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(We include here only the first part of this essay as originally drafted by Carlos Marichal.)

**THE EMERGENCE OF CENTRAL BANKS IN LATIN AMERICA:
ARE EVOLUTIONARY MODELS APPLICABLE ¹**

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The present paper is a preliminary effort to contribute to the debate on the comparative study of the origins of central banking in Latin America (especially in Argentina, Brazil and Mexico) with emphasis on an institutional framework analysis.² The paper also attempts to link some of these problems with the discussion among economic historians on the origins and *evolution* of central banking in Europe from the 19th century, most notably

¹ The present paper is the first part of a joint communication with Daniel Díaz Fuentes to be presented at the EABH Congress in Lisbon in May, 1996. Daniel Díaz is preparing the second part of the paper on the complex process of establishment of central banks in the 1920s and 1930s, with special reference to the cases of Mexico (1925), Argentina (1935), and the long delay in the case of Brazil, where a central bank was not set up until 1965.

² The most important recent work developing this comparative framework is Drake (1989).

as developed on a comparative basis by Charles Goodhart and by historians of the early history of central banks in other European countries.³ I propose that the antecedents and early history of central banking in Latin America are distinct and that it is misleading to think strictly in terms of evolutionary models both with respect to the origins of these banks as well as to their initial operations in the 1920s and 1930s.

One of the characteristics of the financial history of Latin America that requires attention is the varied nature of monetary regimes in each nation, which, furthermore, could change rapidly. At the same time, over the long-run, certain prominent features of banking structures in Argentina, Brazil and Mexico tended to reflect important parallels. For instance, in these three cases, large banks closely tied to the national government dominated financial markets from the 1880s onwards and did in fact carry out some "central banking" functions well before the establishment of central banks as such. But none of these large "government" banks became a central bank. These "institutional innovations" came much later- central banks were established in Mexico in 1925, in Argentina in 1935, and in Brazil as late as 1965!- as a result of specific economic and political circumstances, often being imposed from above and not necessarily being the result of a progressive

³ Goodhart (1988). Also see Tedde (1988) on the origins of Spanish central banking; Plessis (1985) on the historical evolution of the Banque de France; and on the Bank of England the classic work by Clapham (1944). See additional up-to-date bibliographical references in Pohl (1994).

process of banking reforms. Latin American financial history is more abrupt and often surprising than a stage-by-stage perspective could lead us to believe.

Despite rejection of an evolutionary model, the data presented here certainly suggests that from the late 19th century there was considerable experimentation with forms of central banking throughout the region, as is revealed by study of the institutional functions of certain major banks (public and private), the practice of monetary agencies (especially in the 1900-1914 period) and the different policies adopted under varying monetary regimes.

I should emphasize from the start that I do not deal here with the history of central banking in the post-1930 period but rather with the historical antecedents in order to provide a general description of how governments and the banks most closely related to them (in Argentina, Brazil and Mexico) dealt in the late 19th century and through the 1920s with certain key issues such as: a) free banking versus monopoly of issue of bank notes; b) the management by "national banks" of the current accounts of the government and service of internal and external debts; c) and, finally, the debate over the gold standard and the initial instruments put in practice in the early 20th century to attempt to regulate monetary circulation and hard currency reserves.

Historical antecedents to central banking: origins of government banks in Latin America in the 19th century

While the early 19th century was witness in Latin America to a series of relatively short-lived banking experiments it was not until past mid-century that banking began to take root in the leading ports and capitals of the vast subcontinent.⁴ By the early 1870s financial markets were operating in Rio de Janeiro, Santiago, Valparaíso, Buenos Aires and Lima with certain dynamism, as manifest in the diversification and initial institutionalization of financial activities. In each of these as yet relatively small urban centres, a number of commercial banks began operations, approximately a dozen in Rio de Janeiro and Buenos Aires, respectively, and half a dozen or more in Santiago and Lima. At the same time, primitive but operative stock exchanges were set up in those cities as well as a series of insurance and complementary financial-service firms.⁵

Already from this era, a few commercial banking institutions

⁴ Among the earliest banking experiments stand out the first Banco do Brasil (1808-1829), the Banco de Buenos Aires (1822-26) and its successor the Banco Nacional (1826-1835), although a number of additional financial institutions were also established in other countries of the region such as the Banco de Avío (1830-1840) in Mexico. All were government-owned banks except for the Banco de Buenos Aires. On the Banco do Brasil see Peláez (1975) and Levy (1980); on the Banco de Buenos Aires and Banco Nacional see Amaral (1979 and 1982) and Garrigós (1873); on the Banco de Avío see Potash (1965).

⁵ The stock exchanges of Rio de Janeiro and of Valparaíso/Santiago de Chile were the most active and sophisticated, on both of which more than 30 companies traded

which were closely linked to national governments began to stand out. The Banco do Brasil- refounded in 1850- was to dominate Brazilian domestic banking until the end of the 19th century. ⁶

The Banco de la Provincia de Buenos Aires, created in 1854, soon controlled much of local credit for commerce in the Argentine capital and for agriculture and ranching in the rich hinterland of Buenos Aires; this bank dominated (but did not monopolize) the issue of bank notes and handled most of government finance both for the provincial and national governments.⁷ Similarly, although apparently a less dominant force, there was the Banco Nacional de Chile, established in 1865, which soon became a key auxiliary of government finance as well as a dynamic commercial bank. ⁸

Not surprisingly, it was also from this period that debates began on the institutional and legal models believed most adequate

stock by the late 1860s. See Levy (1977) and Oppenheimer (1976).

⁶ A discussion of the banking developments in Brazil in the 1860s can be found in Andrade (1987). In the late 1880s and early 1890s the Banco do Brasil went through a series of fusions with two other banks, which together dominated the Rio de Janeiro financial market. Later in 1905 the Banco do Brasil was reorganized and restructured into the banking firm which still today is the largest in Brazil. See Barroso (1983) and Topik (1981).

⁷ This included management of government bank accounts, issuing internal debt on the local financial market and taking charge of service of both internal and external debts. See Garrigós (1873). Lamas (1886) and the detailed annual accounts of the provincial bank in the annexes to the annual Memorias of both the finance ministry of the province of Buenos Aires and that of the national government of Argentina. The latter can be located in the library of the Ministerio de Economía in Buenos Aires and microfilm copies in the Library of Congress in Washington.

⁸ For a detailed analysis of the early development of banking

for the development of local banking systems. In most Latin American countries there were already two different schools of thought, which corresponded broadly to the those in favor of "free-banking" and limited regulation and those who were advocates of more strict regulation, and monopoly (or predominance) of issue by a great state bank in the style of the Banque de France.

"Free-bankers", such as Ferreira Soares, finance minister of Brazil in 1857, argued that this system allowed for more rapid growth and diversification of the banking sector. Similar arguments were advanced by Juan Bautista Alberdi in Argentina and- as of the 1860s- by the disciples of the influential French economist, Courcelle Seneuil, in Chile. ⁹

While the ideologues of free banking tended to win much space in the financial press, *in practice*- and already by the 1870s- the incipient banking structures in Argentina, Brazil and Chile tended to be dominated by one or two large banks closely linked to the respective government, dominating the issue of bank notes, handling government accounts and taking charge of service on internal and external public debts.¹⁰

in Chile in this period see Llona (1990).

⁹ For the Brazilian debate see Ferreira Soares (1865). For the Argentine debates see Cortes Conde (1989) who reviews the parliamentary discussions of banking in 1863; on the influence of Courcelle Seneuil in Chile from 1860 see Subercasseaux (1922). For an overview see C. Marichal, "Modelos y sistemas bancarios en América Latina en el siglo XIX, 1850-1880", in Marichal and Tedde (1994), pp. 131-158

¹⁰ A similar conflict took place in Mexico in the mid 1880s:

In the 1880s there was a renewed boom in banking in the larger Latin American nations, which began first in the capital cities and then by the end of the decade began to spread to the more commercially dynamic provincial centers in Argentina, Brazil, Chile and Mexico.¹¹ From the point of view of the traditional historiography of Latin America, the 1880s are seen both as the age of consolidation of national government under oligarchic structures, as well as a golden age of the export economies. It is often argued that it was the new political stability which allowed for the expansion of the economies, but it is more rarely observed that it the modernization of finance and banking contributed forcefully to a more stable and stronger national political administration. In effect, the expansion of national banks proved to be a key element in facilitating "national" government, so lacking in previous decades. In this sense, a possible venue for future research would be to explore the hypothesis that institutional innovation in the banking sector could induce improvements in the efficiency of management of the state fiscal

the lawyers of Banco Nacional de México were advocates of monopoly of issue by that bank: see Macedo and Sánchez Gavito (1885). Their rivals of the Banco de Londres y México were more inclined to free banking: see Casasús (1900).

¹¹ By the end of the 1880s there were at least 15 important commercial banks in Rio de Janeiro and 16 in Buenos Aires and lesser numbers in other Latin American cities. In Argentina there were also some 10 official provincial banks and another dozen private banking institutions in various provincial cities. In Brazil provincial banking in the late 1880s was concentrated in the Northeast and in Sao Paulo, although a few small banking firms could be found in other regions. Among the few studies on regional banking in this period see Saes (1986).

and financial administration in Latin America at different historical moments.¹²

While the structure of banking varied from country to country the parallels between the "national" banks were important, especially in exercising functions as bankers to the government. The dominance of one or two large banks (with close links to the respective public administrations) from the end of the 19th century can be observed in the cases of Brazil, Argentina and Mexico- among others.¹³ Naturally, we must ask why this was a common tendency among the principal economies of Latin America? We adventure to suggest that it may be attributed to the advantages acquired by those banks which had a monopoly of note issue and dominant control of government financial accounts. Moreover, such advantages were particularly important in monetary and credit markets that were still relatively small and limited with respect to the number and volume of financial instruments traded.

¹² If we look more specifically at fiscal administration, it is clear that the creation of national banks- with numerous agencies- were significant "institutional innovations" with important and positive effects upon state finance. For example, the collection and movement of taxes (and government funds in general) proved much swifter and surer in the 1880s as a result of the establishment of bank agencies in many secondary cities and ports. The collection of funds continued to be handled by fiscal agents but they now had more secure places to safeguard such funds. Moreover, finance ministers now counted on more complete and quicker information on how much money was available throughout the nation and could dispose of it more effectively. In combination with telegraphs and railroads, banks substantially improved the efficiency of the state fiscal and financial administration. See Marichal (1996).

¹³ Ibid.

Alliances with the state were therefore fundamental. A privileged relation with the government (precisely at the time that a national administration was becoming consolidated) would appear to have provided important comparative advantages to certain institutions in the banking sector.¹⁴

It should also be noted that the process of financial modernization was linked to the fact that information costs (for government finance ministries) related to "the price of money" (present and future) tended to drop. In the first half of the 19th century such costs had been quite substantial and had diminished efficiency of the respective state administrations.¹⁵ But not only information costs declined. The broadening of money markets and the creation of banks effectively brought down the price of money (interest rates) generally speaking and, specifically, reduced the costs of the credits required by the government for short term overdrafts or medium term loans.¹⁶ With the creation of national

¹⁴ In this regard, moreover, it seems appropriate to recall the commentary of the late, great banking historian, Jean Bouvier, who insisted on paying special attention to the role of the state in the economy, for as he noted "What has the state been in the 19th and 20th centuries but the largest enterprise in the economy? By reason of the mass of its employees, the enormous nature of its business and the great movement of funds... the state has always been the most influential of economic agents." Bouvier (1978).

¹⁵ A particularly notorious example of the negative effects of the lack of adequate information on supply and costs of money can be found in the review of Mexican state finances before 1860. See Tenenbaum (1987).

¹⁶ In the case of Mexico City, for example, interest rates in the 1870s fluctuated between 10 and 14%, but from the early 1880s with establishment of several large banks dropped to levels of 6-10%. Obviously, this benefitted both the private and the public sectors. For analysis of trends in the 1880s see Marichal (1995).

banks, governments opened large accounts in them which allowed for substantial overdrafts at small cost, facilitating the payment of expenses by all public agencies in any part of the country. This increased flexibility was accompanied by the improved handling of internal debt, with lower interest rates and less dependency on moneylenders. These banks also provided increased access to foreign funds- external loans- at more reasonable costs, and simultaneously broadened their own commercial networks.¹⁷

In the 1880s in Argentina, for example, banking was heavily concentrated in the city of Buenos Aires, and, furthermore, dominated by two "government" banks, namely the Banco de la Provincia de Buenos Aires and the Banco Nacional: in 1885 these two banks controlled 67% of the capital, 41% of the metallic reserves, 64% of the loans and 89% of the note issue of all banks in the capital. ¹⁸

In Brazil, the predominance of the Banco do Brasil was clear until the end of the 1880s, as it held sway in the realm of capital, deposits and note issue.¹⁹ It should be noted that the

¹⁷ The Banco Nacional in Argentina, for example, negotiated various foreign loans in the 1880s for the national government as did the Banco Nacional de México. For details see Marichal (1989), chap.5.

¹⁸ The best statistics on Argentine banking in the 1880s are to be found in the official reports of Agote (1887).

¹⁹ There is no detailed monograph specifically on the Banco do Brasil in the last third of the 19th century despite its importance. Melo Franco (1979) is a traditional institutional work

relation between reserves and total note issue was apparently similar to that of the Argentine banks, but actually the Brazilian banks (initially) proved to be more conservative in this regard since most of the notes were issued by the national treasury rather than by the banks. Nonetheless, the stability of the Brazilian banking system was undermined in the late 1880s when two other banks (with special issuing privileges) were established. According to Stephen Topik: "By September, 1890, the three banks, the Banco do Brasil, the Banco dos Estados Unidos do Brasil and the Banco Nacional controlled by means of their privileges- and through other banks which they owned- 95% of all bank notes in circulation." ²⁰

The banking system of Chile in the mid-1880s was freer and more competitive from every point of view than its South American neighbors. It is true that in the 1860s the Banco Nacional de Chile had exercised predominance within the local banking structure, but after the financial crisis of 1873 and the suspension of convertibility of the notes of the Banco Nacional in 1876, the latter institution lost weight and influence. By 1885, for example, the Banco de Valparaíso had attained a similar size and surpassed the Banco Nacional in deposits.

Quite different was the situation in Mexico, the Latin American nation where banking took longest to develop and where-

but only deals with the first half of the 19th century.

from the start- the banking structure proved most concentrated. It was only in the mid 1880s that a banking infrastructure was established in Mexico City being initially dominated by one great institution, the Banco Nacional de México which in 1885 held close to 80% of total capital, deposits and loans of the capital's banking firms. The Banco Nacional de México was a privately-owned and managed bank, but at the same time it was put in charge of a great number of government financial affairs: it handled a large current account for the finance ministry, it provided the service on the internal and external debts of the republic and it made regular medium-term advances to the government when in urgent need of funds. ²¹

Nonetheless, the creation of such large banking companies with links so close to governments also posed a series of formidable dangers. For, indeed, the financial boom of the 1880s and the consequent phase of prosperity led political and economic elites to fancy that they could do no wrong and impelled them into a whirlwind of speculative ventures that were pregnant with catastrophe.

The financial crisis of the 1890s and impact on banking developments

²⁰ Topik (1987), p.31.

²¹ See essays by Batiz, Ludlow and Marichal in Marichal and Ludlow, eds. (1986). Also see Ludlow (1993).

The close alliances between governments and certain large banks proved to be the cause of bankruptcy and the origin of political/financial crises of severe impact. The early 1890s were witness to bank failures and stock exchange crashes (accompanied by political revolutions) in Argentina, Brazil and Chile. In various cases these crises were linked to extreme mismanagement of state banks and as a result, the relationships between state and banks were restructured. Paradoxically, however, in Argentina, Brazil and Mexico these ties were not delinked but rather strengthened. Thus the symbiotic evolution of national governments and the largest "national" banks continued into the 20th century.

The banking crises of the early 1890s were accompanied by major social convulsion and both political and economic crises. In the Argentine case the banking crisis of 1890/91 (which coincided with a foreign debt crisis) lasted a year and a half and was extremely violent.²² The two largest state banks, the Banco Nacional and the Banco de la Provincia de Buenos Aires collapsed, as did ten regional banks owned by provincial governments.²³ In other words, all the banks closely linked to the Argentine government went under, an indication of the perils potentially implicit in such relationships. On the other hand, relatively few private banks went bankrupt, although the number of mercantile firms that did so was quite large.²⁴

²² Martí (1990).

²³ For details see Marichal (1989) chap.6.

²⁴ The most important private bank to collapse was the Banco

At the end of 1891-with the creation of the Banco de la Nación de Argentina- the financial situation began to improve. In practice, the success of the new national bank in establishing itself at the heart of the Argentine financial system was quite surprising- given the widespread collapse of the previously existing state banks. For in a short time, the Banco de la Nación not only became the largest bank in the capital but also proceeded to establish branches in virtually all important provincial cities and large towns. This was due in large measure to the export boom of the years 1890-1914, but it also reflected the success of the extremely cautious policies of the new bank's managers who maintained extremely high metallic reserves to make sure that a financial crisis like that of 1890-91 would not be repeated.

In Brazil, during the extraordinary stock exchange boom of 1889-91 known as the "Encilhamento", the position of the Banco do Brasil was weakened by increasing competition with two large banks that obtained note-issue privileges from the government.

The rivalry intensified as of December, 1890 when the two rival banks- the Banco dos Estados Unidos do Brasil and the Banco Nacional- proceeded to fuse into one giant financial enterprise

Carabassa, subsequently absorbed by the Bank of London and River Plate. The other merchant and financial firms that went under suffered as a result of both the decline in trade, the fall in real estate prices and the fall of the state banks which with they had conducted business. For details see Marichal (1989) chap.6.

called the Banco da República. Nonetheless, the fusion also reflected the increasingly unstable economic situation and the need to pool resources in order to avoid a panic. In 1891 bankruptcies began to multiply in Rio de Janeiro in the midst of an orgy of speculation. A generalized financial collapse came in 1892 as dozens of old and new companies toppled. In order to shore up public and private credit a new restructuring plan was put in force, leading to the fusion of the old Banco do Brasil and the new Banco da República.²⁵ And eventually, the reforms gave place to the configuration of the Banco do Brasil in 1905, an institution which was destined to dominate Brazilian banking during much of the 20th century.

In Chile the banking crisis followed the civil war of 1890-91 and the downfall of the Balmaceda administration. In this case also- and in a surprisingly similar fashion- the government intervened to force the fusion of the three largest banks into one, dominant institution, the Banco de Chile, which was to assume many of the functions of a government bank, even while continuing as a privately-owned firm.

Finally, in the Mexican case it may be observed that while the financial crisis of the early 1890s was less severe, it also reflected the close links established between a great bank (Banco Nacional de México) and the government. A few years later, in

²⁵ For antecedents y details see Barroso (1983) and Topik

1897, Limantour ratified the first comprehensive Mexican banking law which promised to allow for a more federalist financial structure, but in practice the Banco Nacional continued to be the most important bank and the one most heavily engaged in the administration of government finance.

It would be later argued -with the apparent advantage of hindsight- that it had been the lack of adherence to the gold standard in the 1880s that had led to the crisis of the 1890s. This is, however, a debatable issue, for in fact the financial debacle of the early 1890s was a more complex affair and closely linked to a series of major, concurrent errors in bank practice and strategy in diverse Latin American countries.

One dangerous bank policy adopted by the managers of Latin American government banks in the late 1880s was excess bank note issue in relation to metallic reserves. This was indicative of the lack of banking experience locally, and proved to be in notable contrast with the few operating British banks in the region, all of which came out with flying colors from the crises of the early 1890s.

A second bad management policy was acquisition of risky bonds and stock- much in speculative bonds and real estate paper- which were often registered as part of bank reserves. This was common

practice among the Argentine and Brazilian banks in the late 1880s and exposed them to the perils of bankruptcy when stock exchange and the real estate markets declined. A related weakness of these banks was the adoption of indiscriminate policies of issuing loans to clients with inadequate guarantees: particularly notorious were large loans to capitalists and speculators who offered real estate as guarantees precisely when property values were going through the roof. When prices dropped, however, such guarantees turned out to be virtually worthless.

Another characteristic of much banking conducted by banks closely linked to national or provincial governments in the 1880s was favoritism: policies of lending money to cronies of bank directors and more particularly to politicians and their friends and relatives were quite common. This practice was particularly notorious in the case of the Argentine state banks.

In summary, bank management problems in Latin America- at this early stage- arose in good measure from misunderstanding of monetary and public debt problems, although it could also be argued that the lack of central banks- as such- was a factor. Contemporary bank directors had an inadequate understanding of monetary inflation with inconvertible currency (as was the Argentine case after 1885) or with monetary systems with inadequate metallic reserves, common in Brazil and Chile, as

well.²⁶ In Mexico, on the other hand, this pitfall was avoided because of the small volume of bank notes issued and the relatively large silver monetary reserves of the major banks, but problems did arise as a result of the falling value of silver in relation to gold, a fact which also tended to increase the weight of the service on foreign debts and investments.

The shift to the gold standard after the turn of the century

Following the crises of the 1890s, a new financial concensus became dominant throughout Latin America. Thus the view that it was necessary to formally adopt the gold standard in order to avoid the financial instability of the very recent past (as well as to attract new flows of foreign capital) rapidly gained strength. And by the turn of the century, the response of key sectors of financial elites in several major Latin American countries was therefore to press for the adoption of the gold standard, accompanied by advocacy of maintaining high metallic reserves in relation to bank note-issues.

²⁶ It should also be noted that the accumulation of foreign debts by state banks, which were only payable in gold- a common feature of Argentine finance in the late 1880s- led to perilous situations as the balance of payments situation worsened. When metallic reserves of banks evaporated and as foreign currency and gold disappeared from local money markets, there was no way of continuing the service on foreign debts. As a result, a number of banks found their international sources of credit and capital frozen, and were soon subject to severe international pressures to renew payments despite the critical situation in balance of payments.

The *generalized* adoption of the gold standard in various Latin American countries shortly and the creation of new mechanisms to assure its functioning in a stable fashion was a quite remarkable phenomenon, and may have contributed to spurring an unprecedented volume of foreign investments in the region and initiating a relatively long period of three decades in which bank panics became infrequent in Argentina and Brazil, for instance.

Nonetheless, before 1914 there were few, specific proposals for the creation of central banks.²⁷ Rather a two-pronged strategy tended to be adopted in both Argentina and Brazil which included strengthening the main "government" bank and adopting a high reserve policy accompanied by the creation of "cajas de conversión" (monetary exchange agencies) which were basically in charge of regulating gold-currency reserves in accord with the fluctuating demand for gold.

In Argentina the gold standard was formally adopted in 1899, following a long period of restructuring of the public banking sector as well as of public-sector external debts as a result of the financial collapse of 1890 (better known as the Baring Panic).²⁸ The recovery of the Argentine economy was surprisingly

²⁷ However, see experiments in Colombia and Peru. The best single monograph on central bank history in one nation is that on Colombia: *El Banco de la República* (1990) 2 vols. On Peru see Quiroz (1989) and his essay in Marichal and Tedde (1995).

²⁸ The Argentine debt renegotiations of the 1890s were the largest and most complex up to that date of any Latin American

rapid and during the 1890s large export surpluses allowed both public and private sectors to cover their very considerable external obligations without problems. As a result, Argentina regained the confidence of international financial markets, and by the end of the decade adoption of the gold standard became feasible.

The stabilization of the Argentine economy was closely linked to two banking reforms. The first was the creation of the Banco de la Nación Argentina in 1891 which quickly became both government banker and the largest commercial bank in the country, setting up branches in all the provinces. The second and simultaneous reform was the creation of a "caja de conversión" to deal with the banking crisis. The agency was initially set up in 1891 to retire banknotes of the large number of state banks that had collapsed. The vast circulation of such notes both in Buenos Aires and in each of the provinces (issued by provincial government banks on a vast scale between 1887 and 1890) posed a major quandary as these bills had effectively lost their nominal value and were highly depreciated. In order to attempt to salvage the credit system, the government resolved to create this heterodox banking/monetary agency (the "caja de conversión") to which the national finance ministry allocated the national gold bonds which had served as

nation. For a review of the debt renegotiations of provincial and national external debts in the 1890s, which led to the issue of more than 35 million pounds sterling of new bonds in exchange for the old bonds see Marichal (1989), chap. 5. For details on the banking crisis in Buenos Aires in 1890 see Martí (1990).

basis to the vast, currency issues of the provincial state banks in the late 1880s. The "caja" imposed strict discipline on these banks, retiring most of the bank notes issued and eventually liquidating the majority of the old government banks, including the Banco Nacional and the Banco de la Provincia de Buenos Aires.

This same "caja de conversión" was transformed in 1899 into a formal monetary agency (quite similar to contemporary "currency boards"). Generally speaking, both public and private sector banks henceforward sold their gold holdings (accumulated as a result of trade surpluses) to the monetary agency, which in exchange gave them paper money (backed by the gold reserves of the "Caja"). The value of the Argentine gold peso was maintained until 1914, when as a result of a local banking panic and the trade-fall caused by the outbreak of World War I, the government decided to go off the gold standard, returning to it only in 1927, and then opting out again to inconvertibility after 1931.

While the "caja de conversión" fulfilled one of the functions of a central bank, others were exercised until the mid-1930s by the Banco de la Nación, would later be noted on occasion of the creation of the central bank in 1935:

"In addition to its tasks as commercial bank and lender to the government, the Banco de la Nación added that of holder of government fiscal and financial accounts and Clearing Bank and even of fulfilling certain tasks typical of a central bank. It is known, in effect, that an important group of banks (in the 1920s) considered

their holding of treasury bills in accounts in the Banco de la Nación as reserves, against which they could issue credits..."²⁹

In other words in the first three and a half decades of the 20th century, some of those functions which today are characteristic of central banks were exercised in Argentina by a combination of "caja de conversión" and Banco de la Nación; and in periods of inconvertibility, by the Banco de la Nación alone, utilising a monetary exchange office (supervised by government officials) within this latter bank.

In the case of Brazil a similar monetary and banking scheme was adopted following the monetary reform of 1905 which brought the adoption of the gold standard, the reorganization of the Banco do Brasil, and the creation of the "Caixa Conversao" in 1906.³⁰ This office (based on the Argentine model) carried out foreign exchange transactions which maintained the pre-determined value of the mil-réis: it was based within the Banco do Brasil and continued to operate until the end of the first period of the formal gold standard which lasted until 1914 when the operations of the Conversion Office were suspended.³¹

²⁹ This is a quote from the presidential address to the Argentine Congress in 1935 proposing the creation of the Central Bank. Banco Central de Argentina (1972), vol.2, 631-632.

³⁰ Peláez and Suzigan (1976) pp.153-155; Neuhaus (1974), pp.17-27 and Fritsch (1988), pp.16-18.

³¹ The Conversion Office was formally closed in 1920 after six years of suspension.

During this period, as Gail Triner argues, the money supply and therefore credit operated in close relation to trends and discipline of the foreign exchange markets. But in the succeeding years of 1914-1924, the Brazilian government abandoned the gold standard and eased credit and money issue. As Triner points out, during the First World War and the years immediately following:

"The economy experienced both growth and price inflation. The Treasury funded facilities to increase bank credit in 1914, 1915 and 1918. The first such attempt took the form of direct loans to banks; then in 1915 and 1918 the Banco do Brasil rediscounted the notes of other banks based on special Treasury programs. The years from 1921 to 1923 saw large scale monetary expansion through the rediscount Office in the Banco do Brasil."³²

After 1923, on the other hand, money issue was limited by the Banco do Brasil which closed its Rediscount Office and at the same time contracted money and credit. Then, between 1927 and 1929, a new attempt was made to readopt the gold standard but as Peláez and Suzigan argue, currency was not fully convertible, leading the Treasury to abandon its efforts to sustain the gold standard at the same time as the international economic crash of 1929 came to a head. ³³

The monetary and banking trends in Mexico were quite different as it moved from the silver standard to the gold standard as a result of the monetary reform of 1905, although

³² Triner (1996), p.10

again there are some parallels with the Argentine and Brazilian cases. During the 1890s there had been a running battle between proponents of the silver standard- basically exporters and industrialists- and the advocates of gold- among which were importers, managers of big foreign firms and some bankers. Nonetheless, the steady fall in the price of silver tended to favor the groups favoring the gold standard and generated increasing pressure to modify the monetary regime because the government external debt service was becoming increasingly costly and foreign investors were growing leary of investing more money in an economy tied to a depreciating currency. By the turn of the century, and after the large loan of 1898, which converted all the foreign debt (in gold) into lower-interest bonds, finance minister José Yves Limantour began to press hard for the adoption of the gold standard. A monetary advisory commission, which included both Mexican and North American entrepreneurs and economic experts, was set up to review the options and finally drew up the blueprint for the monetary reform of 1905.

As a result of that reform, a monetary agency called the "Comisión de Moneda y Cambios" was set up to receive gold from the banks in exchange for gold certificates, which were to serve as partial metallic reserves of banknote issue; the banks were also expected by law to hold a high level of metallic reserves to support their respective note issues. Additional research is

³³ Peláez and Suzigan (1976), 187-189.

needed to establish the exact mechanisms used by the government to finance the "Comisión de Moneda", but it is clear that a key factor were the large, fiscal surpluses in gold that Limantour had accumulated between 1900 and 1905 and were deposited in the accounts of several large banks in New York, London and Berlin.

Economic historians have not yet carried out sufficient research to establish the precise impact of the monetary reform on the Mexican economy which in 1907 suffered the scissors effects of a domestic banking crisis and the repercussions of the great economic crisis of that year in the United States that spilled across the Rio Grande and caused a wave of bankruptcies. Also necessary are studies to explore the nature of the relation between this crisis and political crisis, as the twenty five year-old dictatorship of Porifiro Díaz came to a close as a result of the 1910 electoral struggle and subsequent conflicts which lofted Evaristo Madero into the presidency.

Between 1910 and 1913, the increasingly unstable political situation did not provoke a new financial crisis, but in 1914- after the assassination of Madero and the rise to power of general Victoriano Huerta- capital flight gained strength, the "Comisión de Moneda" lost much of its gold and pressure accumulated which would lead to abandonment of the gold standard as well as to a weakening of regulations governing metallic reserves of the banks. As revolutionary conflicts deepened and each of various armies

issued inconvertible (and rapidly depreciating) currency, the monetary situation became chaotic and the banking system began to sink rapidly. In late 1915 the administration of Venustiano Carranza set up a new banking and monetary commission which took over all metallic reserves of Mexican banks and spurred a return to a monetary system based essentially on the circulation of silver coins and inconvertible government paper money.

Preliminary conclusions

Throughout the second half of the 19th century and the first two decades of the 20th century, no central banks were established in the larger Latin American countries but considerable experience was acquired in the handling of different types of monetary regimes as well as in the administration by certain national banks of government finance, trading in gold and silver and foreign currencies and, in some cases, general coordination of bank policy and practice on a national scale. As a result, it should not appear surprising that during the years 1914-1920 numerous and fairly sophisticated proposals began to be put forth in different countries for the creation of central banks. Nonetheless, it would not be until later, as a result of political shifts and increasing government participation in the management of national economies that central banks would be effectively established. In the 1920s the various Kemmerer missions helped the governments of Andean

nations to create their central banks.³⁴ In Mexico in 1925, as the postrevolutionary political system began to stabilize, the Banco de México was set up, although it took some time to begin to operate as a central bank. However, in the case of the largest Latin American economies- Argentina and Brazil- the move towards central banks was delayed. In Argentina the crisis of the 1930s would lead to the establishment of the Banco Central under the direction of Raúl Prebisch but in Brazil it would not be until the 1960s that a similar institutional innovation would finally be implemented. As can be seen in this paper, it may be argued that the reasons for the delay were closely linked to the strength of the Banco de la Nación and the Banco do Brasil and the fact that both successfully fulfilled many of the functions of a central bank without actually becoming a central bank. This seems to me to be somewhat paradoxical and to raise a large number of interesting, unresolved questions.

Finally, a more detailed analysis of the role of the various monetary agencies ("cajas de conversión") of the 1900-1914 period would seem to be of some comparative interest in regards to contemporary "currency boards".

³⁴ See the excellent study by Drake (1989).