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"Palatable Foreign Control": British money doctors and central banking in South America, 1924-1935

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TEXTO PARA DISCUSSÃO

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South America, 1924-1935

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Abstract

This article is on the activities of British money doctors in South America between the 1890s and the 1930s, hitherto overlooked in the literature. It focuses on Sir Otto Niemeyer's missions to Brazil and Argentina in the early 1930s compared to his earlier report on New Zealand and Professor Edwin Kemmerer's report on Chile in the mid-1920s. The impact of their visits on the market evaluation of risk related to bonds floated by the largest South American economies is quantitatively analyzed. Difficulties involved in generalizations about links between policy proposals and market evaluation enhance the interest of studying specific experiences. Niemeyer's general proposals to the Brazilian government in mid-1931 advising on a possible return to the gold standard are evaluated. His specific proposals on central banking in New Zealand, Argentina and Brazil are discussed in contrast with Kemmerer's proposals in Chile. The focus is on the autonomy of central banks, representation of sectoral interests, the role of gold in total foreign exchange reserves, and the exertion of foreign influence through directors, shareholders and permanent experts. Finally, the realism of proposals is evaluated in the context of contemporary economic conditions compared with advice provided by other experts on related issues.¹

¹The authors thank the help and/or comments at several stages of the research of Felipe T. Fernandes, Giorgio Fodor, Winston Fritsch, Eduardo Loyo, Marcelo Medeiros, Mário Mesquita, Arturo O'Connell, Les Oxley, Phillipa Mein Smith, Antonio Sochaczewski, the late John Wells, Rogério Werneck, and participants of seminars at Brasília, Cambridge, London, Rio de Janeiro and Santiago where parts of the paper have been presented. Melanie Aspey, Caroline Shaw and the staff of the Rothschild Archive, London; the staff of the Bank of England Archive, London; the staff of Baing Archive, London; the

I

Financial advice by foreign experts played a crucial role in the history of emerging market economies, especially in Latin America, due to the fragmentation of the Iberian empires in early 19th century and the persistent financial fragility of the new independent economies. From independence to mid-19th century, Latin America, with the exception of Brazil, remained in default and thus absent from international financial markets. Money doctors became important after the resumption of foreign loans was followed by the recurrence of balance of payments difficulties and debt renegotiations in the late 19th century.

There is much literature on the activities of United States money doctors in Latin America in the 1920s, especially those of Edwin Kemmerer.² Recent work on money doctors has focused either on their activities in other continents or on non-British money doctors.³ The role of British money doctors in Latin America, and specifically in South America, has been overlooked. In the Eastern coast of South America, the influence of United States' money doctors until World War II was negligible, while Edwin Montagu, and especially Otto Niemeyer, were influential in Brazil and Niemeyer was still more important in Argentina.⁴ A comprehensive assessment of the role of money doctors should necessarily include these economies. The combined GDP of Argentina and Brazil in 1928 was more than three times that of Mexico and more than double the combined GDP of the other large Latin American economies (Chile, Colombia, Peru and Venezuela). The share of Argentina and Brazil in world exports in 1928 was 4.6%, compared to about 2% for the rest of South America and less than 0.9% for Mexico.⁵ The stock of debt and foreign direct investment in Argentina and Brazil was about a half of total foreign investment in Latin America in 1930.⁶

The concentration of money doctors from the United States in the Western coast of Latin America, and of the British in the Eastern coast, was to a large extent explained by the relative importance of dollar and sterling loans – mainly to the public sector – in the two sub-regions. In most economies in the Western coast, the British share in the total public foreign debt was rather low, or even negligible, in 1914 and afterwards.⁷ The

staff of the library of the Law School of the University of São Paulo; Araceli Garcia Acosta, Centro de Documentación e Información, Ministerio de la Producción, Buenos Aires; Graciela Swiderski, Archivo General de la Nación, Buenos Aires, are to be thanked for help in obtaining documents and data.

²See, for instance, Rosenberg, *Financial Missionaries*, Drake, *Money Doctor in the Andes*, Drake, *Money Doctors*, and Eichengreen, “House calls”.

³Flandreau, *Money Doctors*.

⁴United States money doctors, prominently Robert Triffin, visited several Latin American economies in the 1940s, but these missions although relevant because of Triffin's brilliancy, did not involve the main Latin American economies. See Helleiner, “Central bankers”, and Triffin, *Monetary and Banking Reform*.

⁵Maddison, *Monitoring the World Economy*, p. 200 and League of Nations, *Statistical Year-Book 1930-31*, p. 173.

⁶United Nations, *External Financing in Latin America*, chapter I.

⁷See United Nations, *External Financing in Latin America*, pp. 16 and 28.

important exception was Chile, but the sterling debt had already peaked in 1911 and, in spite of an outstanding foreign debt stock evenly divided between sterling and dollar loans in 1930, the United States financial market was much more important at the margin in the 1920s as in most of Latin America.⁸

In spite of Wall Street being by far more important than London as a source of new loans in the 1920s, the shares of dollar loans in the total foreign debt stock of both Argentina and Brazil around 1930 were low even if compared to Chile's 46.8%: a quarter of total foreign debt stock in Argentina and a third in Brazil. Trade interests may have also played a role even in the late 1920s to define financial spheres of influence. British clout based on the importance of imports from Argentina would be fully felt only after 1931, but it is difficult to imagine a United States money doctor visiting Buenos Aires. Great Britain was the main market for Argentinean exports – 30% of total exports in 1930 compared to 9% to the United States. In Brazil it was the reverse, and there were in principle much stronger grounds to justify a significant United States involvement in providing financial advice due to the structural trade surplus with the United States: the United States bought more than 40% of total Brazilian exports and Great Britain only about 8%. But blunders by United States diplomats after the October 1930 coup opened the way for the temporary reprieve of British influence at least until the mid-1930s.

This article will thus focus on the activities of British money doctors in Eastern South America in the 1920s and 1930s. Section II is concerned with how several forms of changes of regime – as, for example, de jure and de facto adherence to the gold standard, visit of money doctors or creation of central banks – may have affected the market evaluation of Latin American loans in the 1920s. A new methodology is used to detect shifts of regime based on data on spreads of the relevant Latin American foreign bonds over benchmark risk free rates rather than relying on the a priori determination of dates deemed to be important. Section III presents a short treatment of British money doctors in South America between the early 1890s and the 1920s. Section IV analyses Niemeyer's financial missions to Brazil, in 1931. Section V is on a comparative analysis of advice and proposals directly related to central banking by Niemeyer in New Zealand, Brazil and Argentina in the early 1930s also including Chile in the 1920s, perhaps the most important of the stabilization episodes following Kemmerer's advice. A set of relevant issues is considered: autonomy and special interests; composition of reserves; foreign influence through shareholders, directors and experts. Section VI analyses the realism of the advice provided in comparison with alternative views on the impact of the depression on the larger South American economies. Section VII concludes.

⁸See Sanfuentes, "Deuda pública externa de Chile".

II

Stabilization experiences in South America in the 1920s were varied. Some countries were visited by United States money doctors: Colombia, Chile, Ecuador, Bolivia, Peru. Most visits were followed by adoption of the gold exchange standard. Other countries, such as Argentina and Brazil, were not visited by money doctors defined *stricto sensu*, did not create a central bank but also adopted the gold standard.⁹

The statistical evidence on the impact of the visit of money doctors and consequent stabilization programmes on the ability to raise loans that can be found in the literature – based on the proceeds of loans raised before and after the visits – is not strong, even when the analysis includes economies outside Latin America, such as Poland, visited by “independent” money doctors not under the aegis of the League of Nations Financial Committee.¹⁰ Data on the share of such “Kemmerer economies” – Bolivia, Chile, Colombia, Peru, Guatemala¹¹ – in total dollar loans yearly floated between 1919 and 1930 (see table 1) suggest that there is no simple relation between such shares and the visits by Edwin Kemmerer. The upsurge of loans to Argentina (after 1924), Brazil (after 1925) and Peru (also after 1925) is unconnected with money doctor visits and the response in Colombia was delayed for at least two years and also in Peru.¹² Findings in the literature based on geographically more comprehensive data also suggest that there were no easily identifiable links between low spreads and adoption of the gold exchange standard.¹³

This section pays a closer look at the statistical evidence on the money doctors effects on borrowing economies, finding results that indicate that there is a specific history for each country and that it is extremely difficult to generalize on such links.

It is not easy to exogenously single out defining moments of regime change. Several alternatives have been considered in the literature. Which event should be taken as relevant? The start or the end of a visit? The date of implementation of its recommen-

⁹Montagu’s visit to Brazil in 1923 was to advise on the flotation of a British loan and did not envisage to make recommendations either on the creation of a central bank or on the adoption of the gold exchange standard.

¹⁰Eichengreen, “House calls”.

¹¹These Latin American economies answered for less than 44% of Latin American loans floated in the U.S. between 1919 and 1930 if Argentina and Brazil are added to the group. But their importance increased in 1928-1929 when their share rose to more than 67% of the same aggregate. See Lewis (1938).

¹²Even if the dates of visits of money doctors could be characterized as defining moments, there is now evidence that money doctors had a more intimate relationship with bankers involved in the flotation of loans tied to “stabilization” than previously thought. Kemmerer, the most important United States money doctor in the 1920s and early 1930s, received a regular yearly retainer from Dillon Read after his mission to Colombia in 1923. Temporary suspension of the contract while he was in the service of foreign governments and for sixty days thereafter cannot be taken as a satisfactory solution to solve the conflict of interests. See Rosenberg, *Financial Missionaries*, p. 196 and footnote 25. The links of British money doctors as Montagu and Niemeyer with merchant banks in particular N.M. Rothschild were publicly known.

¹³Obstfeld and Taylor, “Sovereign risk, credibility, and the gold standard”.

Table 1: Share of loans for selected economies in total U.S. dollar loans, 1919-1930

	ARGENTINA	BRAZIL	BOLIVIA	CHILE	COLOMBIA	PERU	GUATEMALA	POLAND
1919	0	3.7	0	0	0	0	0	0
1920	0.2	0	0	0	0	0	0	7.1
1921	1.0	15.6	1.8	6.6	0	0	0	0
1922	0.2	7.6	3.5	2.5	0.3	0.3	0	0
1923	0	0.6	0	0	0	0	0	0
1924	8.6	0	0.6	0	1.0	0.8	0	0.5
1925	9.9	0.9	0	2.0	0.4	0.8	0	4.8
1926	9.6	6.4	0	6.2	3.8	2.2	0.1	0.3
1927	8.6	5.0	1.0	1.7	5.1	4.4	0	3.8
1928	4.1	6.6	1.7	6.9	6.1	1.8	0	1.5
1929	0	2.9	0	11.4	0.5	0.5	0	0
1930	1.4	4.0	0	2.8	0.1	0	0	0

Source: Lewis, *America's Stake in International Investments*. Bold numbers correspond to years of visits by money doctors.

dations? Or that of the flotation of a foreign loan in the beginning of implementation of the stabilization program? The date of the de jure or of the de facto adoption of the gold standard? The de jure creation of a central bank or the beginning of its operations? Even under the hypothesis of exogenous identification, one should also try to define leads and lags of regime change: money doctor visits and the adoption of the gold exchange standard were not unanticipated events, and, conversely, it took time until credibility was enhanced if at all.

The combination of unknown leads and lags of regime change with the relatively short time span during which many different policies were implemented makes the identification of a possible money doctors effect particularly difficult.¹⁴ Such efforts in the literature are further weakened by the use of yearly data rather than data with a higher frequency: the very few yearly observations per country on the 1919-1929 period do not allow a comprehensive assessment of the dynamics of spreads.

A cautious methodological stance has been adopted here. Instead of assuming exogenous breaking points, it is assumed that every point in time can potentially entail a regime change, and then analyze the development over time of the significance of such assumption. If the advice had any effect, it would correspond to a breaking point with possible leads and lags taken into account.

Differently from the existing literature, regressions are run in a monthly frequency.

¹⁴For an early recognition of such difficulties see League of Nations, *Course and Control of Inflation*, part II, ch. 2.

The monthly data used are from the Investor’s Monthly Manual Magazine, published by the London Stock Exchange, for 1919-1929 and from the South American Journal and River Plate Mail for 1930-1939.

Additionally, the relevant literature considers only the dynamics of the means of spreads, and no other moments of distribution. Here a technique has been adopted that allows the assessment of shifts in the variance of spreads which provides a relevant measure of stability and perceived risk.

A third enhancement to existing empirical studies is the exploration of the panel data dimension of the bonds within a country. Essentially, every bond has different characteristics, such as price, maturation date, and other contractual obligations. The literature traditionally aggregates bond yields using weighted or simple averages to obtain a country-wide statistics which can be used in regressions. Although intuitive, this procedure reduces the cross-sectional dimension to one. In contrast, this paper uses per-country panel data, with each country being represented by panel of bond yields time-series. The basic observations are bond yields, not country yields. Any country-wide effect on the mean or variance should be observed therefore for all the bonds concerning a country. Taken together with the increase from annual to monthly data, there are many more degrees of freedom than in the standard procedure and therefore relevant statistical tests become much more powerful.

The adopted methodology is based on rolling regressions for each country. It is assumed a break has happened at time θ and a dummy variable is defined that takes value one for three years following period θ , and zero otherwise.¹⁵ Then main interest relies on the significance of this variable as hypothesized breakpoint θ changes over time.

The dependent variable, bond yields, is calculated via simple monthly rate of return, which is basically:

$$\text{Yield}_t = \frac{[\text{BondPrice}_t - \text{BondPrice}_{t-1} + \text{Dividend}_t]}{\text{BondPrice}_{t-1}}$$

And therefore represents the capital gains or losses of the investor on the time-span of a month. The regressions are controlled by two measures of the international liquidity conditions: the amount of new loans floated in the City of London and in the United States during each period of time. The data were obtained respectively in Balogh (1947) and Lary (1944).

The estimated equation for the mean is:

$$\text{Yield}_{it} = \beta_0 + \beta_1 \cdot \text{Dummy}_t(\theta) + \beta_2 \cdot \text{Controls}_{it} + e_{it}$$

¹⁵Robustness checks were carried for dummies which span both more or less than three years.

and for the variance is

$$\begin{aligned} \text{Yield}_{it} &= m(x_i, t) + e_{it} \\ e_{it}^2 &= \alpha_0 + \alpha_1 \cdot \text{Dummy}_t(\theta) + \alpha_2 \cdot \text{Controls}_{it} + \epsilon_{it} \end{aligned}$$

where

$$\text{Dummy}_t(\theta) = \begin{cases} 1 & \text{if } t \in [\theta, \theta + 36] \\ 0 & \text{otherwise} \end{cases}$$

controls the breakpoint. The function $m(x_i, t)$ is a nonparametric average of yields in time, calculated with standard Gaussian kernel and optimal bandwidth achieved via cross-validation. The standard errors are non-trivial and calculated following Politis and Romano (1994) moving block bootstrap with residuals sampled within each regime.

It should be noted that, in both cases, the dummy variable affects all bonds in period t at the same time. The interest lies on the evolution of the significance of the coefficient α_1 over time.

The results will be shown in the following way. A positive and significant $\hat{\alpha}_1$ in the regression with a breakpoint θ (which defines $\text{Dummy}_t(\theta)$) is coded as a positive 1 in month θ ; conversely, a negative and significant $\hat{\alpha}_1$ is coded as a negative 1 in month θ ; and, finally, a not significant, whatever the sign of the estimator, is coded as zero. That allows to track the evolution of the significance over time of the estimator associated with the dummy. If there is a moment when a regime change occurred, it will be detected by the significance of such coefficient.

The mean of spreads hardly moved from zero, except for a few country-months. In particular, no Money Doctors mission had, with any reasonable lead or lag, effect over the spreads. This result is obtained despite the very significant increase in the degrees of freedom, which is a consequence of increase of both the sample frequency (monthly as opposed to annual), and use of panel dimension of the data. As a result, the statistical tests are conducted with much higher power than otherwise in the literature and still reject any effect of money doctors over the mean of spreads.¹⁶

A different picture appears when variances are considered. In Argentina in the 1930s, the variance of spreads falls from the high levels of 1929-1931 and behaves statistically equal to its average possibly at least in part reflecting the visit of Otto Niemeyer in 1932-1933, then it falls further possibly reflecting the renewed interest in the central bank which resulted from Pinedo's initiative and eventually led to the creation of the Banco Central de la Republica Argentina and the related banking reform in 1935. Afterwards,

¹⁶The regression results for the mean of yields are presented in the appendix.

Figure 1: Variance Regression, Argentina, 1930-1939.

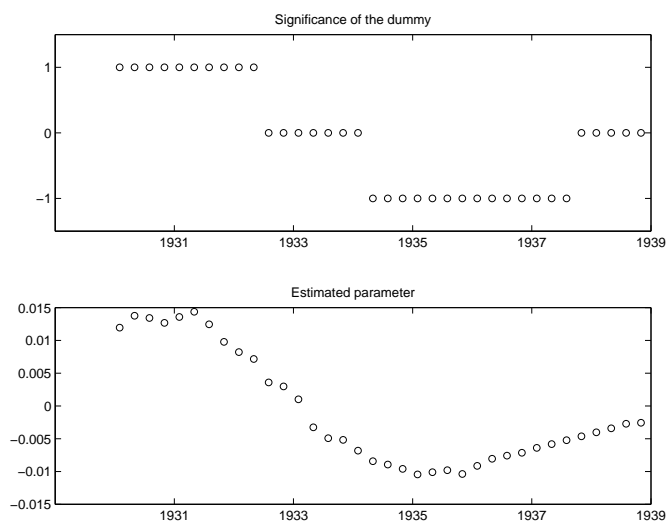


Figure 2: Variance Regression, Chile, 1919-1929.

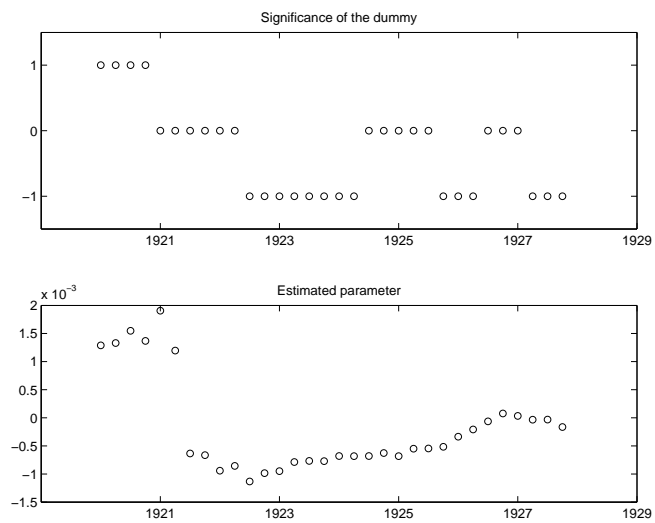


Figure 3: Variance Regression, Brazil, 1919-1929.

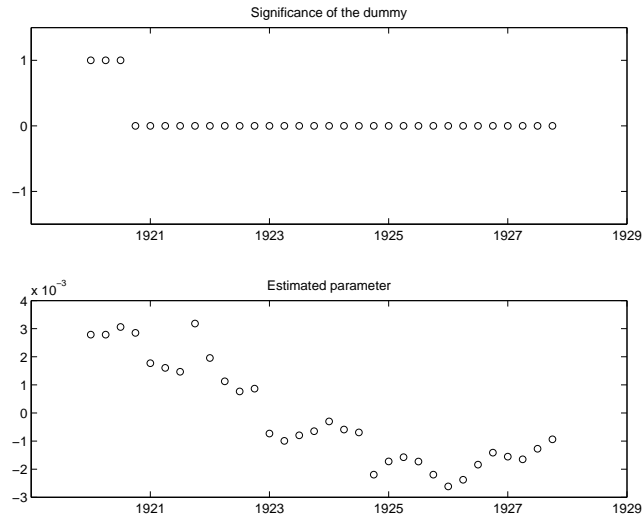
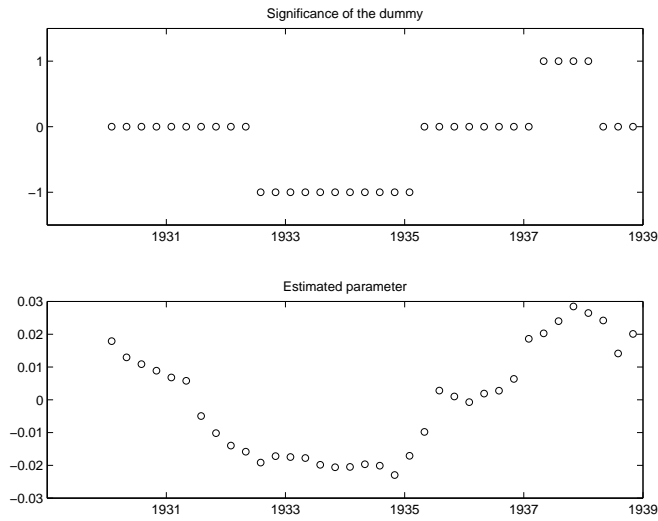


Figure 4: Variance Regression, Brazil, 1930-1939.



it is likely that adverse meteorological conditions had a significant role in reversing the former favourable trend later in the 1930s. There is thus some evidence, although not clearcut, of a favourable effect of the visit on the variance of yields.

The results for Brazil in the 1920s and 1930s and Chile in the 1920s show that there are no links between the advice of money doctors and market evaluation of country risk. The variance of spreads is unaffected during or around the Montagu visit to Brazil of 1923-4. There is, however, a reduction of the variance in 1932 following the Niemeyer visit of 1931. But it is difficult to accept that the lasting effect of a failed visit dominated the deterioration in the economic scene related to the Paulista upheaval of 1932. Results for Chile in the 1920s also suggest no link between variance and money doctor visit. The country was in a period of low relative variance of spreads that started before 1923. After the Kemmerer mission in 1925 the average variance of spreads became statistically insignificant.

Such results tend to stress that each country has had different patterns of behaviour and timing of reactions to regime changes, including visits of money doctors. Each case was a case and must be treated taking its specificities into account. The cumulative evidence is that it is not possible to generalize on the links between the mean or the variance of spreads of loans of specific countries and the effect of money doctors. If each case was, indeed, a case, the importance of a detailed comparative study of the visits of money doctors and their proposals is enhanced. This is the objective of the following sections of this paper. The study of specific historical experiences is particularly relevant because of the limitation of existing analyses on the links between defining moments and the statistical data.

III

British quasi money doctors were active in South America in the 1890s when Argentina and Brazil faced severe balance of payments crises that led to the negotiation of funding loans in 1891 and 1898, respectively. In Argentina there was a further negotiation as it proved impossible to service the funding loan and the Arreglo Romero of 1893 defined temporary relief affecting foreign debt service. There were other visits by British financial experts before World War I, generally assessing capacity to pay. Missions to Argentina and Brazil in the late 1910s and in the 1920s, as those led by Sir Maurice de Bunsen in 1918 and Lord D'Abernon in 1929 sought to foster British exports. While important, especially the latter in Argentina, they were not primarily financial missions.¹⁷

¹⁷See O'Connell, "D'Abernon e Yrigoyen".

An important British financial mission visited Brazil in 1923-24 led by Edwin Montagu.¹⁸ Postwar leads and lags led to a trade surplus in Brazil in 1919 of more than £ 50 million followed by quarterly deficits in 1920-21. The external shock was transmitted to public accounts and, as the federal government deficit reached a third of total expenditures in 1923, the Brazilian government became anxious to float a new foreign loan to cope with fiscal imbalances and reverse the exchange rate devaluation.¹⁹ The mission was prompted by Rothschilds' reluctance to recommend a loan of £25 million to the federal government without further information on the financial situation.

The mission's private report included a recommendation to float a new loan provided "the essential proposals we have made to the government have been carried out."²⁰ The budget should balance and to meet this target management of budgetary matters should be improved.²¹ Tax reforms were proposed as well as limits to expenditure. Internal loans should be raised concurrently with foreign loans. Assent by the federal government to new loans by states and municipalities should be required. The plans of government involvement with a steel project should be frozen. The government should consider selling assets such as its railways and shipping enterprises so that its financial requirements could be reduced. Shares held by the government in the Bank of Brazil should be sold to banks operating in Brazil.²² Any prejudice against foreign capital should "not be allowed to take root" as it was essential to the development of the country. A mixed commission (private and public) should deal with railway tariffs, a source of friction between Brazilian and British interests given the long-term *milreis* depreciation. Coffee "valorization" was criticized.

The crucial question of how to secure what Montagu called "palatable foreign financial control" was simply not mentioned in the public report.²³ But it took space in the private report. The report was keen on the participation of "English" (sic) directors or experts in the Bank of Brazil, if British banks could be persuaded to purchase a large part of shares sold by the government, and also as members of the Railway Tribunal and as

¹⁸Although Kemmerer visited Brazil in 1922 it was not as a financial expert. See Seidel, "American Reformers Abroad", p. 527, Dalgaard, "Monetary Reform in Colombia", p. 100 and Drake, *Money Doctor in the Andes*, pp. 10 and 37.

¹⁹See Fritsch, *External Constraints on Economic Policy in Brazil*, especially chapter 4.

²⁰Montagu, *Report*, pp. 5 and 6, and the Report by the British Financial Mission to Brazil to Messrs. N.M. Rothschild & Sons, Messrs. Baring Brothers & Company, Limited, and Messrs. J. Henry Schroeder & Company [The private Montagu report], The Bank of England Archives (BOE thereafter), Brazil, OV103/67, 19.3.1924, on board Royal Mail Steam Packet "Avon", paras. 71-74.

²¹Fritsch, *External Constraints on Economic Policy in Brazil*, pp. 87-8.

²²Rothschilds reacted to Montagu's recommendation on the sale of Bank of Brazil pointing out that this would be most unpopular and that sales of shares should be restricted to Brazilian nationals, see Fritsch, *External Constraints on Economic Policy in Brazil*, p.91. Even so the public report mentioned sales of shares to national and foreign banks operating in Brazil.

²³See Fritsch, *External Constraints*, pp. 89-90.

taxation experts who might be able “to influence Treasury conduct.”²⁴ In the end, the recommended flotation of a new Brazilian sterling loan could not be implemented due to the de facto embargo of foreign loans in London after mid-1924 through “moral suasion”.²⁵

IV

Niemeyer visited Brazil in early 1931. Foreign capital inflows had come to a stop by mid-1928 and, after the end of 1929, coffee prices plunged.²⁶ Output fell by more than 5% between 1929 and 1931.²⁷ By mid-1930, the Brazilian government had abandoned the gold exchange standard, intervened in the foreign exchange market and faced severe fiscal imbalances due to the external shock. It started seeking a new foreign loan. Rothschilds, once again, thought that assistance to Brazil should be conditional on the adoption of the advice of a well-known financial expert. When Julio Prestes, the Brazilian President-elect, visited the Bank of England in July 1930, he was told that the Bank would be prepared to send an expert to Brazil.²⁸ But the matter was left dormant as Prestes was prevented from taking office by a coup in October 1930.²⁹

In early 1931, Governor Norman “consented to ask” Sir Otto Niemeyer to go to Brazil provided the “invitation [was] couched in terms which anticipate the acceptance of any suggestions that may be made”. It was a chance to “propagate the gospel of central banking”.³⁰ The formal letter of invitation mentioned that the Brazilian government agreed, “in principle”, with “1. The prompt reconstitution of the Banco do Brazil as an orthodox central bank on independent lines.³¹ 2. Monetary reform and stabilization

²⁴[The private] Montagu Report, pp. 20-2.

²⁵See Fritsch, *External Constraints*, pp. 100-101.

²⁶From a peak of 24.75 US cents/pound in February 1929 (monthly average) to under 10 cents in the beginning of 1931.

²⁷See Brasil, *Estatísticas históricas do Brasil*, p. 101. Della Paolera and Taylor, *Straining the Anchor*, stressed the “very good” performance of Argentina in 1929-32 – where output fell by 14% – compared to fall in output of 28% Brazil. In fact Argentina’s growth performance in the 1930s was much worse than that of its neighbour.

²⁸Prestes mentioned a proposal to invite Kemmerer “to which Messrs. Rothschild replied, and Senor (sic) Prestes seemed to agree, that the advantage of having an English expert would be that he would not take the occasion to further any particular or national interests and would merely give his advice and be gone.” Note of a conversation with Mr. Anthony Rothschild, by H.A. Siepmann, 7.8.1930, BOE:OV103/1. This can be contrasted with Kemmerer’s almost symmetrical assertion about the “well founded belief, in many countries, that the United States is not looking for political aggrandizement and is less likely than most great powers to exploit the services of her nationals, who advise other governments, as a means of extending her political power.”, Kemmerer, “Advisory Works for Governments”, quoted in Flandreau, *Money Doctors*, p. 4 .

²⁹See Whitaker, *Administração financeira*, p.55, where any reference to talks on a mission to Brazil by the previous government is omitted .

³⁰Sayers, *Bank of England*, p. 522.

³¹The state-controlled Bank of Brazil was the largest commercial bank operating in Brazil and performed many of the functions of a standard central bank. Sayers, *Bank of England*, p. 523, refers to it as a “quasi-central bank”.

of the exchange. 3. Maintenance of budget balance and the periodical publication of budget figures. 4. Limitation of direct or indirect foreign borrowing by the Brazilian government, states or the Banco do Brasil in accordance with a scheme to be agreed.³² Norman thought that the most important question in Brazil was probably the future of the central bank.³³ It was clear from the terms of reference that the mission was mainly concerned with practical steps to assure the success of policies to a large extent already defined before the mission left London.³⁴

Sir Otto Niemeyer was in 1931 a de facto Adviser to the Bank of England. He had been in the Treasury until 1927, and was the main adviser who recommended Churchill to re-adopt the 1914 parity of US\$ 4.86/£ in 1925.³⁵ As a member of the Financial Committee of the League of Nations (1922-1937), he had been involved in the stabilization and financial reconstruction of several European economies which required the reorganization and constitution of central banks.³⁶

He visited Australia in 1930 when there was an outcry in reaction to his proposals on balancing the budgets and his stress that both the Australian standard of living and tariffs were too high.³⁷ His visit there was extended to include a mission to New Zealand with an agenda focused on central banking. In 1933 he visited Argentina and prepared a report also on central banking. His reports on central banking in New Zealand in 1930 and Argentina in 1933 as well as the substantial parts of his report on Brazil which dealt with central banking will be considered in the next section.

In the 1930s he also led other missions to, or visited, Greece, Egypt, India and China, with limited success with the exception of India.³⁸ His visit to China during World War II

³²Regis de Oliveira, Brazilian Ambassador in London, to Montagu Norman, 8.1.1931, BOE: OV103/69.

³³“A Central Bank which is much dominated by its own Government as to have no independence and initiative, and even no right to protest, is not in a fair position and therefore cannot play its part either within its own country or, still more alongside other Central Banks”, quoted by Clay, *Lord Norman*, p.290. See also pp.283-4, 290-1 and 414-5 for Norman’s views on the powers of Central Banks.

³⁴Niemeyer, *Report to the Brazilian Government*, para. 1.

³⁵For Niemeyer’s activities in relation to the British return to gold, see Moggridge, *British Monetary Policy*. For his activities in connection with Anglo-American financial cooperation in the 1920s, see Costiglia, “Anglo-American Rivalry”. Leith-Ross, *Money Talks*, p. 106, considered him “perhaps ... along Bradbury ... the outstanding Treasury official of the post-war years. Whereas Bradbury had a more ingenious mind, and could always be relied upon to prepare three alternative methods of dealing with a problem, Niemeyer would have only one solution but that one would go straight to the heart of the problem”. See Peden, *Keynes and his Critics* and Howson, “Niemeyer”.

³⁶See Sayers, *Bank of England*, chapter 8 and Orde, *British Policy*, chapter .8. He was also a director of the Bank for International Settlements and of the Corporation of Foreign Bondholders, Sayers, *Bank of England*, pp. 653-4.

³⁷See Schedvin, *Australia and the Great Depression*, especially pp. 180-184. The statement of Sir Otto Niemeyer to the Conference of Commonwealth and State Ministers, Melbourne, 18-21 August 1930 is reproduced in Shann and Copland, *Crisis in Australian Finance*, pp. 18-29. On Niemeyer in Australia see Attard, “Bank of England”, Millmow, “Niemeyer, Scullin and the Australian Economists” and Love, “Niemeyer’s Australian Diary”. See also the colourful Clark, *History of Australia*, vol. 6, pp. 252 and ff., for the political context.

³⁸See Mazower, *Greece*, pp. 160-3, 165 and 167; Sayers, *Bank of England*, vol. 2, p. 520 and Vital

was a major setback. After showing much reluctance, he was sent there in late 1941 as a “British Treasury representative” and proposed to Chiang Kai-shek a £10 million British loan matched by a US\$50 million United States loan to be secured by the revenues of Chinese customs. After Pearl Harbor, and the sinking of Prince of Wales and Repulse, off the Malay Peninsula, three days later, Chiang strongly criticized British behavior in the past and urged a change of attitude concerning financial matters: a British loan should be a “technical operation in the pooling of resources for a common purpose, representing British mobilization of economic resources and Chinese mobilization of manpower resource [and] the loan to China should be on the scale of £100 million . . . There is no question of security. Victory is the security.”³⁹ Eventually the United States extended a US\$500 million loan and Britain provided a £50 million loan.⁴⁰

The Brazilian government initially wished to appoint experts from the United States, Great Britain and France. But the idea was abandoned after Vargas’s coup as the United States had declared an embargo on exports of arms to the victorious rebels. It was decided to put the matter “in the hands” of Sir Otto Niemeyer.⁴¹ Foreign Office officials were relieved: “it is at least of some satisfaction to know that our commercial relations with Brazil are not to be exposed to the mercy of a foreigner - the ubiquitous Professor Kemmerer, for example, in whose train throughout South America may usually be found Messrs. Hallgarten or other of the second class New York bond merchants”.⁴²

Niemeyer, in Brazil, found that he had been “reduced to accepting figures which . . . are faked or based on vague... foundations”. The Bank of Brazil was “worthless as a central bank, badly organized, badly managed and subject to radical changes of policy with every change of government”. Whitaker, the Finance Minister, “with Niemeyer holding his hand... has seemed to gain courage and is now not so panic-stricken at every movement in [the] exchange [rate]”.⁴³ Niemeyer sent comments to him on a range of issues: excessive expenditures in the civil service and the military; taxation and public accounting⁴⁴, a

and Sastry, *Fiscal Federalism in India*, respectively.

³⁹Aide Memoire, *Submitted through Madame Chiang*, 21 December 21, 1941, Lattimore Papers 18, quoted in Newman, *Owen Lattimore*, p. 81.

⁴⁰See Richardson, “Plucking the China Brand from the Burning”, on British financial assistance to China in the early 1940s. Foreign Office officials thought that the mission had been as a “personal disaster” for Niemeyer. This was without the knowledge that Niemeyer’s position had been seriously undermined in Washington as Churchill – who had never forgiven him for his advice in 1924 to return to the 1914 gold parity – referred to him in conversation with Morgenthau as “nothing but a penny-pinching tool of the Treasury”, *Morgenthau Diary*, January 13, 1942, United States, Morgenthau Diary, vol. I, pp. 596-97 as quoted by Richardson, “Plucking the China Brand from the Burning”, p. 107.

⁴¹Wellesley’s minute, 11.2.31, FO371/15062; te1 363, Washington to London, 25.10.30 and te1 546, London to Washington, 28.10.30, FO371/14201; Brazil. Annual Report 1930, p.11, FO371/15067, National Archives, London, Foreign Office (FO) files.

⁴²Brazil. Annual Report 1930, p.32, FO371/15067.

⁴³Memorandum by Irving to H.M. Ambassador, Rio de Janeiro, 4.4.31, FO 371/15063.

⁴⁴Niemeyer was “most disappointed” when Rothschilds reported that Ivar Kreuger, the Swedish match king, even after repeated prompting, was not prepared to make an offer for a Brazilian match monopoly

permanent settlement of the defaulted foreign debt of states; revival of the idea of the cruzeiro, in substitution of the mil réis. He was against a new Brazilian funding loan, still believing that Brazil should recreate market confidence to attract private foreign capital. Similar reasoning affected his extremely critical views of foreign exchange control.⁴⁵

His report was released in the end of July 1931. It was divided into recommendations on “the maintenance of budget equilibrium” and on “stabilization of the currency” besides proposed statutes for a new central bank.⁴⁶ Recommendations firstly focused on the steps to be taken to assure budget equilibrium as this was a “question of primary importance on which all else depended... for unless this could be secured and maintained it would prove impossible to avoid further inflationary finance, with the natural consequences on internal costs and foreign exchange”. The main recommendations were: to avoid the issue of government bonds to pay government debts; to reorganize postal and telegraphic as well as railway services to assure that they pay their way; to increase direct taxation and eventually to reduce customs duties; to abolish internal export taxes and to freeze external export duties; to maintain unity of budget by avoiding special funds; to establish new systems of public accounting and auditing.⁴⁷ Niemeyer opposed an increase of the “already too high” import duties but felt that it would be difficult to reduce them.

On stabilization of the currency Niemeyer thought that it was “not necessary to be pessimistic about Brazil’s future balance of payments provided she pursues a sane policy as regards foreign investments and expenditure from foreign loans – a matter which is in her own hands”.⁴⁸ Accordingly, he made recommendations on the settlement of foreign debt of states and municipalities and foreign capital generally that took no account of changed world conditions since at least 1929.⁴⁹ The gold content of the mil réis would be established by law and “convertibility should be brought into force at the earliest possible moment”, with all remaining restrictions on foreign exchange operations abolished.⁵⁰ In order to provide the proposed reserve bank with foreign exchange assets it would be necessary to raise a foreign loan. Niemeyer thought that this should not be less than £ 16 million and that “with the cooperation of the leading issuing countries of the world, and with a balanced budget in Brazil, it should be possible to raise this amount for a plan of stabilization, if the Federal Government continues to take the necessary measures

due to “panic in the New York Stock Exchange”, tel. 15, Rothschild to Lynch (OEN), 16.4.31; tel 16, Lynch (OEN) to N.M. Rothschild, 16.4.31, and Lynch (OEN) to N. M. Rothschild, 23.4.31, The Rothschild Archive, London X/111/437.

⁴⁵There are 22 letters dated between 6.3.1931 and 2.8.1931, BOE: OV9/294.

⁴⁶Niemeyer, *Report to the Brazilian Government*, para.5.

⁴⁷Niemeyer, *Report to the Brazilian Government*, para. 4-14.

⁴⁸Niemeyer, *Report to the Brazilian Government*, para. 25.

⁴⁹Niemeyer, *Report to the Brazilian Government*, para. 30. The 1891 Constitution assured access to the international market by states and municipalities without interference from the central government.

⁵⁰Niemeyer, *Report to the Brazilian Government*, para. 24. Notes on the Statutes: article 36.

to reconstruct its internal finances and meet its external obligations".⁵¹

Most of Niemeyer's recommendations on coffee and fiscal policies were simply buried under the strains of the recession, even if much milder in Brazil than in the developed economies. The more so as sterling went off gold in September 1931. His recommendations on "the establishment of a Central Bank on orthodox lines" will be considered in the next section.

V

New Zealand had been through a long period of falling GDP per capita in the 1920s with a slight recovery between 1927 and 1929. In 1930 both the terms of trade and exports fell around 21% and GDP per capita fell 11.9%.⁵² New Zealand's authorities took the opportunity offered by Niemeyer's presence in Australia to invite him to visit the country in September 1930. They had in mind an agenda including currency arrangements and exchange rate matters. Very early Niemeyer stressed that a full central bank should be considered and this was accepted. Niemeyer's early 1931 report duly focused on central banking matters. When New Zealand's authorities visited the Bank of England in 1932, after the Ottawa conference, Montagu Norman stressed the importance of the creation of a central bank. A bill on the Reserve Bank of New Zealand was introduced to parliament and read in December 1932. In January 1933, after the New Zealand currency was devalued to 1,25/£, there was a reshuffle in government, but a revised bill was passed in November 1933 creating the Reserve Bank of New Zealand.⁵³

Argentina had also been badly hit by the depression in the late 1920s. Total exports fell by two thirds between 1928 and 1932. Terms of trade fell by more than 34% between 1928 and 1931. A further shock was, of course, the interruption in the inflow of foreign capital. Total foreign exchange reserves fell from US\$ 1047 million in 1928 to US\$ 407 million in 1933.⁵⁴ The fall in output of between 1929 and 1932 was 14%. The crisis had led to an early abandonment of the gold standard in December 1929 and to legislation in 1931 that allowed rediscount of commercial paper by the Caja de Conversión.

Niemeyer was invited to visit Argentina in 1932 "to study the organization of a central bank, banking control, the problem of exchanges and monetary stabilization."⁵⁵ His

⁵¹Niemeyer, *Report to the Brazilian Government*, para. 28.

⁵²Greasley and Oxley, "Measuring New Zealand's GDP", p. 366. Statistics, New Zealand, Long-term data series, www.stats.govt.nz. See Hawke, *Making of New Zealand*, chapters 7 and 8 for New Zealand in the 1920s and 1930s.

⁵³See Sayers, *Bank of England*, pp. 516-8, Hawke, *Between Governments and Banks*, chapter 3, Sutch, *Recent Economic Changes in New Zealand*, Tocker, "New Zealand Banking and Currency" and Wright, "Policy Origins of the Reserve Bank of New Zealand" on the report and the draft bills.

⁵⁴Ferreres, *Dos siglos de economía argentina*.

⁵⁵Hueyo to Malbrán, 19.8.32 and Niemeyer's memo, 21.11.32, BOE: OV102/2. The recommendations

mission was seen, by British diplomats at least, as a counterpoint to Kemmerer's previous efforts in other countries as "many people wonder whether [Kemmerer] in particular, and United States financial policy in general, are really so well-founded as once believed."⁵⁶ Niemeyer produced his report by the end of March 1933.⁵⁷ Recommendations on the foreign exchange regime were not included. The report also did not contemplate either a specific institution to clear bad loans in the banking system or the revaluation of gold reserves which would be important elements of the legislation eventually approved in 1935. It concentrated on central banking issues.

Central banking in the early 1930s involved many controversial issues that are still relevant today. Perhaps the most important was the autonomy of the central bank from government interference. Niemeyer was a radical proponent of a central bank with a high degree of autonomy from government which he equated to distance from politically motivated interference. A closely related problem referred to the representation of sectoral interests in the central bank decision-making process. Representation of special interests overlaps with the issue of foreign influence, especially of commercial banking interests through directors or by being share holders. In some cases the emphasis on the desirability of maintaining foreign influence led to proposals that British experts should help the new central banks with their advice. An issue which was dear to Great Britain especially after the return to gold put sterling under strain was the composition of foreign reserves of central banks in the periphery. There were persistent attempts to the new central banks that it was not desirable that they should maintain a high proportion of their reserves in gold. How these issues were addressed in the different proposals advanced by Niemeyer – with Kemmerer in the background – will be the subject of what follows in this section.

Autonomy of the central bank was at the core of Niemeyer's proposals. In 1931 he insisted in his report on Brazil that "confidence in the future of Brazil will depend very

of Niemeyer in Argentina have been described by Sato (2008). But the paper is marred by mistakes and omissions. In its very beginning, for example, it states that the Bank of Brazil became a fully fledged Central Bank in 1931, following Niemeyer's advice. In fact the Brazilian Central Bank was created only in 1964, with no traceable influence of Niemeyer's 1931 proposals, while the public-owned Bank of Brazil survives to this day as one of the two most important Brazilian commercial banks.

⁵⁶Kelly to Waley, 17.12.32, BOE: OV 102/208. Prebisch has made what appears to be a far-fetched claim that Niemeyer was invited because he, Prebisch, was not in Argentina at the time, see Magariños, *Diálogos con Raúl Prebisch*, p. 111. He was very critical of Hueyo's pro-British stance, an evaluation confirmed by comments by British observers that Hueyo was "too SirOttoised", Powell to Niemeyer, 14.9.35, BOE: OV102/99. British animosity in relation to the Americans can be gauged by the comments by Henry Clay, one of the members of Niemeyer's mission, "the proper solution of [the Argentinean] difficulties is to default on their dollar loans" and that "New York financed the Argentines' rake's progress in the same way London did Australia's", Henry Clay to Osborne, 4.2.33, BOE: OV 102/2.

⁵⁷Niemeyer complained that the report had been "cramped" by the parallel Roca-Runciman negotiations on trade and foreign exchange issues, Niemeyer to Hambro, 7.4.33, on board Arlanza, BOE:OV102/208. Members of his mission reported that "the Argentines are impertinent enough to ask how they are to pay their debts if their chief market restricts the entry of their chief exports", Henry Clay to Osborne, 4.2.33, BOE: OV 102/2.

largely on the belief, both in Brazil and outside it, in the stability and efficiency of the monetary system. It is to create and foster such confidence that practically all the most important countries in the world have adopted a Central Bank Reserve System... It is not enough for a country to possess a Central Bank. It must be a genuine Central Bank conducted exclusively on Central Banking lines... and not on the main a Bank conducting commercial business and merely fulfilling a few Central Banking functions". He preferred to create a brand new institution to the conversion of the Bank of Brazil "into an orthodox Central Bank".⁵⁸

Niemeyer thought that an excessive capital for the Brazilian central bank should be avoided as it unduly increased the need to pay dividends and "tends to create a temptation to use surplus funds inappropriately". A capital of 60,000 contos de réis, that is, £ 1,125,000, should be adequate, divided into 300,000 equal shares "to place subscription... within the power of almost every Brazilian."⁵⁹ In contrast, Kemmerer in Chile, in 1925, suggested a much larger capital for the central bank – £2.5 million – when the economy had recovered to reach GDP per capita and terms of trade levels similar to World War I peaks and trade flows were similar to those of Brazil in 1931 but with a GDP three times smaller.⁶⁰

Share capital of the Brazilian central bank should be evenly subscribed by the public (shareholders A) and commercial banks (shareholders B). Commercial banks should subscribe in proportion to their capital but no bank should hold a share whose nominal value that exceeded 8% of that bank's own capital or one thirtieth of the central bank's capital.⁶¹ The consequence of restrictions on the participation of commercial banks in the capital of the central bank was that the Bank of Brazil's share in the capital of the new bank was reduced from a theoretical 5.1% (corresponding to half the Bank of Brazil's participation in the banking system's aggregate capital since 50% of the central bank shares were to be held by the public) to 3.3%. The gap was still wider if it is considered that the Bank of Brazil's capital was traditionally out of line with the importance of its operations. It held in 1931 more than 16% of aggregate bank deposits while its share of the banking sector's aggregate capital was only 10.2%.⁶² In contrast, when Kemmerer

⁵⁸Niemeyer, *Report to the Brazilian Government*, paras.15 and 16.

⁵⁹Niemeyer, *Report to the Brazilian Government*, para. 17 (a) and Notes to Statutes, articles 5 and 6.

⁶⁰See Chile, *Legislación bancaria y monetaria*. Compared to European central banks the proposed capital for the Brazilian central bank in relation to GDP was about half the ratios in Austria and Germany and even smaller relatively to others, see Ulrich, *Banques centrales en Europe*. Contrasts concerning capital-trade flows ratios were less marked as the European ratios were similar to that of Chile.

⁶¹Niemeyer, *Report to the Brazilian Government*, statutes: article 6 and proposed decree: article 12.

⁶²Banking data from Banco do Brasil, *Relatório* 1931 and Brazil, *Movimento bancário* V. No other bank had a capital large enough to be affected by the 3.3% constraint. Limitations on voting rights were also rather tight in several European central banks reconstructed or created in the 1920s, Ulrich, *Banques centrales en Europe*, p. 62 and ff.

advised Chile, in 1925, he saw no problem with a private bank holding more than 20% of voting rights in the proposed central bank.⁶³

Niemeyer recommended that the board of directors of the Brazilian central bank should consist of a president, a vice-president and five other directors. The president and vice-president should be elected in a general meeting of the shareholders and confirmed by the President of the Republic. Class A shareholders would elect three members of the board while class B holders would elect two members: bankers and “not necessarily Brazilian”. No member of the board should be employed in any government department or be a member of Congress, state legislatures or municipal councils as “in the last quarter of century, the dangers of State control or interference with the functions of a Central Bank have been amply demonstrated.”⁶⁴

It was in relation to the need to keep governmental influence under control and not restraining the participation of foreign banks in the new central banks that contrasts between Kemmerer and Niemeyer were perhaps more marked. Both favoured rules that would entail the election of the president and vice-president by either the directory or the general assembly. But according to Kemmerer’s statutes three of the directors would be nominated by the President of the Republic while Niemeyer recommended that all of them should be elected by shareholders and only that the election of president and vice-president should be subject to confirmation by the President of the Republic.⁶⁵

Niemeyer’s proposal in New Zealand in 1930 was that the Reserve Bank governor and his deputy would be elected by shareholders and approved by the Governor-General who would decide on the first appointments. Of the five directors, two would be from primary industry, two actively engaged in industry or commerce and no more than two directors of other banks. No members of Parliament or public officials could be members of the board.⁶⁶

According to Niemeyer the new central bank in Argentina would absorb the Caja de Conversión, the Junta Autónoma de Amortización, the Rediscount Commission and the

⁶³See Braun, Braun, Briones, Díaz, Lüders and Wagner, “Economía chilena, 1810-1955” and Chile, *Legislación bancaria y monetaria*.

⁶⁴Niemeyer, *Report to the Brazilian Government*, para.18. Sayers, *Bank of England*, p. 523, comments on these proposals to Brazil stress that Norman and Niemeyer remained “almost fanatically attached” to the Conference of Genoa doctrine on the independence of central banks.

⁶⁵Niemeyer was aware before his visit to Brazil that “it will be probably found necessary, in order to obtain the Government’s consent to all the reforms, to allow the State to retain a certain share of the capital of the Bank, as was done in all the South American “Kemmerer” countries”, unsigned memo, 3.1.30, BOE: OV9/3. In view of the relative shares of capital of national and foreign banks the election of a non-Brazilian director was unlikely as it would require votes of national banks.

⁶⁶Niemeyer, *Report on New Zealand*, Statutes of Reserve Bank of New Zealand, chapters III and IV. In his comments on the proposed statutes Niemeyer had no doubt that the board should be elected by shareholders. Directors should not be “representatives of particular interests” but be “generally acquainted with the main interests of the country”, BOE: OV59/19

Exchange Control Commission and take over the reserves of the Caja de Conversión.⁶⁷ The Banco de la Nación would transfer immediately the clearing account and government balances and, within two years, the judicial deposits, as well as up to 250 million pesos of collateral for advances made to banks which would be shareholders of the central bank as well. Capital would be only slightly above £2.5 million, similar to the capital proposed by Kemmerer in Chile. Only commercial banks would be shareholders. Statutory limitations on share holding – 20% of the new bank’s capital, 10% of the votes in the general assembly and 4% of the subscribing commercial bank’s capital – were established. These limitations would reduce the Banco de la Nación’s capital share to 20% of the new bank’s capital and its voting share to 10% of the total, compared to its share of 29.9% of the aggregate capital of banks in 1933.⁶⁸ This was similar to what would have happened in Brazil with the Bank of Brazil had Niemeyer’s 1931 proposals been accepted. Of the directors elected by the general meeting to represent the banks operating in Argentina, one would be from Banco de la Nación, two from national banks (including provincial banks) and two from foreign banks.

Niemeyer’s report on Argentina was received with reservations by British government and business circles, especially about the future role of the Banco de la Nación and the proposal to create a new institution. Niemeyer was of course aware that the Banco de la Nación would be a “serpent in the grass” and tended to agree with Prebisch that unless it was privatized “it will always be a thorn in the side of the new Bank.”⁶⁹ Not surprisingly, the Banco de la Nación strongly reacted to the report, making exaggerated claims – dismissed by Niemeyer – for additional resources if it was to continue business normally.⁷⁰ A lull followed in 1933-34, but the central bank project was resurrected in late 1934 when Pinedo, the new Finance Minister, in spite of his previous opposition to the central bank idea, asked Prebisch to prepare legislation on the central bank, a Mobilization Institute and a new banking law.⁷¹

Legislation approved in 1935 partly used Niemeyer’s proposals but it was more ambitious as, at the same time that the Banco Central de la Republica Argentina was created, it covered other aspects of economic policy. Perhaps the most important aspect was

⁶⁷ Argentina, *Informe y proyectos de Sir Otto Niemeyer*.

⁶⁸Memorandum undated on “Central Bank of Argentina Capital Subscription”, BOE: OV 102/99, prepared during the mission’s visit. For banking data see Baiocco, *Economía bancaria argentina*.

⁶⁹Macleay to Simon, no. 122, 7.4.33, FO 371/16540, Meynell to Baring, 4.5.33, Baring 200592 Argentine Government Affairs, March-July 1933, Niemeyer to Hambro, 7.4.33, on board Arlanza, BOE: OV102/208, Powell’s memo on lunch with Prebisch, 4.7.33, BOE: OV 102/203 and comments by Gaston Jèze, *La Prensa*, 7.6.33.

⁷⁰Memorandum, Niemeyer, 28.7.33, Archivo General de la Nación, Agustin P. Justo-Julio A. Roca (1932-1938), Ministerio de Hacienda, Box 42/39 and 44/83.

⁷¹Magariños, *Diálogos con Raúl Prebisch*, pp. 102-104. Niemeyer during the World Economic Conference held in London tried to “innoculate” Prebisch with his ideas, Niemeyer to Meynell, 26.5.33, BOE:OV 102/3.

that a Mobilization Institute was created to unfreeze the portfolio of commercial banks. Gold held by the Caja de Conversión was transferred to the central bank and revalued. This allowed the release of funds for the Mobilization Institute and in the last instance an improvement in the liquidity position of the Banco de la Nación and commercial banks. Judicial deposits remained in the Banco de la Nación and the central bank would have inspecting functions.⁷²

Using the standard methodology proposed by Grilli, Masciandaro and Tabellini⁷³ to assess the autonomy of central banks, the Chile 1925 and Brazil 1931 proposals are equivalent (12 out of 16 points), with more political autonomy and less economic autonomy in Niemeyer's Brazilian proposal than in Kemmerer's Chilean proposal. The GMT score for central bank autonomy of Niemeyer's New Zealand proposal was a high 13 out of 16, reduced to 11 by the final 1933 bill which increased governmental interference. Niemeyer's proposals in Argentina in 1933 were a modest watering down of the Brazilian proposal of 1931 as its GMT score was only one point lower than for the Brazilian proposal (11/16 compared to 12/16). The GMT score of the statutes finally approved in 1935 fell further to 10/16. But GMT leaves aside important issues that were important at the time such as the degree foreign interference – through bondholders, directors or foreign experts – as well as the share of reserves to be held in gold. There are also important contrasts between nominal rules and their actual implementation.⁷⁴

On the problem of composition of foreign reserves Niemeyer thought in Brazil that the note issue should be unified and entrusted to the bank and convertible at the option of the bank either into gold or foreign exchange; the bank should maintain gold and exchange reserve of at least 30% of all its demand liabilities and "its first duty shall be to ensure that the gold value of its notes remains stable". In spite of adopting the gold standard, "it is not necessary or even desirable that the Reserve Bank should hold actual gold... as redemption of notes by drafts on foreign gold centres... is to all purposes equivalent to redemption in gold".⁷⁵ This was well in tune with the British stance in the Financial

⁷²See Monetary and Banking laws of 28 March 1935 in Banco Central de la Republica Argentina, *Creación del Banco Central*, and memorandum undated, Argentina Creation of Central Bank and Unfreezing of Banks, BOE: OV 102/203. The cash reserve ratio which had fallen from 23.7% to 14% in 1934 rose to 24.7% at the end of 1935.

⁷³Grilli, Masciandaro and Tabellini, "Political and monetary institutions".

⁷⁴GMT criteria applied to the Bank of England in the late 1920s would result in a 13/16 score (if "monetary stability" is interpreted as a commitment to defend gold parity). Two of the criteria – those related to the duration of mandates of governor and directors – seem particularly unconvincing as indicators of political autonomy. The Bank of England Governor was to be elected yearly but Norman was Governor from 1920 to 1944. Many directors were also re-elected for long periods. See Sayers, *Bank of England*, pp. 359-64.

⁷⁵See Niemeyer, *Report to the Brazilian Government*, para. 17 and Notes to Statutes, article 37. The absence of a minimum gold reserve ratio can also be noticed in the statutes of European central banks established in the late 1920s, such as that of Greece, but not Poland or Rumania, Ulrich, *Banques centrales en Europe*, chapter 5.

Committee of the League of Nations of trying to maintain the small European central banks “sterling minded”.

In New Zealand, Niemeyer had also proposed a 30% ratio in contrast with the New Zealand Treasury initial idea of a minimum reserve of gold and exchange of 40%, reduced in the final bill to 25%.⁷⁶ In line with his Brazilian report Niemeyer recommended adoption of the sterling exchange standard and that New Zealand should hold interest-bearing reserves in London rather than idle gold in New Zealand.⁷⁷

Kemmerer in Chile set a 50% foreign assets minimum reserve ratio, rather than Niemeyer’s 30%, a discrepancy explained by the trend to decrease minimum reserve ratios for central banks created towards the end of the 1920s. There was no mention to minimum gold reserves. In Argentina Niemeyer proposed that gold and foreign exchange reserves would be at least 25% of demand liabilities but, again, no minimum gold reserves were mentioned. But, in sharp contrast, the legislation approved in 1935 established that gold reserves should correspond to a minimum of 90% of total reserves.

The issue of foreign influence in the central bank was extremely sensitive. One cannot say that Niemeyer was especially concerned with political sensitiveness surrounding the issue. Kemmerer’s proposals in Chile limited the representation of foreign banks to one director in ten while Niemeyer’s would allow up to two “not necessarily” Brazilian directors representing the domestic and foreign banks in a board of seven directors. But there would not necessarily be a representation of foreign banks. Kemmerer’s proposals involved an over-representation of foreign banks as the ratio of capital plus reserves (in millions of pesos) to director was 23.7 for domestic banks, slightly less than double the 13.6 for foreign banks.⁷⁸ In New Zealand, on the other hand, Niemeyer thought that directors should be British by birth and normally resident in New Zealand, an interesting contrast with his Brazilian report which stated that directors should not necessarily be Brazilian.

Limits to shareholding in New Zealand were lower than in the Brazilian proposal: 1% of the central bank’s capital. This was substantially altered in the Reserve Bank of New Zealand Act of 1933 that provided for seven directors of which three appointed by the State and four to be elected by shareholders. The non-voting Secretary of the Treasury

⁷⁶See Hawke, *Between Governments and Banks*, chapter 3.

⁷⁷An important issue in New Zealand related to the provision that gold in the possession of trading banks were to be transferred to the Reserve Bank at the 1931 sterling parity. This resulted in a loss of more than 50% in relation to the current price. Protests were to no avail. Niemeyer “pointed out that the banks would not suffer any loss, they were merely prevented from realizing an adventitious profit which, when they bought the gold, they never expected”, New Zealand, Note of a meeting held to discuss some points raised regarding the establishment of a Reserve Bank, 13.7.33 BOE: OV59/17.

⁷⁸The precedent established in the reform of European central banks in the 1920s was mixed. There were foreign directors in the central banks of Germany, Austria, Hungary and Poland but towards the end of the decade there was reversal of this trend, Ulrich, *Banques centrales en Europe*, p. 50 and ff. The shares of the foreign banks in the total capital of Chilean and Brazilian banks in 1925 and 1931 were 32.9% (22.3% if reserves were included) and 14.2%, respectively.

was added to the board to emphasize “the bank’s character as a national institution”.⁷⁹ New Zealand officials felt that the initial proposal was politically unfeasible. Niemeyer was rather unhappy and thought that the final provisions were “foolish and rather dangerous” as the directors “may be and probably will be politicians in search of a job”. Niemeyer’s position on the issue has been seen by many as “antiquated” and not shared even in the Bank of England.⁸⁰ After the Labour victory in November 1935 shareholding was extinguished and the Reserve Bank of New Zealand nationalized in the following year.⁸¹

The major differences between Niemeyer’s 1933 proposals and the approved legislation in Argentina in 1935 were on the involvement of the government, choice of directors, composition of the directory, besides the already mentioned very high minimum gold reserves. The government was to hold half of the bank’s initial capital without voting rights while Niemeyer had proposed that only the commercial banks would be shareholders.⁸² Of the twelve members of the directory one would be appointed by the government, one by the Banco de la Nación, one by the Banco de la Provincia de Buenos Aires or other provincial banks, three by the private national banks, two by the foreign banks and four would be elected by the assembly of banks on proposal by the directory of which one each from agriculture, industry, commerce and livestock breeder. The two directors representing foreign banks could not be of the same nationality and could not be reelected. There was thus a substantial change in relation to the 1933 proposal concerning the balance of representation between national and foreign banks. The capital-director ratios of national and foreign were (based on 1932 data⁸³) 72.8 and 38.7 million pesos/director, respectively, and the weight of directors from foreign banks had been diluted by the increased total number of directors in relation to Niemeyer’s initial proposals. In the statutes proposed by Niemeyer in 1933 foreign banks would be over-represented by a factor of almost four in relation to domestic banks (excluding the Banco de la Nación) and more than four in relation to the Banco de la Nación as the respective ratio would be 39.1 million pesos/director, 154.5 and 165. The unbalanced representation of foreign banks was more marked than in Kemmerer’s Chilean proposal of 1925. But this was partly compensated by allowing one director to represent the Banco de la Nación.

Emphasis on the importance of trying to assure some degree of effective foreign influence on the Brazilian central bank was clear in the Brazilian proposal – and would be reappear in Argentina in 1933 – as due to “the novel and delicate nature of its func-

⁷⁹Coates to Witford (New Zealand High Commissioner in London), 17.10.33, BOE: OV59/17.

⁸⁰Hawke, *Between Governments and Banks*, p.40.

⁸¹Hawke, *Between Governments and Banks*, p. 76 and Wright, “Policy Origins of the Reserve Bank of New Zealand”, pp. 18 and ff.

⁸²Allegations that the new bank was “both closer to the state but also more independent of the political executive than the Niemeyer concept” seem unwarranted. See Dosman (2008), pp. 98-99.

⁸³To make ratios comparable to those computed beforehand, based on Niemeyer’s proposal of 1933.

tions and to the desirability of close contact with other Central Banks, the Reserve Bank would... be well advised to utilize in the first year or so of its existence the services of an expert counselor experienced in Central Banking in other parts of the world."⁸⁴ In early 1935, minister Pinedo asked the British to send a "helping hand" to the new Banco Central de la República Argentina. Many difficulties arose in the ensuing negotiations on details, especially on access of the expert to the central bank's board meetings. Access was finally agreed, then the decision was reversed. After one year, the British expert was not asked to stay.⁸⁵ In the following year Niemeyer was still struggling to reverse some of the decisions taken in 1935, insisting that the "government [should] get rid of its interests in the Banco de la Nación" and on the importance of the transfer of judicial deposits from Banco de la Nación to the Central Bank, but then British influence was then decidedly waning.⁸⁶

VI

How realistic were the proposals by foreign if the conditions at the time are taken into account? Here the dangers of hindsight are substantial. But even so it is difficult to understand why Niemeyer felt that it was realistic to propose in mid-1931 the stabilization of the Brazilian mil réis on the basis of a return to gold convertibility in July 1931 which would require the flotation of a sizeable loan in London. It could perhaps be argued that he was not showing more than the average lack of realism which prevailed in the British official circles and in the City of London prior to Britain going off the gold standard, less than two months after his report was circulated. But views were changing rapidly and many well informed analysts thought the report's proposals were unrealistic."⁸⁷ In any case Niemeyer's faith in the gold standard seemed unshakable.⁸⁸ This view was also reflected in his already mentioned assertion that drafts on foreign gold centres are to all purposes equivalent to redemption in gold and that redemption in gold was "not... even desirable".

The establishment of a central bank and the return to convertibility were not seriously

⁸⁴Niemeyer, *Report to the Brazilian Government*, para.18.

⁸⁵Bosch to Niemeyer, 12.7.35 and Powell to Niemeyer, 6.12.35, BOE: OV102/99; Powell to Niemeyer, 28.7.36, BOE: OV102/100.

⁸⁶Niemeyer to Powell, 16.4.36 and Niemeyer to Hueyo, 16.6.36, BOE: OV102/98.

⁸⁷As reflected, for instance, in Peacock, of Barings, to Anthony de Rothschild: there are "doubts whether the Niemeyer plan can be made effective ... many who at first supported it are swinging ...and now feel that, while the recommendations are admirable, it is necessary that there be some form of relief from debt charges.", 14.8.31, Baring Archive 203321, Confidential Brazil March-December 1931.

⁸⁸Niemeyer, *Report to the Brazilian Government*, Notes to Statutes: article 37. As late as 1969 Niemeyer thought that by using orthodox measures the Bank of England could have saved the gold standard in 1931, Sayers, *Bank of England*, p. 406.

considered by the Brazilian authorities after mid-1931. They wanted instead Niemeyer's endorsement of a new funding loan to reduce foreign debt service. This, however, he strongly opposed and it had to be unilaterally announced by the Brazilian authorities after sterling went off gold. It was only in 1945 that a crude version of a central bank was established very much under the wing of the Bank of Brazil. A separate central bank was established in 1964, but only in the 1980s would cut its promiscuous links with the Bank of Brazil.

In Argentina, Prebisch, after many years, insisted that Niemeyer "did not see" the problems faced by the banks since the relevant information was withheld from him and that he thought that everything would be solved by an increase of 10-15% of international prices.⁸⁹ But there is evidence that Niemeyer did not wish to treat gold revaluation and the "unfreezing" of bad loans in the banking sector at the same time and was well aware of the situation of at least some of the banks.⁹⁰ Prebisch was keen to stress the contrasts between Niemeyer's project and the legislation approved. But, besides the omission of the Mobilization Institute as well of any aspect related to exchange control, he singled out relatively minor aspects of the legislation introduced in 1935 as advantageous if compared to Niemeyer's proposals in 1933: banking fiscalization submitted to the central bank, less exacting criteria required to rediscount, exclusion of any link between the level of reserves and the rediscount rate and the severe limitations to hold reserves in foreign currency rather than in gold.⁹¹ Perhaps the more effective criticism concerns an underestimation by Niemeyer of the seriousness of the banking crisis, but Niemeyer had always thought that the cleaning up of bad loans should have been in charge of the new central bank. He also thought that gold revaluation should wait for currency stabilization.⁹²

Niemeyer would have preferred to maintain separate the Central Bank and the Mobilization Institute, was worried with the inflationary effects of the Mobilization Institute, and thought that a more drastic clearance of bad banking loans was required. He mistrusted the entirely governmental constitution of the Mobilization Institute, was critical of the provision that the government would subscribe half of the bank's capital and insisted on the transfer of judicial deposits from the Banco de la Nación. He was also critical of the limitation of 10% on the holding of non-gold reserves.⁹³

⁸⁹Prebisch had not been happy with the fact that Niemeyer had not, at least explicitly, taken into account the proposals of the 1931-32 Uriburu Commission on the creation of a central bank of which he had been a member. See details on the enclosures to Banco Central de la Republica Argentina (1972).

⁹⁰Magariños, *Diálogos con Raúl Prebisch*, pp. 111-114. In a more guarded version these views had appeared in Prebisch's "Análisis de la Experiencia Monetaria Argentina (1935-1943), Conversaciones en el Banco de México 'S.A. en el año 1944'", reproduced in Banco Central de la Republica Argentina, *Creación del Banco Central*, pp. 282 and ff. See Niemeyer to Hambro, 27.2.33, BOE: OV 102/208.

⁹¹Banco Central de la Republica Argentina, *Creación del Banco Central*, pp. 268-9.

⁹²This view was reflected in the Banking Reorganisation in Argentina, Empire Letter, 12.4.35, BOE: OV102/203.

⁹³Niemeyer's memo, 16.1.35, Niemeyer to Hueyo, 21.1.35, Pinedo to Niemeyer, 8.2.35, BOE:

Proposals by Kemmerer in Colombia, in 1930, and Peru, in 1931, showed a lack of realism similar to that of Niemeyer in Brazil, in 1931, and less so in Argentina, in 1933. That the lack of realism of such proposals could be avoided was shown by other contemporary analysts especially in relation to foreign exchange control issues. This was certainly true of John Williams, of the Federal Reserve Bank of New York, and later also of Harvard University, who was sent to South America in 1933 to investigate how foreign exchange problems affected U.S. interests.⁹⁴ The use of foreign exchange controls in Latin America resulting from overvaluation widened the scope for the activities of quasi money doctors. The State Department was not sure that promises on non-discrimination of U.S. trade had been observed.⁹⁵ Williams' report is probably the most balanced contemporary analytical effort of difficulties faced by South American economies. He found, without minimizing the mistakes made by policy-makers, that "neither the origin of their exchange problem nor its solution is to be found primarily in acts or circumstances over which these countries have the principal control. A satisfactory general solution must depend upon world trade recovery and greater freedom of access to world markets". They had adopted a standard response to the crisis: gold exports, then exchange devaluation. But this threatened to reduce export prices as commodities were subject to inelastic demand conditions and these countries controlled a sizeable share of the market. So intervention in the exchange market was inevitable and exchange control introduced in the wake of overvaluation naturally discriminated against luxury goods which were of special interest to the United States.⁹⁶ There were two alternatives. If there was a favourable bilateral trade balance, there was no need to wait for a general solution and a partial solution could be forced whereby the exchange created by the country's imports should cover its foreign exchange requirements as Great Britain was doing in Argentina. The alternative favored by Williams, after finding that there was no discrimination against imports from the United States, was, in spite of strong business pressure, to wait and assist in facilitating a general solution as pursued by the United States in spite of its trade surpluses in Brazil and Chile.

OV102/203. Banking Reorganisation in Argentina, Empire Letter, 12.4.35, BOE: OV102/203.

⁹⁴John Williams, American Foreign Exchange Problems in Brazil, Argentine, Chile and Uruguay, published with minor omissions in United States, *Foreign Relations of the United States*, pp. 393-422.

⁹⁵Cordell Hull to John Williams, 28.6.34, 810.5151 Williams Mission/2, National Archives, Washington: RG 59.

⁹⁶Gudin, *Cambio e café*, may have had some influence in convincing Brazilian civil servants, and indirectly, Williams, that there were limits to foreign exchange devaluation to stimulate exports in a country such as Brazil with such a large share of world supply. In 1933, Niemeyer was still insisting that that "it was difficult to find support [for the Brazilian ideas concerning the relationship between the exchange rate and coffee prices] in any economic theory", Niemeyer to Leith-Ross, 16.11.31, FO 371/15063.

VII

The timing of Niemeyer's visits to the Southern hemisphere was, with the benefit of hindsight, unfortunate, especially so in the case of New Zealand and Brazil, as they just preceded Britain's abandonment of the gold standard. Economic policies which tended to be almost consensual in the 1920s were reversed as the depression unfolded and Niemeyer had clear difficulties in adjusting his views to the realities of the world economy. Contrasts involving the advice by money doctors, institutional arrangements and the selection of different defining moments were erased after 1929 as the depression played havoc with practically all the central banks created in the periphery in the 1920s. To this were added the effects of the weakening of colonialism and the rise of nationalism. In the long term no advice prompted in the 1920s and 1930s proved to be sufficiently robust to weather the much changed international economic conditions without radical overhauling.

The crucial element of Niemeyer's proposals in all countries analyzed was the paramount emphasis on autonomy for the Central Bank. Kemmerer was much more accommodating on the issue. Niemeyer, however, was not totally impervious to developments in the world economy between early 1931 and the second semester of 1933. The proposed composition of the board of the Argentinean Central Bank revealed an acceptance that the Banco de la Nación should be accommodated. In his three proposals – New Zealand, Brazil and Argentina – directors would be elected by shareholders but the implied degree of political autonomy as reflected in GMT criteria weakened as the depression deepened.

But central banking autonomy was to be sought provided foreign influence could be exerted. It was a quest for what Edwin Montagu had called "palatable foreign financial control". If compared to other orthodox policy advice by money doctors in the 1920s and early 1930s Niemeyer's recommendations placed still more emphasis on maintaining foreign influence in the economic policy decision-making process. But there was not much scope to assure this through directors representing foreign-owned commercial banks whose market share was falling. Even the over-representation of foreign banks which was recurrently proposed could not enhance substantially their potential influence. Thus advice also frequently stressed the importance that central banks should seek – possibly on a permanent basis – the help of foreign advisers. The difficulties faced by such a model were well exemplified by the case of Argentina.

Another important aspect of Niemeyer's recommendations was the repeated stress on the need to avoid accumulation of reserves in gold as opposed to interest-earning foreign exchange holdings. The stance was the same as that adopted in stabilization episodes promoted by the Financial Committee of the League of Nations in many European economies in the 1920s. Niemeyer insisted on this in New Zealand and Brazil. That the recommen-

dation should be repeated in Argentina as emphatically as late as 1933 is surprising.

The activity of most money doctors was in many cases closely related to the flotation of foreign loans. But money doctors could be quite influential even if a foreign loan was after all not floated. The lack of influence of Niemeyer's proposals on central banking and the gold standard in Brazil, or their radical revamping before adoption in Argentina, should not provide grounds for interpretations that the British were unable to extract valuable concessions, based on their privileged position as providers of financial advice. Niemeyer's influence was crucial in the definition of the Brazilian 1934 scheme for much reduced foreign debt service payments and the favorable treatment of British loans was only slightly eroded in the 1940 scheme. Only in the "permanent" settlement of 1943 there was full exertion of United States clout and a rebalancing in favor of dollar loans. In Argentina, Niemeyer's advice counted less than in Brazil as there were other channels through which British influence was exerted, especially in relation to trade matters. The Argentinean structural trade surplus with the United Kingdom, combined with imperial preference fears raised by the Ottawa Conference in 1932, stimulated arrangements such as the Roca-Runciman agreement and protocol of 1933, extended in 1936 by the Eden-Malbrán agreement, with concessions on the treatment of imports from Britain and of profit remittances by British firms in exchange for assurances on the access of Argentinean chilled beef in the British market.⁹⁷ But, in contrast with Brazil, the shrinking British influence during World War II did not favour the United States, but was followed by the rise of radical nationalism and Peronism.

Niemeyer's efforts in Argentina and Brazil should be seen as rearguard actions in the defense of British financial influence. But they were to no avail. They failed even in traditionally well-behaved New Zealand. The decline of British financial influence would be even more dramatically shown by the overhaul of the National Bank of Egypt in 1939-1940 and Niemeyer's disastrous mission to China in 1941. The latter anticipated the fall of Singapore by a few weeks. It was similarly emblematic of the decline of British worldwide influence.

⁹⁷See Fodor and O'Connell, "La Argentina y la economía atlántica" and Escudé and Cisneros, *Relaciones exteriores argentinas*, chapter X, Comercio de carnes, El tratado Roca-Runciman.

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Appendix

Figure 5: Mean Regression, Argentina, 1930-1939.

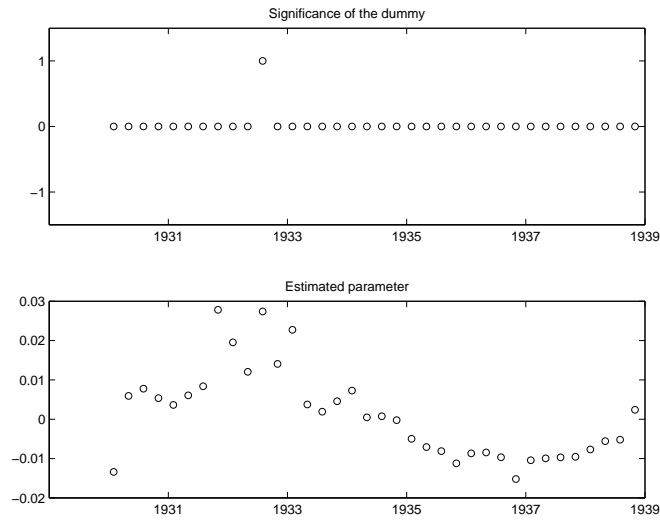


Figure 6: Variance Regression, Chile, 1919-1929.

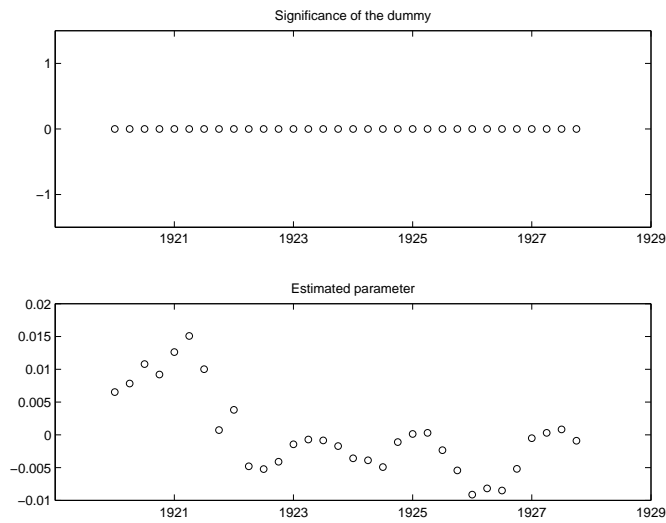


Figure 7: Variance Regression, Brazil, 1919-1929.

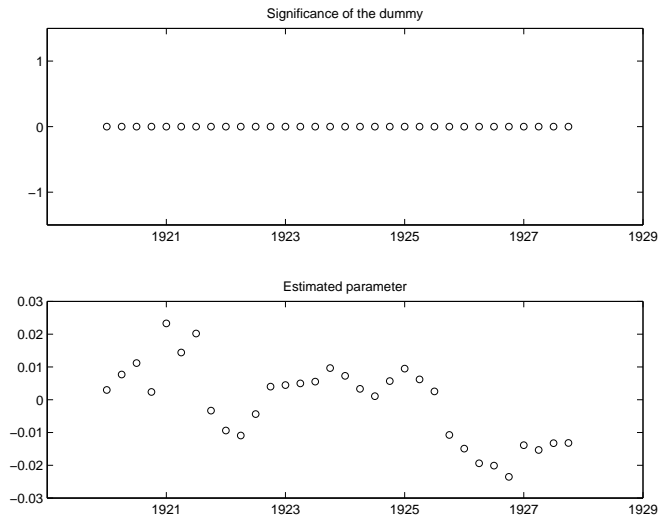
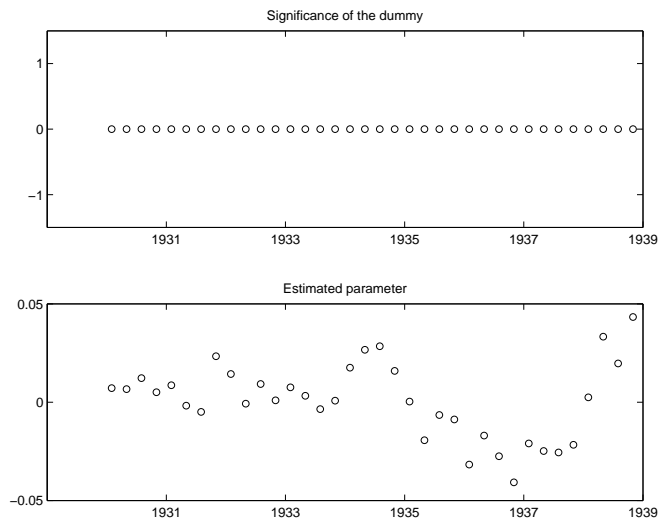


Figure 8: Variance Regression, Brazil, 1930-1939.



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