caja de Conversión), founded in 1890, with the singular responsibility of issuing currency, fixed the gold price of the peso in 1899, putting Argentina on the **gold standard**.

Example 3: Mexico

- Mexico was one of the world's leading **silver producers** (19th century).
- Prior to its adoption of the **gold standard in 1905**, Mexico operated under a silver standard, despite the substantial **depreciation of silver** relative to gold, as reflected in the increase of the gold-to-silver ratio from 15.5:1 to 32:1.
- Silver mining interests, and reference countries in the Indo-Pacific (India, China and Philippines) stayed on silver.
- **Multiple banks of note issuer**, with *Banco Nacional de México* acting as a clearing house (Nodari, 2017).
- Gold standard came to an end in 1910 with the Mexican Revolution.

Empirical Framework

- Rules of the game, macroeconomic trilemma and interest rate alignments.
- Reaction function of the **domestic** market interest rate to Bank of England discount rate shock of 100 bp delivers the **interest rate pass-through in %.**
- The higher the pass-through, the more the country followed the rules of the game.
- Example: 40% pass-through ⇒ the remainder provides **maneuvering room** for discretionary monetary policy (Keynesian stabilisation policies, domestic orientation of monetary policy)
- Why is pass-through lower than 100% in practice?

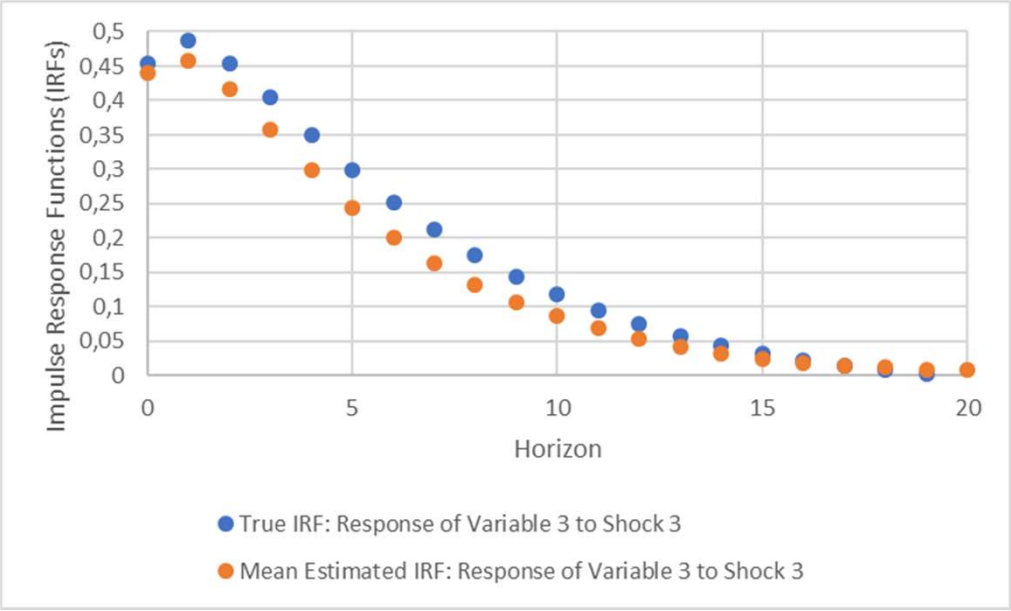
-- Financial frictions (e.g., wide gold points due to gold shipment costs; Clark, 1984).

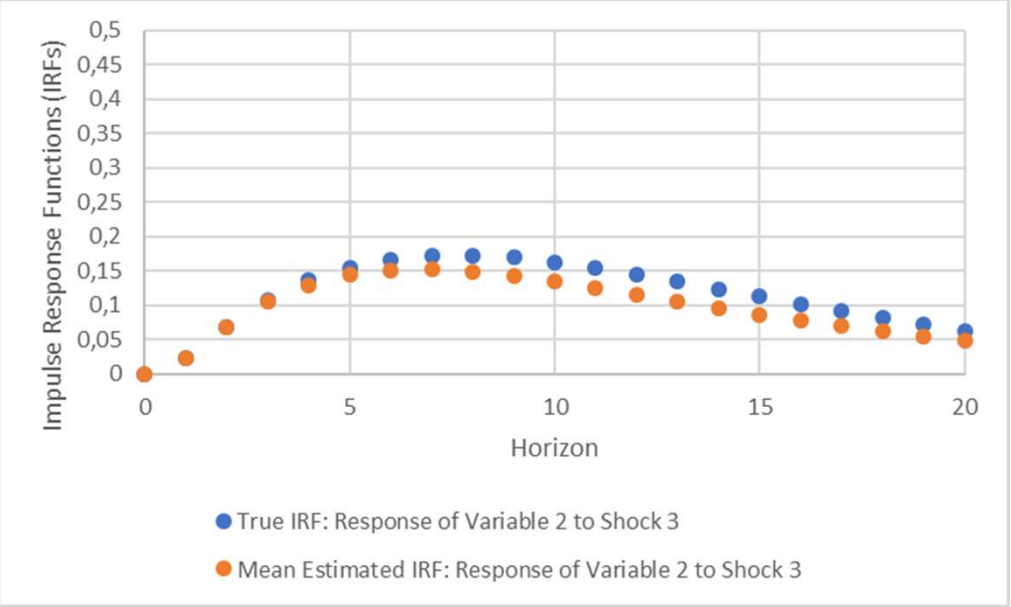
Empirical Framework (con’t)

- To identify shocks in an **Structural VAR** model we use recursive ordering (Cholesky decomposition).
- Place the BoE's policy instrument (BoE interest rate) as the first variable in VAR system.
- **BoE, domestic rate, ex**.
- **Impulse response function** and confidence intervals based on Kilian unbiased bootstrap method.
- Lag length=2,3 based on information criteria BIC (Bayesian) and HQC (Hannan-Quinn).

Empirical Framework (con't II)

- **Monte Carlo**: Evaluate the finite-sample properties of Structural VAR.
- Data-generating process (DGP) is calibrated using the estimated parameters of the Mexican model with *T*=50 and M=1000.





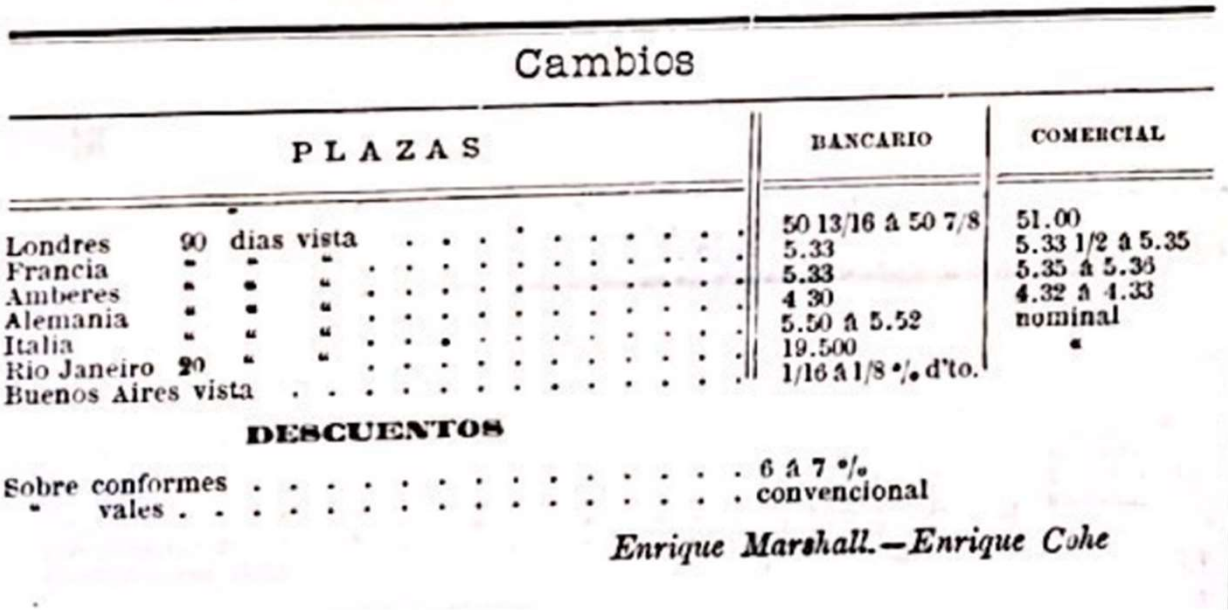
New Dataset (hand-collected)

- New dataset for **peripheral** countries (Latin America).
- Data frequency: **Monthly** (important as shocks dissipate within a year).
- **Price of sterling bills of exchange** (bills originated locally, but financed/guaranteed by a London-based **acceptance house**), and could thus be sold in London's deep and liquid discount market.
- Because of the firm guarantees they held, were considered "as good as gold" and thus acted as a **medium of exchange**.
- Consequently, they were often traded in local financial markets, as **foreign exchange**, before being shipped to London for discounting.

New Dataset (hand-collected)

- Typically, reported as **pennies per unit of local currency**, but we have converted to units of local currency per pound.
- 90-day bills of exchange and we have converted to spot rate.
- **Sources:** Publications of local stock exchange or the local financial press.
- Figures are for the last day of the month.
- **Market interest rates:** short-term commercial bills discounted in local financial markets.

New Dataset (hand-collected)



Cambios

PLAZAS	BANCARIO	COMERCIAL
Londres 90 dias vista	50 13/16 á 50 7/8	51.00
Francia " " "	5.33	5.33 1/2 á 5.35
Amberes " " "	5.33	5.35 á 5.36
Alemania " " "	4 30	4.32 á 4.33
Italia " " "	5.50 á 5.52	nominal
Rio Janeiro 20 " "	19.500	"
Buenos Aires vista	1/16 á 1/8 °/o d'to.	

DESCUENTOS

Sobre conformes	6 á 7 °/o
" vales	convencional

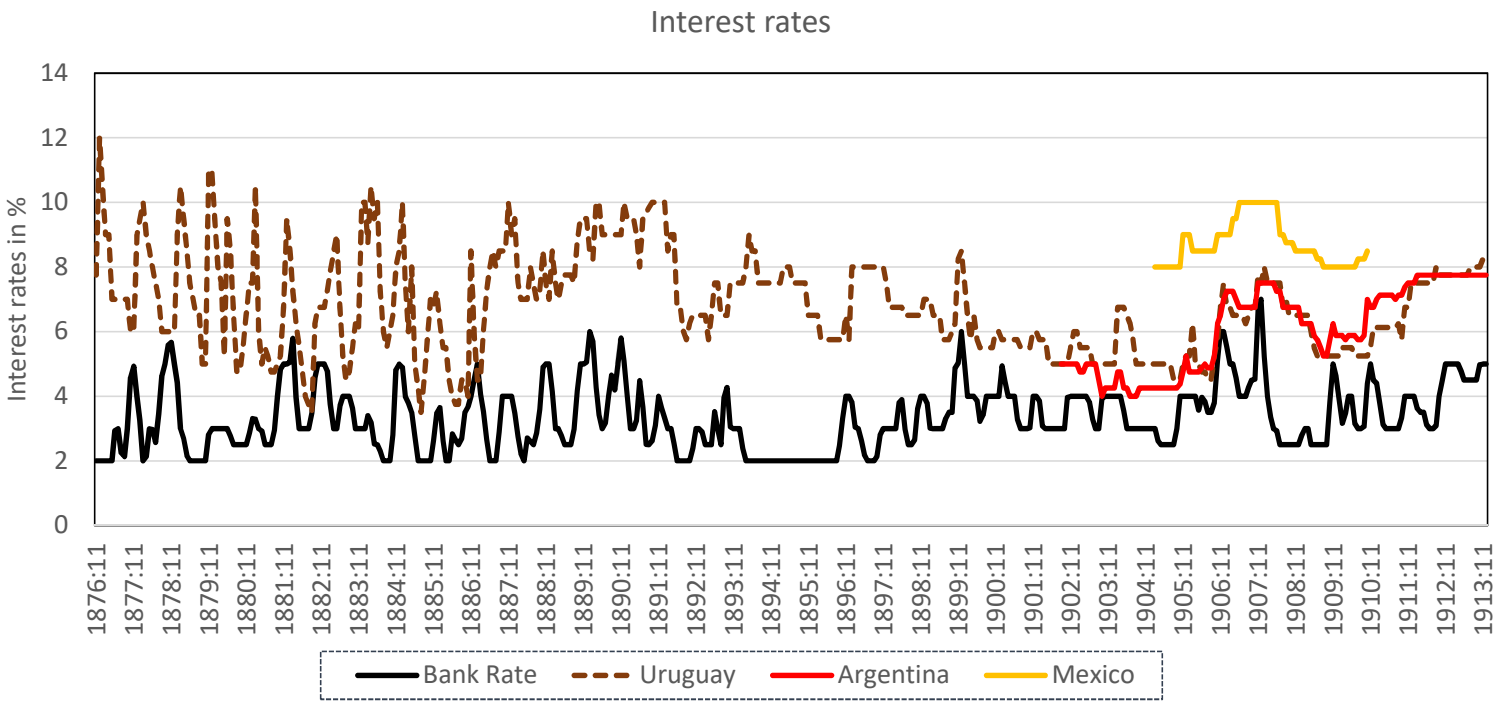
Enrique Marshall.—Enrique Cohe

Source: *Boletín de la Bolsa de Comercio de Montevideo*

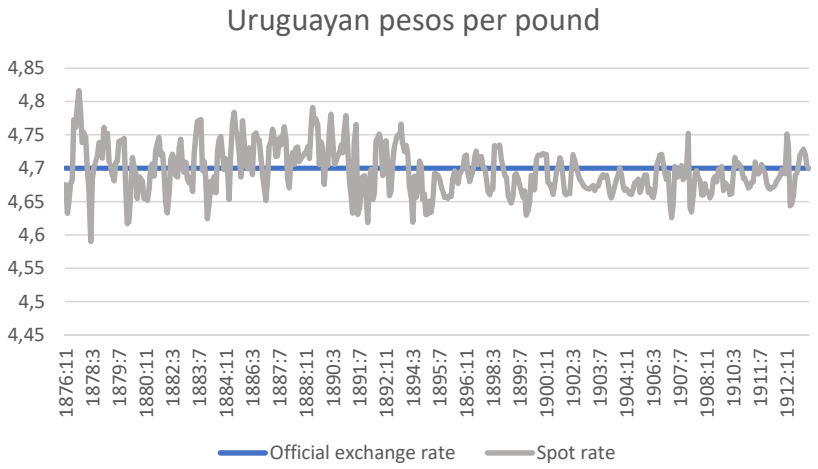
Revista quincenal de precios corrientes

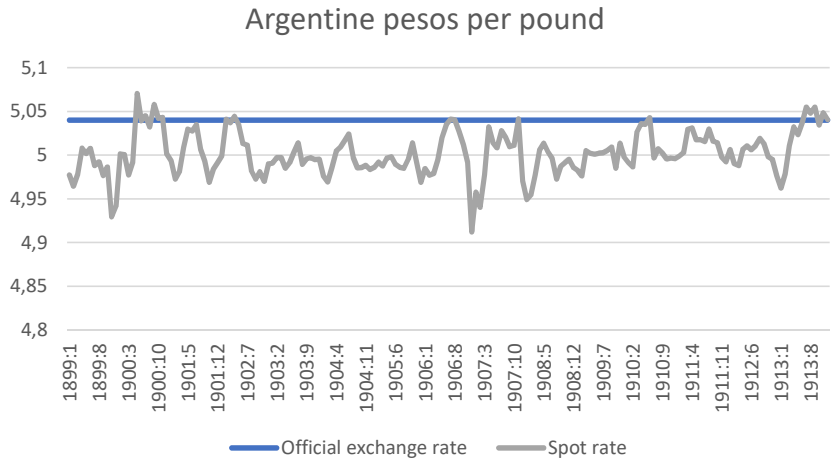
August 31st, 1893

Uruguay, Argentina, Mexico market rates *vis-à-vis* the Bank Rate (BoE)



Exchange rates of Argentina and Uruguay on London (periods of stabilised exchange-rates only)





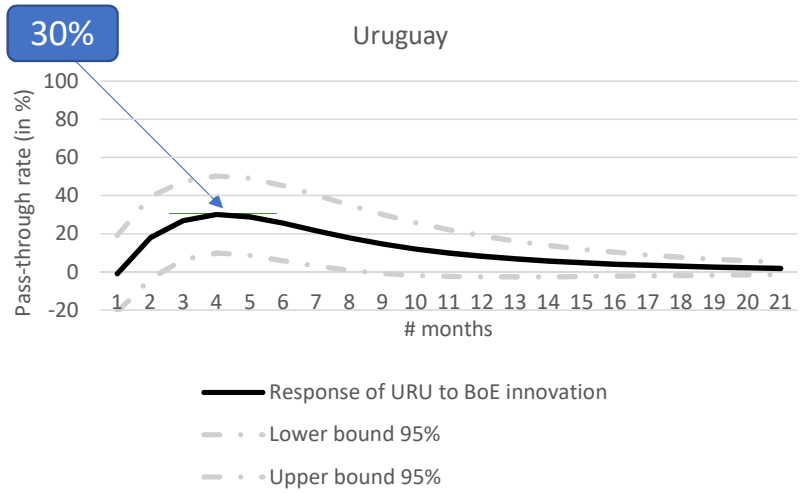
Pass-through rates for countries under the Classical Gold Standard (1870s-1914)

Country type	Pass-through rate
Countries with central bank (Europe, Japan) [1]	17%
Countries with central bank (Europe) [2]	*26%*
15 gold standard countries, mostly with central bank [3]	*52%*
Western hemisphere: countries without a central bank	
USA [4]	49%
Uruguay	30%
Argentina	42%
Mexico	39%

Sources: [1] Bazot, Monnet and Morys (2024: figure 5). [2] Morys (2013: table 6). [3] Obstfeld, Shambaugh and Taylor (2005, table 1). [4] Bazot, Monnet and Morys (2022: figure 4).

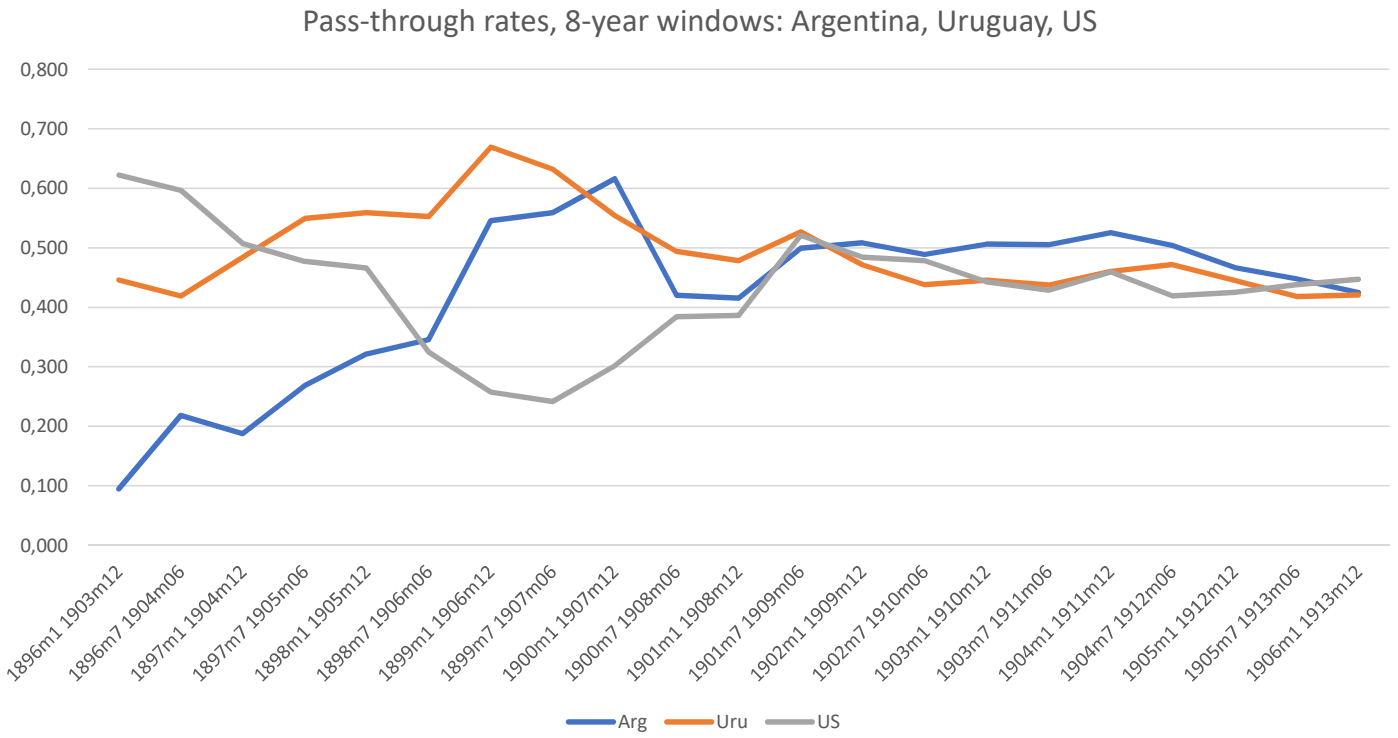
Note: Estimations in italics refer to pass-through estimates with different econometric design.

Pass-through rate: Response of domestic interest rate to Bank Rate increase (Uruguay 1876m11-1913m12)



We interpret the maximum value of the impulse response function as pass-through rate.

Pass-through rates: Rolling windows



Concluding Remarks

- New research on gold standard countries without central banks.
- Latin America is the ideal testing ground.
- Exchange rate stabilisation/gold standard adherence was possible but adjustment was more difficult.
- Results are consistent with recent findings for the U.S. monetary system before the establishment of the fed 1913 (Bazot, Monnet and Morys, 2022).
- Including Brazil, Peru and other countries will allow us to make comparisons and develop an interesting political economy aspect.

Grant PID2022-137382NB-I00 funded by MCIN/AEI/ 10.13039/501100011033/ by "ERDF A way of making Europe".