

**THE STATE AND THE ECONOMY
IN 19TH CENTURY VENEZUELA:
THE CONSERVATIVES' LIBERAL INSPIRATION**

**ESTADO Y ECONOMÍA EN LA VENEZUELA DEL SIGLO XIX:
LA INSPIRACIÓN LIBERAL DE LOS CONSERVADORES**

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Abstract

In a concomitant manner, an attempt at establishing rules for the way the economy works, also adjusted in accordance with the people's property and free initiative rights, will be made. In this article, we will try to examine some elements of the composition of the State, its institutions, and some principles that emanate from them, related to the efforts to set up a market economy in the country. We consider the second limitation to the establishment of a market economy in the country, during the 19th Century, and particularly during the period we are studying, is Venezuela's socioeconomic structure itself. This applies as much to the liberal State as it does to the market economy. Basically, the author posits that the constitutions written for Venezuela during the 19th Century reflect a political theory and a constitutional engineering originating from realities such as that from England, France or the United States of America which clash heavily against Venezuela's economic and social structures from then.

Keywords: State, economy, liberal party, Venezuela, 19th Century, conservative party.

The Venezuelan 19th Century demonstrates persistent efforts to implement the liberal State.¹ In a concomitant manner, an attempt at establishing rules for the way the economy works, also adjusted in accordance with the people's property and free initiative rights, will be made. Advancements towards these objectives were considerable, with more favorable times of political stability, and others showing tensions and abrupt changes.

¹ We are referring to the State model conceived by Locke, Montesquieu, Kant, Humboldt, and Constant, based on the French and American revolutions. Its fundamental principles are: rule of law, the Constitution, division of powers, universal applicability of law (the same law for everyone), and the separation of the State and the Church. In 1813, Karl Welcker coined the term "rule of law." Cf. Merquior (1997, p. 117 and ss).



In this article, we will try to examine some elements of the composition of the State, its institutions, and some principles that emanate from them, related to the efforts to set up a market economy in the country. We will focus our efforts on the time between the years 1830 and 1846, the time of the so-called conservative governments: José Antonio Páez's first two presidencies (1831-35 and 1839-43), José María Vargas's one (1835-36), Carlos Soublette's two (1837-39 and 1843-47), and Andrés Narvarte and José M. Carreño's acting presidencies (1836-37).

The term "conservative" refers to a political fraction concerned with implementing order and new, functioning, stable institutions, but not too extremely interventionist and controlling conceptions which blocked or slowed down private initiative. Paradoxically, in 19th Century Venezuela, economic liberalism was supported more significantly by conservatives.

Resumen

De manera concomitante, se tratará de establecer reglas para el funcionamiento de la economía también ajustadas al respeto del derecho de propiedad y a la libre iniciativa de los particulares. En este artículo intentaremos examinar algunos elementos de la conformación del Estado, de sus instituciones y algunos preceptos que de ellas emanan, que se relacionan con el empeño de instaurar una economía de mercado en el país. La segunda limitación que estimamos se tiene para el establecimiento de una economía de mercado en el país, durante el siglo XIX, y particularmente en el período en el que nos concentramos, es la propia estructura socioeconómica venezolana. Esa limitación lo es tanto para el Estado liberal como para la economía de mercado. Básicamente el autor plantea que las constituciones que se redactan para Venezuela durante el siglo XIX reflejan una teoría política y una ingeniería constitucional provenientes de realidades como la inglesa, la francesa o la estadounidense, que chocan fuertemente con la estructura económica y social venezolana de entonces.

Palabras clave: estado, economía, partido liberal, Venezuela, siglo XIX, partido conservador.

El siglo XIX venezolano registra persistentes esfuerzos por implantar el Estado liberal.² De manera concomitante, se tratará de establecer reglas para el funcionamiento de la economía también ajustadas al respeto del derecho de propiedad y a la libre iniciativa de los particulares. Tales propósitos avanzaron considerablemente, contando con lapsos más propicios de estabilidad política y otros de tensiones y sobresaltos.

En este artículo intentaremos examinar algunos elementos de la conformación del Estado, de sus instituciones y algunos preceptos que de ellas emanan, que se relacionan con el

2 Nos referimos al modelo de Estado concebido por Locke, Montesquieu, Kant, Humboldt y Constant, y configurado a raíz de las Revoluciones americana y francesa. Sus principios fundamentales son: la regla de la ley (rule of law), la Constitución, la división de los poderes, la generalidad de la ley (la misma ley para todos) y la separación entre Estado e iglesia. En 1813 Karl Welcker acuñó el término "Estado de Derecho". Cf. Merquior (1997, p. 117 y ss).

empeño de instaurar una economía de mercado en el país. Nos concentraremos en los años comprendidos entre 1830 y 1846, que es el tiempo de los gobiernos llamados conservadores: los dos primeros de José Antonio Páez (1831-35 y 1839-43), el de José María Vargas (1835-36), los dos de Carlos Soublette (1837-39 y 1843-47) y los provisionales de Andrés Narvarte y José M. Carreño (1836-37).

El apelativo “conservador” alude más a una fracción política preocupada por implantar el orden y unas instituciones nuevas que fueran funcionales y estables, pero no a concepciones intervencionistas y controladoras en extremo que obstaculizaran o desestimularan la iniciativa privada. Paradójicamente, en la Venezuela del siglo XIX, el liberalismo económico tuvo entre sus más connotados partidarios a los conservadores.

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1. Limitations to Establishing a Market Economy

It is our opinion that the main limitation to establishing and consolidating a market economy in 19th Century Venezuela is the political instability caused by civil wars. In such a situation, the property rights and the sustainability of internal and external inversions are not properly guaranteed. This started a vicious cycle since economic entities could not find any other option for looking after their own interests than to involve themselves in the political fighting and gaining some influence in the State's decisions. Moreover, among the toll of the continuing internal military disputes were the auctions and adjudications of confiscated or vacant lands, so political victory had an economic interest (Pérez, 1990). And, obviously, political defeat implied problems for the assets of those involved.

Considering the aforementioned, it is evident that, from the start, the country's climate is not the most ideal or auspicious, according to the western world's clear definition of a market economy, for businessmen and those who owned businesses, factories or land to invest with the confidence that legal security allows.

We consider the second limitation to the establishment of a market economy in the country, during the 19th Century, and particularly during the period we are studying, is Venezuela's socioeconomic structure itself. This applies as much to the liberal State as it does to the market economy.

In this article, we extend to the economic field the obstacles that Pérez Perdomo (1990) establishes for fully implementing a republican government. Basically, the author posits that the constitutions written for Venezuela during the 19th Century reflect a political theory and constitutional engineering originating from realities such as that from England, France or the United States of America which clash heavily against Venezuela's economic and social structures from then. Fundamentally, the phenomenon of the caudillo does not correspond with the type of relationships and the values of republicanism, since it is based on military strength and the economic power that a caudillo manages to amass, interweaving loyalties and not strengthening liberties and civil rights but, on the contrary, weakening them.

In the field of economics, when creating laws and institutions according to modern society's free hiring, we find a reality in Venezuela that pits businessmen against agricultural producers, as it happened with the enactment of the April 10th, 1834 Act.

If the discussed political and economic issues apply to dominant elites, it is not less true for those below (Urbaneja, 1988). Neither a republican government nor a so-called modern economy can act satisfactorily with a small, mostly poor, and illiterate population, with working relationships still based on slavery (the Abolishment of Slavery Act is from 1854) and predominantly based on servitude, like laborers.

Urbaneja (1988) considers that the project posited in 1830 which led to the establishment of a liberal State in Venezuela is markedly oriented towards legal and political aspects, neglecting economic and social ones. These latter ones, explains the author, were highlighted in 1870. The first priority is to functionally organize the government, regulate public and civil activity, and establish liberal principles such as division of power and universal applicability of the law. In summary, for all of society to act according to the law.

Starting from 1840, particularly in the liberal press,³ an intense debate about the economic laws and institutions created by conservatives in the thirties began, especially the Free Contract Act, the Debt Relief and Grace Period Act, and the commercial courts, which originally did not arise resentment or encounter any resistance. But due to the effects of the fluctuating global markets, with the lowering of coffee prices, numerous territorial owners were affected. This generated a conflict of interests, basically between businessmen and estate owners, which caused political tension, and also made the establishment of the liberal State and the structuring of a true market economy difficult. Urbaneja (1988) noticed in this process a conservative nearsightedness.

Our interpretation points to the recognition of the importance of the project that these politicians attempted to carry out in legal, political and economic terms starting from the thirties, with eminently liberal principles. This project encountered severe difficulties in the true structure of society itself, in addition to the adverse contingencies of an economy that was highly vulnerable to the fluctuations of primary product international markets.

2. The Liberal State and the Market Economy's Progress

After the independence and the separation from Colombia, the ruling elites set out on a systematic re-institutionalization process that would lay down the legal foundations for the State and the economy. Their goal was, first and foremost, the establishment of rule of law. In his message to the National Congress from 1835, Páez speaks about the aspiration for a

3 Here, "liberal" is used to refer to the party. Along with the newspaper *El Venezolano*, founded by Antonio Leocadio Guzmán in 1840, the Liberal Party was born. Guzmán, accompanied by Tomás Lander, Tomás Sanabria and Jacinto Gutiérrez, write a sixteen-issue political program, with one of those issues being the abolishment of the Free Contract Act.

society under the rule of the law, worthy of liberty. And as for the economy, in his message to the Legislative Branch from 1842, he highlights the love for work and productive enterprises (cit. by Plaza, 2007).

The 1830 Constitution contains the fundamental guidelines for the political and territorial organization and the Republic's public powers, the enshrinement of a set of rights, and the general norm for the creation of other laws. According to this, dismantling the Spanish tax system and organizing the Public Treasury, particularly preparing the budget, based on some resource sources (taxes and loans) and the definition of spending priorities was very important so that the government can fulfill its function as a service provider. Basically, the government's resources would come from the earnings obtained from the State's financial assets and its services, as well as its taxes, these latter ones mostly generated by customs, since the Venezuelan economy is mostly dependent on the international markets.

With regard to this, a significant factor is the fact that, during the 19th Century, a single minister was in charge of the Treasury and the Foreign Relations offices. The 1830 Constitution establishes three ministries, and a fourth, Foreign Relations, which could be added to any of the others:

Art. 134. Three ministries for the office of the matters corresponding to the Executive Power: one of Internal Affairs and Justice, another corresponding to the Treasury, and yet another, of War and Navy. The Officer may add the Foreign Relations Office to any of them.

The aforementioned is related to foreign debt, which is why it is associated with Foreign Relations and the Treasury. The 1830 Republic was born with a debt inherited from the Republic of Colombia, which was distributed among Venezuela, New Granada and Ecuador, with 28.5% of it corresponding to Venezuela. It is also related to the Venezuelan economy being mainly based on exports of raw materials, which means that a majority of the public revenues come from foreign markets.

Towards the end of the 18th Century, the Industrial Revolution began to take hold in the world. The *laissez faire* principle, the market as the most adequate mechanism for regulating economic processes, had already been formulated by French physiocrats and was supported by the thoroughness of the classic school of economics' modern theory (Adam Smith, Jean Baptiste-Say, David Ricardo, Thomas Malthus, Jeremy Bentham, John Stuart Mill). The world was progressively becoming more receptive to the free market, under the protection of "the world's workshop," being England.

In this context, Venezuela not only had to be recognized as an independent republic, establishing diplomatic relations with important countries, but it also signed a series of "Friendship, Commerce and Navigation" treaties. Under these treaties, Venezuela was subjected to many claims, which eventually culminated in the coastal blockade of 1902, but which were present throughout the 19th Century after 1830. They were exposed in detail by Arcaya (1964), and they were related to the violations of property rights and the damage caused by its economic interests to citizens and foreign businessmen, caused by the recurring political restlessness.

3. Public Budget, Taxes and Bureaucracy

The governments usually referred to as conservative attempted to carry out a strict fiscal management, in which no expense could be different to those reflected in the approved and published budget. This was given constitutional status:

Art. 210. No amount will be extracted from the public treasury for expenses other than those determined by the law and according to the budget approved and published by the Congress (1830 Constitution).

The fiscal management between 1830 and 1847 had as a governing principle fiscal equilibrium, or in other words, for public revenues and expenses to be equal. The organization of the Public Treasury's most important figure was Santos Michelena (1797-1848). Faced with the compromised circumstances of a country barely starting to recover from war and the challenge of institutionally forging a new republic, with a sizable portion of the population in poverty, Michelena did not consider increasing taxes or creating new ones as an option. It would have intensified the population's precarious situation. He also considered that the Republic of Colombia's "insanely extravagant administration" should not have been kept. In the Ministry of Treasury's 1831 Annual Report, he held that cutting expenses is the most profitable action they could take:

For a nation that, due to repeatedly breaking its promises, has lost the trust of even its own citizens, there is not any other option than to increase taxes or establish new ones, but is it fair, is it possible when, due to the effects of a long war and an insanely extravagant administration, the peoples were reduced to the most terrible misery, when, in order to pay the existing taxes, they deprive themselves even of life's pleasures?

It seems, then, that this deficit should disappear by decreasing expenses by a greatly important sum in the classes that still permit economies (ANCE, 1993).

Regarding revenues coming from taxes, he held a clearly liberal concept, in which high taxes would discourage private businesses, decreasing sales and causing great damage to the economy. Definitely, they would be counterproductive for the treasury itself. This vision is still held by today's liberal discourse. Michelena explains the previous norm in the following terms:

An incontestable experience from all the peoples who engage in trade has demonstrated that the extreme elevation of rights decreases sales, disrupts agriculture, and lastly, lessens the revenues expected from them, and we will have this experience, too, if we do not adopt a system that combines the interests of business with those of the treasury, with no incentives for fraud (ANCE, 1993).

Between 1830 and 1841 there was order in the public administration and no fiscal imbalance was detected (in 1845 there was a deficit). Additionally, a positive attitude towards paying the debt made the country open to foreign loans. The elimination of the sales tax (1831), the tithe (1833) the Tobacconist's Monopoly (1833), the latter having been a state monopoly since the 18th Century, are relevant milestones in the State's new fiscal orientation.

According to Santos Michelena, in order to discourage smuggling, fees had to be lowered to eliminate incentives to this irregular practice. Michelena also fought against the tampering and counterfeiting of the currency, which was the peso back then. This was essential since the monetary system affects economic and social life at every level.

Conservative governments considered the organization of the country's bureaucracy a relevant factor in their modernizing project, at least where the functional basis of the public organization was concerned. Officials were to be providers, and they had to fulfill their responsibilities efficiently and honestly. Employees had not been granted lifetime positions. On the contrary, their positions had to be considered provisional, and their continuity in it had to be considered according to the benefit of the State. In the Treasury's 1832 Annual Report, Michelena wrote:

The most preferred fundamental reform is declaring employment to be on assignment so that the Officer can remove those that perform their duties without judgment when he considers that their continuity would be harmful to the State (ANCE, 1993).

Employments are not and should not be called or considered property: their duration should be measured only by the impeccable behavior of those who fulfill them (ANCE, 1993).

Besides the organization of a modern and efficient treasury, Santos Michelena's most significant contribution is, without a doubt, his participation, in the broadest sense, in the establishment of the rules of how the economy functioned, also modern. The 1843 Free Contract Act, inspired by liberalism, was not directly made by Michelena, but he fervently supported it.

4. Property and Contract Rights

The 1830 Constitution enshrines property rights in the following terms: Civil liberty, safety for each person, property and equality are guaranteed by law for Venezuelans (Art. 188). It is also important that all confiscation of goods is abolished (Art. 206). Furthermore, each person's free initiative is also enshrined: No kind of work, culture, industry or commerce will be forbidden to Venezuelans (Art. 209). In the article, exceptions are stipulated: those that are now necessary for the Republic's continued existence. Among these exceptions, the Tobacconist's Monopoly was most likely in mind, since it was essential in providing tax revenue. This is why even Michelena proposed keeping it for five years.

Risk and creativity, with legal support and likely rewards for those who take them on, all characteristics of modern businesses, are also guaranteed by the Constitution: All inventors shall possess ownership over their discoveries and products. The Law shall give him temporary privilege or reimbursement of the losses he incurs, should he publish it (Art. 217).

As for foreigners' rights, they shall also enjoy, in terms of person and property, the same safety as other citizens (Art. 218).

In the market economy, contracts, the freedom to establish them, and the institutional endorsements to uphold them are a complementary principle to property rights. This entails for each person to be able to negotiate and enter into agreements, and for each contracting party to uphold their part. It is not at all secondary that, during José Antonio Páez's first presidency (1831-35), the April 10th 1834 Act, also known as the Free Contract Act, was enacted. This act represented a break from commercial practices carried over from the colonial period and the main legal instrument for setting up a liberal economy that also agrees with the liberal State that these politicians strived for.

As pointed out earlier, Santos Michelena is the most prominent figure in terms of how relevant he was among the leading elite that aspired to organize the government and the economy during the 19th Century in Venezuela, so that the country could join together with the modern western structuring. Of course, he was not the only spokesperson for economic liberalism in the country. Generally, the leaders of the Conservative Party took on liberal precepts. In fact, even though he endorsed it, the April 10th Act is not Michelena's own direct work.

With determination and a strict administration, Michelena concentrated on alleviating the Venezuelan fiscal deficit by limiting public expenses more so than increasing taxes, which would discourage businessmen's productive activity. He equally focused on the settlement of the national debt, both external and internal. Furthermore, he occupied himself with the qualification of posts, which was essential for relaunching commerce.

Freedom of Contract abolished the Castilian legislation that placed limits on monetary interests of 6% for commercial operations and 5% for the rest. According to Michelena, in the Ministry of Treasury's 1833 Annual Report, these limits, established so arbitrarily, hurt and disrupt the principles of sacred property, are openly against moral principles and clash with those of political economy (ANCE, 1993, Tome II).

The April 10th Act states that the conditions for monetary loans between persons should be established by free negotiation. Like all loans, there is a warranty involved, which can, by the appropriate procedure at a commercial court, be executed in case of non-compliance. Money is a commodity like any other. Its value, which is the rate of interest, is determined by offer and demand. This is what Santos Michelena argues in the Treasury's 1833 Annual Report:

With money being a commodity like any other, there is no reason why, without placing a limit on acceptable revenues from any kind of business,

one should be placed on the rent of minted coins (ANCE, 1993). The value of money is affected, like all other variable things, by how much one can get out of its use, or in other words, by how much of it is circulating (ANCE, 1993). If earning as much as possible from selling drapes, beans, or other trade goods bought with money is permitted, intending to do the same with money itself should not be prohibited. (ANCE, 1993).

Money is lent in order to take on productive, agricultural activities, or in other words, to finance profitable businesses. As such, following Michelena's argument, it is reasonable for those who provided the money which made the business possible to obtain part of those profits. The entities that provided this funding were, basically, the major trading houses⁴.

At first, the consensus between the different economic and political sectors when it came to the act prevailed. During approximately ten years, the act generated satisfactory results, leading to sustainable agricultural growth. During the first decade of its implementation, coffee production skyrocketed, along with that of other products such as cotton, and interests were reduced from figures above 100% to around 9%.

After the international market contingencies caused coffee prices to plummet, many estate owners encountered difficulties and even lost property as a result of the legal enforcement of their mortgages. This caused accusations against the government's liberal policies to multiply. Santos Michelena stood by his convictions about the economy, the government's role, and each person's responsibility. According to him, the State could not take on the adverse consequences for a person's assets if they were caused by that person's bad choices as an economic agent. In a shocking 1845 text, he stated:

It is unmistakable that there is discomfort among landowners, but this discomfort was not caused by the government's actions, but by their own misguided actions, and as such, it is in this action and nowhere else where the solution should be sought; labor and the economy are the two great sources of public and private prosperity, and it is in the exercise of these two habits, these two essential virtues, that those falling behind should find the cure to what ails them: do not seek for it in the national coffers (cit. by Plaza, 2007).

In the middle of the economic disaster and the deterioration of the 1830 political consensus, most of the major businessmen began to distance themselves from the majority of the landowners, when the former continued to associate with the Conservative Party and the latter began to associate themselves with the Liberal Party. The Free Contract Act brought the end of prior practices: the laws inherited from the Spanish Crown enforced harsh punishment

4 Five of the major trading houses were: Blohm, H.L. Boulton, P. Prosperi, Santana Hnos. and Hellmund (Cf. Cartay, 1988). During the period we are focusing on (1830-1846), an office of the Banco Colonial Británico was established in the country (1839), and the Banco Nacional Venezuela was founded (1841), with mixed capital. By 1840, the disparity between businessmen and estate owners had already become common knowledge, as well as its relationship to the Free Contract Act.

for usury. In the public diatribe, the businessmen that provided funding for agriculture were referred to as “usurers” and “achievers.”

A modern commercial practice should not be labeled “usury.” The term is inappropriate, as the April 10th Act did not intend to validate usury, which was previously penalized. This view twists the historical significance of the new legal instrument, as well as the value of Santos Michelena as a historical figure. The funding of productive activities in a modern economy, which was the objective of the 1834 act, has nothing to do with usury, and we will comment on this in the following section.

5. Contract, Freedom and “Usury”

The only “Whereas” clause in the April 10th, 1834 Act states that a contract’s freedom, equality and safety are powerful means that can contribute to the Republic’s prosperity. In effect, a contract assumes that those who negotiate are free people, and do so in equal conditions. There is a formal equivalence between the two contracting persons: They both recognize each other’s property rights and offer the same treatment they receive from the other. This reciprocity, which is a characteristic of modern, private relations, is called commutative justice by legal tradition (Cf. Bobbio, 2016).

The explanation for why the Free Contract Act was only applied for such a short time,⁵ with its original purpose, probably lies, as mentioned earlier in the article, in the prevalent social and economic structure in the country. It was a society and an economy that were far from modern due to the generalized presence of subjection relations and personal dependence in political (e.g. the caudillo) and productive (e.g. laborers) terms.

Furthermore, and more importantly, since the first signs of deterioration in the international coffee market and what it implied for estate owners’ debts, the trade houses which had funded their agricultural activity were clearly in better conditions than those of estate owners. This, somehow, contradicts a contract’s implicit equivalency, as defined before. Some contemporary authors consider that the commercial sector harbored ill intent, so they label the people involved with it as “usurers,” which is undeserved and wrong. The social and economic structure itself led to funding provided by businessmen since the variety of banks that could provide funding was extremely small.

In retrospect, the only lens through which these issues can be seen, perhaps the strategy for laying down the basis of a liberal structure entailed overcoming the risks of this reality in a sensible manner. This inevitably leads those of us who examine the 19th Century to the intense debate between gradual change and shock policies that appeared in Latin America during the 1980s and 1920s, when, using a liberal foundation, an attempt at dismantling the State’s excessive economic growth and replacing it with a free and competitive economy was made.

5 It was repealed by José Tadeo Monagas in 1848, resulting in the terms of funding being flexibilized.

Even if the real conditions of the Venezuelan economy during the 1830s made it so businessmen, not some practically nonexistent banks, financed agricultural production, this does not justify the “usurer” label, or lowering the historical merit of the Free Contract Act. Let us briefly consult the history of economic thought.

“Usury” is a medieval concept, and its practice is not a characteristic of a modern economy. What occurs in modern economies, generally speaking, is the following: The public saves parts of their income in banks, which they used to grant loans to companies for their productive activities. Since companies obtain benefits, it is reasonable for those who provided funding, banks and investors, to obtain some of those benefits, in the form of interests.

According to Galbraith (1989), when Aristotle, from Antiquity, and Thomas Aquinas, from the Middle Ages, condemned interests in money loans, they referred to loans given from one person to another in order to face trouble. That is why they put ethical limits on it, since one should not take advantage of the urgency or vulnerability of others. That is what 13th Century scholars referred to as “usury,” and it still survives in some measure during our time, but it is not the inherent funding mechanism of a modern economy, as stated before.

In the 19th Century political diatribe, the terms “usury” and “usurer” were used to oppose the April 10th Act. The fact that some researchers continue to use this qualifier in a pejorative manner to disqualify the conservatives’ liberal policies and the work of businessmen during the 19th Century, which distorts the Free Contract Act’s historical relevance, draws our attention. It is not true that the April 10th, 1834 Act validated usury, which was penalized by old Castilian laws. They are two entirely distinct practices. Usury is premodern. Freedom of contract, which was only somewhat viable in Venezuela back then, is modern. In prospect, this revalues the 19th Century Venezuelan conservatives’ liberal inspirations.

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