

CHALLENGING A MONEY DOCTOR: RAÚL PREBISCH VS SIR OTTO NIEMEYER ON THE CREATION OF THE ARGENTINE CENTRAL BANK

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ABSTRACT

The Central Bank of Argentina began its activities in May 1935 surrounded by controversy. The Bank was created as a result of a mission led by the expert from the Bank of England, Sir Otto Niemeyer. The foreign involvement in the origins of the bank was not welcome to a good part of the Argentine society. Finally, the project for a central bank approved by the Argentine Congress was not the one proposed by Sir Otto Niemeyer, but a version of it that contained crucial modifications introduced by Raúl Prebisch. The aim of this work is to highlight Prebisch's ideas on monetary and banking matters by analyzing the differences with the ideas of Sir Otto Niemeyer around monetary policy and the characteristics of the future Central Bank of Argentina. Even if there were almost no direct debates between them, there were different visions and indirect contentions that can be traced in the writings of both, which on the side of Prebisch were published in the Revista Económica del Banco de la Nación Argentina and some government documents, and on Niemeyer's side can be traced in some writings and correspondence regarding his visit to Argentina, held in the archives of the Bank of England.

Keywords: Raúl Prebisch; Otto Niemeyer; Argentine Central Bank; money doctors; Bank of England, Argentine economic cycle.

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INTRODUCTION

The Central Bank of Argentina began its activities in May 1935 surrounded by controversy. The Bank was created as a result of a mission led by Sir Otto Niemeyer, an expert of the Bank of England, and the foreign involvement in the origins of the bank was not welcome to a good part of the Argentine society. The bank had representatives of foreign banks in its Board of Governors and, additionally, the official of the Bank of England Frank Powell stayed in Argentina as an advisor for a year, strengthening the idea of an inappropriate British influence in Argentine internal affairs.

Actually, the project for a central bank approved by the Argentine Congress was not the one proposed by Sir Otto Niemeyer, but a version of it that contained crucial modifications introduced by Raúl Prebisch. Of course, this does not mean that the policies adopted by the Central Bank of Argentina were contrary to British interests, but that those interests were not so directly reflected in the setup of the bank.

The aim of this work is to highlight Prebisch's ideas on monetary and banking matters by analyzing the differences with the ideas of Sir Otto Niemeyer around monetary policy and the characteristics of the future Central Bank of Argentina. Even if there were almost no direct debates between them, there were different visions and indirect contentions that can be traced in the writings of both, which on the side of Prebisch were published in the *Revista Económica del BNA*¹ and some government documents, and on Niemeyer's side can be traced in some writings and correspondence regarding his visit to Argentina, held in the archives of the Bank of England.

The first section reviews Prebisch's explanation of the Argentine economic cycle, which is essential to understand the ideas behind the creation of the Central Bank. In fact, the mandate, functions, and instruments of the bank were designed according to the need to neutralize the effects of the economic cycle.

The second section shows how the British pressure to create a central bank emerged after Argentina abandoned the gold standard in 1929. This happened in a context in which central banks were being created around the world, and missions of money doctors, especially from the United States and Great Britain, began to advise several peripheral countries. Prebisch had to challenge the pressure coming from British circles to incorporate in the statutes of the Central Banks some features functional to their interests.

In the third section, we analyze the main differences between the ideas of Prebisch and Niemeyer, underlining how Prebisch's contribution was more in line with the needs of a primary exporting country like Argentina. The functioning of the Argentine Central Bank in its first years shows how the bank as projected by Prebisch was able to perform anti-cyclical policies that would have been impossible to apply if Niemeyer's ideas had prevailed.

Finally, we draw some conclusions.

THE ARGENTINE ECONOMIC CYCLE AND THE NEED FOR A CENTRAL BANK

Even if there had been previous projects to create a central bank, the matter began to be taken seriously only at the beginning of the 1930s.² By the time, it was clear that Argentina needed a central bank. The characteristics of the Argentine economy, a primary exporting country with recurrent deficit in the balance of payments, made it subject to violent external fluctuations. Since the first time convertibility was implemented in 1866, Argentina repeatedly introduced and then abandoned the gold standard, which worked in 1866–1876, 1883–1885,³ 1899–1914, and 1927–1929. In 1932, Prebisch used the expression “sporadic gold standard” to describe these constant changes in the Argentine monetary system.

The peculiarities of the Argentine economy determined a particular form of economic cycle, which Prebisch studied in the 1920s (see, e.g., [Prebisch, 1991a](#)). In his analysis, Prebisch found that the Argentine economy had some characteristics that made the working of the economic cycle different than the one in central countries:

in our crises, besides some minor differences, a fundamental factor is at work, which is absent in the European crises, and is peculiar to the degree of historical development of the country. ([Prebisch, 1991a](#), p. 95)

This fundamental factor was the important instability of foreign capital flows. In his explanation, Prebisch combined elements from different authors he had read in his university years. He took up Tugan-Baranovsky’s assertion that the conditions in the European markets determined the behavior of investors, which accordingly decided about the opportunity of exporting capital to peripheral countries like Argentina or invest it anywhere else. These capital flows, through a mechanism of interaction between the balance of payments and domestic currency, as explained by John Williams, had consequences on internal prices and the balance of trade ([Williams, 1920](#)). The description of the functioning of the internal mechanism that brought about the ascending phase of the cycle was based on Fisher.

As explained in “Les crises industrielles en Angleterre” ([Tugan-Baranovsky, 1913](#)), the extraordinary capital flows coming to Argentina did not depend on the situation of the country but on the economic conditions in central countries, which aggravated the external vulnerability of the economy ([Prebisch, 1991a](#), p. 125, fn. 66 and 120, fn. 60).

the new blood that fed the expansive politics of banks and the speculative activities, stemmed from the disposition of the European capitalists to give more loans. ([Prebisch, 1991a](#), p. 170)

But when the money markets become tight and the discount rate increases, the capital exports are paralysed and our balance of payments equilibrium disappears, stimulating specie exports. ([Prebisch, 1991a](#), p. 126, fn. 66)

The instability of gold inflows – coming from exports but above all from external loans – gave origin to the Argentine economic cycle. When the balance

of payments was positive, because of a good season of exports or the abundance of external loans, there was an expansion of money and credit, and prices rose stimulating imports. Once this mechanism was in act, the increasing imports and debt services could be maintained only by taking new foreign loans. When for a bad harvest or other external reasons the loans ceased (for example, in 1876 because of the international crisis, in 1914 for the war, or in 1928 for the boom in Wall Street), the country had to export gold and abandon convertibility, a period of crisis and liquidation followed.

The fluctuations of the balance of payments were transmitted to the internal economy through different mechanisms and triggered the ascending and descending phases of the economic cycle.

In his explanation of the transmission of the external fluctuations to the internal economy, Prebisch followed John Williams, a PhD student from Harvard who was supervised by Frank Taussig.⁴ Williams visited Argentina in 1920 and published a PhD thesis about the Argentine economy (Williams, 1920).⁵ In his work, he tried to identify how fluctuations in external loans influenced the exchange rate and internal prices, which in turn had a major influence in the balance of trade. Williams showed that there was a clear-cut interrelation between the balance of payments and the exchange rate. He also showed imports were much more influenced by exchange-rate movements than exports, which depended on a different set of factors. The asymmetry between imports and exports was an issue not considered in Taussig's theory but had to be considered in the case of agricultural countries, which had primary concentrated exports constituting a small portion of the international markets, while they had industrial diversified imports.⁶

Prebisch showed that the main problem was the asymmetry among the active and the passive elements of the balance of payments. As explained earlier, the active items of the balance of payments – exports, loans, and foreign investments – were mainly exogenous. The quantity of exports grew steadily along the years as the harvested area increased and technological changes improved productivity, but it could not increase or decrease quickly to adapt to the conditions of demand. The only abrupt change in quantities was produced by good and bad seasons, which provoked in turn important fluctuations in prices, as Williams had underlined. The outflows of capital instead were more sensible to the internal conditions. Imports had a high income-elasticity and were difficult to reduce in times of a negative balance of payments. Besides being a debtor country, Argentina had to deal permanently with a fixed burden in foreign currency, which generally cumulated during the ascending phase.

To show the influence of the external fluctuations in money and credit, Prebisch adopted Fisher's explanation.⁷ Foreign inflows of capital played the same role represented in Fisher's theory by an exogenous increase in the quantity of money. In times of capital inflows, the appreciation of the peso triggered a growth in imports, while the incremented gold stock in the banks encouraged the increase in issues. Accordingly, there was a reduction of the interest rate, which to Prebisch depended on the coefficient of reserves of the banks, and a correlated increase in credit.

In his explanation, Prebisch adopted Fisher's thesis about M' being proportional to M :

In the end, then, check deposits keep a certain relation, sometimes broken abruptly in transition periods, to which later we will dedicate some words, to the quantity of money in circulation, which we can express, calling them M' , telling that it is proportional to M . (Prebisch, 1991c, p. 183)

The expansion of credit constitutes, then, an increase in the circulating medium that acts on prices, in the same way as an increase in money. At the same time, credit expansion is possible because of the increase of reserves in Banks beyond the prudential limit set by costume, increase that originates from a greater circulation of money in the market; since it is known, and statistics demonstrate it, that there is a relation almost constant between the amount of money (banknotes in our case) in circulation and bank reserves. (Prebisch, 1991c, p. 183)

The increase in the quantity of money and credit increased prices and a phase similar to the transitional period described by Fisher began (Fisher, 1911, Chapter IV).

If, because of a favorable balance of payments [...] the quantity of money in circulation increases, soon prices begin to rise [...] Traders and businessmen in general, feel strong incentives – the increase in prices – to expand their transactions, and to that end, they apply for credit in banks; the available funds of those are continuously increasing, and, then, they do not find inconvenient to face the increased number of rediscount requests. (Prebisch, 1991c, p. 184)

The rise in prices, the volume of transactions and profits created an “environment of artificial prosperity” (Prebisch, 1991a, p. 117). Since the interest rate and wages increased less than prices, profits grew and with them credit requests. In this case, M' expanded more than proportionally with respect to M . Credit increased and hence deposits, until they change the normal relation with reserves and the quantity of money in circulation. This happened until capital outflows began, affecting the banks' reserves and reducing the quantity of money in circulation. Each time, imports and financial services were higher, and so every time higher loans were needed. This cumulative process engendered no counteracting mechanism and ended suddenly with the outbreak of the crisis, which constituted the following phase of the cycle.

When the inflow of capital stopped, Argentina had to continue to pay the financial services. In the internal sphere, the credit structure created upon the increase of the gold stock of the ascending phase fell and the descending phase of the cycle began.

Prebisch's explanation of the cycle underlined the great external vulnerability of the Argentine economy:

The fundamental fact about the metallic imports and the foreign loans, is that they acted as *objective causes* of a new ascending period. (Italics in the original, Prebisch, 1991a, p. 138)

These “objective causes” came up with regularity because of the economic structure of the country. The cause of these capital fluctuations was not internal, but had to be looked for in the lending countries. Thus, the working of the cycle in Argentina limited extremely the autonomy of the monetary policy.⁸

It is important to underline that to Prebisch, the magnitude of the contraction depended on the magnitude of the preceding expansion.⁹

In that circumstances, if we had administered prudently the increase in metallic reserves, the gold exports caused by the high interest rate abroad, just brought about a smooth pause in the prosperity of our businesses. But if it had been employed generously in the expansion of banknotes and credit, without taking precautions from speculative excesses, the outflows of gold precipitated the outcome of a more or less accentuated crisis. (Prebisch, 1929, p. 112)

This idea made Prebisch in the beginning of the 1920s an adherent to the gold standard, since he thought it would automatically avoid an excessive expansion of currency and so an abrupt liquidation after the break of the crisis. During the Great Depression, Prebisch became aware of the advantages of suspending convertibility to manage the descending phase of the cycle. Instead of having a deep deflation like the one occurring at the international level, the depreciation of the Argentine currency softened the fall in internal prices.

However, he didn't abandon the idea of proportionality between the expansion in the ascending phase and the severity of the following downturn. Along the years, Prebisch maintained his ideas about the need to contain credit in the phases of prosperity, allowing banks to grant only what he called "normal credit," which was credit for circulating capital. Investment, instead, had to be made only with savings.

Over the years, Argentina had taken some measures to neutralize the effects of the extreme instability of the balance of payments. In fact, by the beginning of the 1930s, there were in place some measures and regulatory functions that would normally correspond to a central bank but they were assigned to a set of different institutions.

In the first place, there was the Conversion Office, created in 1890 after the disastrous experience of the Law of Guaranteed Banks and the Baring crisis.¹⁰ The Conversion Office was the only institution authorized to issue banknotes and had to seek that the peso gradually reached par with gold, to allow the restoration of convertibility. Once convertibility was achieved, it had to change gold for banknotes and banknotes for gold at a fixed rate. This regime worked intermittently, in 1903–1914 and again in 1927–1929. In 1931, the application of a rediscount law of 1914 that had never been used was brought into scene, allowing the Conversion Office to rediscount documents of the *Banco de la Nación Argentina* (BNA). Later, in 1932, the Conversion Office was allowed to issue banknotes against titles of the "Patriotic Loan" issued by the National State earlier that year. The result was that by 1932, the functions of the Conversion Office were much wider than planned and were functions that would correspond to a central bank.

Secondly, there was an Exchange Control Office that administered the system of exchange controls implemented in 1931, under Prebisch's initiative. The regime of exchange controls suffered several modifications throughout the years. Initially, all the operations of buying and selling foreign exchange had to be approved by the government, which favored the creation of a black market for currency. In 1933, the exchange market was divided in an official market and a

free market, where the exchange rate was determined by demand and supply, hoping it would absorb the operations previously made in the black exchange market.

In the official market, there was a difference between the seller rate and buying rate, a “margin of exchange” that was used to finance the functioning of the Grain Regulating Board¹¹ and the higher cost, in pesos, of external debt. The official market dealt with exchange coming from traditional exports, while the exchange originated in non-traditional exports could be sold in the free market, where the exchange rate was fixed by supply and demand. The exchange of the official market was then assigned to priority imports, while the exchange for the rest of imports had to be bought in the free market.

Third, there was the BNA exercising also some functions of a Central Bank: it held the government accounts, made rediscounts to the other banks, and managed the Clearing House. This bank had been created after the failure of the *Banco Nacional* during the Baring crisis and remained public because nobody subscribed its shares.

The BNA had a double nature of commercial bank and “quasi-central” bank. The variations in the coefficient of reserves of the BNA were the only element of flexibility of the system, avoiding big fluctuations in the quantity of money in circulation.

The fact that the BNA introduced a certain degree of flexibility was acknowledged not only by Prebisch, but also by the experts of the Bank of England. In an internal memorandum of 1930, the BNA was presented as the only element that provided some elasticity to the system:

[...] Some degree of elasticity is provided by the flow of notes in and out of the Banks, especially the National Bank. For instance, during 1927/8 when, as the result of good harvests, and foreign borrowing the balance of payments was heavily in favour of Argentina, a large part of the gold received was deposited with the National Bank in order to avoid an undue inflation of notes. Similarly, a great proportion of the gold exported during 1929 was supplied by the National Bank. (Internal Memorandum, Unsigned, January 3, 1930a)

The same memorandum also alluded to the unfair competition of this bank with the rest of the banks and to the fact that the financial situation of the BNA was uncertain:

It is difficult from the published balance sheet to form an idea of the liquidity of the Bank. It is known, however, that the amount of bad debts incurred is formidable. (Internal Memorandum, Unsigned, January 3, 1930a)

When the first projects for a central bank began to come up, the BNA opposed strongly (see later), but Prebisch as well as the British experts agreed that the bank could not perform at the same time the functions of a central bank and commercial activities.¹² Since as a commercial bank the BNA was essential to the country, it was decided to create a central bank distinct from it. The BNA remained the biggest public bank, even if during his stay in London Prebisch had shown some preoccupation about having a public bank of those characteristics and sought advice on the possibility of privatizing it (Memorandum “The Argentine,” Unsigned, July 4, 1933; Prebisch to Niemeyer,

July 4, 1933). He feared the government could pressure the BNA to obtain loans at the same time that the Central Bank of the Argentina Republic (BCRA) was trying to carry a restrictive policy, undermining then its effects.

THE BRITISH INFLUENCE: PUTTING THE HOUSE IN ORDER

As mentioned in the introduction, Great Britain was deeply involved in the origins of the Argentine Central Bank. The British mission led by Niemeyer was originated in the special relationship that both countries had shared since the nineteenth century. Argentina had an intense trade relationship with Great Britain, which absorbed most of the exports of meat and it had important investments in the country, above all, in the railway sector.¹³ Because of this special relationship, the suspension of convertibility in Argentina provoked strong reactions on the British side. Above all, it caused uncertainty about the possibility for the British companies to remit utilities in sterling, stemming from their investments in the country. It was at that time that from some British sectors an interest in the modification of Argentina's monetary and banking regime began to appear. The insistence became more intense after Argentina introduced exchange control in 1931. From then on, the matter of the "blocked pesos" would appear frequently in bilateral negotiations. To this we have to add that the rural sector, which had strong ties with the military government that was in power in Argentina since 1930, felt threatened by the imperial preference that Great Britain granted to the Commonwealth countries in the Ottawa conference of 1932 and so was prone to give up to British interests.¹⁴

The suspension of Argentine convertibility in 1929 had been interpreted as a proof of the lack of commitment to international monetary stability:

It is very regrettable that at the first signs of crisis recourse should have been had to such a panic-stricken remedy, which is bound to do the country's credit abroad incalculable harm. Argentina can no longer be considered a genuine adherent of the Gold standard, which apparently it is only prepared to follow in times of prosperity.

[...]

Had the currency been regulated by a Central Bank, it can safely be said that a way out of the present difficulties could have been found, even if Argentina had to suffer and put up with some discomfort, without however resorting to such a desperate measure as throwing the Gold Standard overboard. (Memorandum Argentina: Gold Standard, Unsigned, February 6, 1930b)

After abandoning the gold standard, Argentina had raised a loan of £5 million in London and earmarked £1.45 million in sovereigns at the Bank of England. The memorandum quoted earlier stated that:

Such operations are entirely contrary to the normal functioning of the Gold standard, but apparently Argentina, having discarded it herself, is not concerned with the inconvenience which it may cause to those centres which through bad times as well as through good times, adhere to a genuine and pure gold standard.

It was expected that at least Argentina would profit the economic crisis to “put its house in order” (Memorandum Argentina: Gold Standard, Unsigned, February 6, 1930b).

At the beginning of 1930, the necessity that Argentina reformed its currency and banking system was already openly discussed between British officials. However, they agreed that the issue had to be raised by the Argentine government.¹⁵

The Bank of England had a first contact with the BNA during the first half of 1930. In April, the representatives of Baring Brothers in Argentina, Leng, Roberts & Co, announced that they wanted to establish a closer relationship with BNA, in representation of the Bank of England. The next month, they began to plan a visit to England for the president of the BNA, Carlos Botto. Niemeyer thought he was the right choice since there was a possibility that the Central Bank would be created reforming the BNA and not as a separate institution. Among the proposed themes for conversation for the meetings were cooperation of the future Argentine Central Bank with other banks, exchange of information, the establishment of limits to the fluctuation of exchange rates, the possibility that the new bank was merged with the BNA, measures to reestablish the exchange rate, and the possibility of a long-term loan (Barings, Heads of Conversation between representative of the BNA and representatives of the Bank of England, May 2, 1930).

The return to a rate of exchange that kept intact the benefits in sterling of the British companies in Argentina was one of the main preoccupations. Since the general vision was that a prerequisite to keep the rate of exchange was to attain fiscal equilibrium, the months after the coup of September 1930 were seen as the right time to insist on this point (see Peacock to Roberts, February 8, 1931, and Roberts to Peacock, February 20, 1931). Excessive spending would bring about inflation and eventually a devaluation of the peso. After the coup of 1930, that put into the presidency José Félix Uriburu, the British began to think that it was possible that desired fiscal equilibrium would be achieved. They thought Uriburu was a good administrator and thought his Finance Minister Pérez was doing an “excellent work in cutting down expenditure and in preventing leakages in revenue collections.” (Watson, “Argentina since the revolution,” March 4, 1931).

The first project for a central bank of the 1930s was prepared by a Commission formed by the Finance Minister Enrique Uriburu in 1931.¹⁶ Even if the origins of this project are presented sometimes as coming from a suggestion of Raul Prebisch to Uriburu or as a spontaneous idea of Uriburu himself (Dosman, 2008, pp. 72–73; Piñeiro Iñíguez, 2003), the evidence from the archives of the Bank of England makes difficult to believe that the decision to write the project for a central bank in 1931 had originated spontaneously in Argentina, without any relation to the British pressures in that sense. The project wrote in 1931 was sent to the Bank of England by Baring Brothers (Baring Brothers & Co to the Chief Cashier, May 31, 1932). Several aspects were criticized by the British officials, who hoped to give advice to the government on the monetary and banking reform. Alberto Hueyo, the new Finance Minister since

February 1932, left the project aside and invited the Niemeyer mission. The invitation was not only to ask for advice in the monetary and banking fields, but the Minister of Finance thought a foreign mission would grant a seal of trust to his government and help him pass in the Congress the budget for the next year. In fact, even if Niemeyer didn't want to make public the invitation until his departure from Great Britain, the Argentine government insisted in making the announcement:

the Finance Minister had informed the Ambassador, under strict confidence, that he (the Finance Minister) felt it was of paramount importance that Sir Otto should come as soon as he possibly could as he was finding it daily more difficult to pursue the policy that he felt was right and that any announcement regarding Sir Otto's departure would strengthen his hand.

In this connection the Attaché asked whether it would be possible for Sir Otto to send out an advance guard, ostensibly for preparing figures, etc., but in effect as a means of support for the Finance Minister.

[...] The importance of secrecy regarding the visit was again stressed [...]. (Hambro, Internal Memorandum, November 9, 1932a)

and

The Government wished to inform us that Congress would begin to discuss the Budget on the 21st November next, that they had no intention to altering their financial policy but that they might have a certain amount of difficulty with Congress, and therefore, they considered it important that they should be able, at the beginning of the discussion, to announce Sir Otto's Niemeyer coming, as this would give them an additional excuse for refusing the demands of the inflationists. (Hambro, Note "The Argentine," November 14, 1932b)

The Niemeyer mission was composed by Henry Clay (economic adviser to the Bank of England), Frank Powell and Guy McOlvin Watson (from the Bank of England), and Norman Young (of the Treasury). The presence of Norman Young was due to the fact that the mission had to give advice also in fiscal matters, even if that aspect of the mission was not made public. In fact, from the British side, they insisted repeatedly on this point:

[...] he [the Argentine Ambassador in Great Britain] must make it quite clear to the Government that the Bank of England would not be willing to send a mission of any kind to the Argentine at the invitation or in order to advise the Government: as the Central Bank of Great Britain it was not their business to advise Governments, but to advise and co-operate with Central Banks of foreign countries, and the Bank of England could only contemplate sending advisers to the Argentine on behalf of the Banco de la Nacion. The terms of reference of such an adviser could be more or less the same but he could only speak to the Banco de la Nacion and not to the Government. (Interview with the Argentine Ambassador at his house, Unsigned, October 26, 1932d)

Apparently, they feared the mission could be interpreted as an inappropriate interference on internal matters.¹⁷ That is why Niemeyer decided to omit he was an official of the Bank of England in the announcement of his visit, and the presence of an official of the Treasury.¹⁸

As a result of his visit to Argentina, Niemeyer wrote a report and projects for a central bank and a Banking Law. In his report, Niemeyer recognized the situation of the country as highly dependent on primary exports. He also underlined

the influence of external loans that helped Argentina to keep a high volume of imports “it is not really paying” (Niemeyer, 1934a, p. 132). The monetary system of Argentina was described as a system in which the quantity of money in circulation was regulated automatically by the Conversion Office that adjusted its issues according to the flows of gold. These fluctuations were neutralized in part by the behavior of banks, which increased the coefficient of reserves when there were inflows of gold, in such a way that credit didn’t increase in the same proportion and reduced their reserves when gold left the country, avoiding in this way to reduce credit. But even with this partial neutralization, the rigidity of the system did not allow to face emergency situations, in which convertibility had to be suspended. External loans, on the other side, weren’t used to increase the productive capacity of the country, but to finance imports and government’s current expenses.

To remedy this situation, Niemeyer proposed the creation of a Central Reserve Bank and the adoption of a Banking Law.

PREBISCH AND NIEMEYER: TWO CONCEPTIONS ON CENTRAL BANKING

During the period Niemeyer was in Argentina, Prebisch was abroad. The two men met only later at the London Economic Conference in June 1933. Until 1932, which was the first time Niemeyer talked about Prebisch (see Niemeyer to Loveday, July 28, 1932a), it seems that Prebisch was an unknown character for the British. But in the conference in London, Prebisch had become already the man that had to be convinced about the true theories about money and, after Hueyo’s resignation in the middle of 1933, he became almost the only valid interlocutor for the experts of the Bank of England.

The period between the departure of Niemeyer mission and the formulation of a new project in 1934 didn’t attract attention in the literature. As soon as he had delivered his proposal to the Argentina government, Niemeyer realized that his project would probably not be implemented in the way he had designed it.

In his farewell Conference in the Jockey Club,¹⁹ he warned that the project:

if it is not regarded as a whole, or if the design of the building is changed on one or other of its storeys, it would not then be a structure that I should recommend. (Niemeyer, Discourse in the Jockey Club of Argentina, April 3, 1933f)

The opposition of the *Banco de la Nación*, that was afraid of the effects of losing the Clearing House and the government accounts, had become a big problem.²⁰ To this, we could add the resignation of the Finance Minister who had invited him and his replacement for the Minister Federico Pinedo, not so favorable to the creation of a central bank. In 1934, the Minister Pinedo asked Prebisch, who was at the time advisor at the Ministry, to review Niemeyer’s project. In his revision, Prebisch introduced several changes and wrote a project that was finally approved by the Argentine Congress, with small changes, at the beginning of 1935. The Central Bank began its activities in May of that year.

The disagreement between Prebisch and Niemeyer regarded in three main areas:

- (1) The exchange regime and the reserves of the bank.
- (2) The mandate and instruments of the central bank.
- (3) The revaluation of gold and its use.

Exchange Policy and the Reserves of the Bank

The first point of disagreement between both projects regarded the return to convertibility and exchange policy. According to Niemeyer, in a near future, a legal parity for the peso had to be established, along with a free exchange market:

A system of Central Bank cannot produce all its effects if it doesn't exist -and as long as it doesn't exist -a free foreign exchange, based on a legal parity of national currency, to the achievement of which all efforts should be oriented. (Niemeyer, 1934a, p. 133)

In fact, one of the objects he established for the BCRA was to:

regulate the volume of credit and the consequent demand of circulating medium, in such a way that the Argentine peso maintains the external value that had been assigned to it by law. (Niemeyer, 1934b, p. 144)

The choice of the standard and the exchange rate had to be made once the international situation after the Great Depression was normalized. It was to ensure the exchange parity that the central bank had to concentrate a reserve fund.

As the project was thought to be applied in a gold standard regime, it established the obligation of the BCRA to change gold for banknotes and banknotes for gold, at the rate established by the monetary law. There was also a provision preventing gold hoarding from the part of the public:

any person or institution holding gold in coins or in bars, has to sell it to the Central Bank of Reserve if so required by the bank, against the payment of the equivalent at par in banknotes of the Central Bank of Reserve.²¹ (Niemeyer, 1934b, p. 162)

While the external value of the peso was not fixed, reserves could only be held in gold and the convertibility would not be applied. It was given for granted that the convertibility would return and the exchange controls eliminated.²²

Of course, after the suspension of convertibility in Great Britain in 1931, some sectors of that country had interest in convincing Argentina to fix the exchange parity with the sterling. When Argentina pegged for a few months of 1932 the peso to the US dollar, the possibility of suggesting to the Argentine government to use the British pound as the standard was intensely discussed:

Can we or ought we suggest, directly or indirectly, to the Argentine monetary authorities that they should take steps either (1) to free their exchange from the dollar or (2) to peg the peso to the pound? In case (2), can we offer any inducement to Argentina to peg the peso to the pound beyond the fact that the pound is now probably a better rock to be anchored to than the dollar is, and that countries which have pegged on the pound –such as Portugal, Finland, Egypt and others –have done well by it?" (Note "Argentina and the sterling block. (Unsigned, April 14, 1932a)

Nevertheless, not everybody agreed because this would subject the Argentine economy to fluctuations out of its control and that had no relation to its economic situation. Besides, even if individually Great Britain was Argentina's main trading partner, as a block the gold standard countries were more important. To tie the peso to the pound would have endangered this trade, on which Argentina was very dependent. In the end, they concluded that "we have nothing to gain and they have something to lose" (Memorandum "Argentina: sterling basis instead of the dollar," Siepmann, November 29, 1932).

[...] Little concrete advantage would accrue to the U.K. beyond the widening of the 'sterling' group of countries.

On the whole the linking of the Argentine peso to the sterling would appear to be unadvisable. Although Argentina could readily follow sterling downwards, any prolonged appreciation would probably be beyond her powers. In any case if any adjustment in the method of quoting the peso is necessary it should only be made after an exhaustive study of conditions in Argentina. (Note "The Argentine peso and the sterling," Watson, November 28, 1932)

The ones who exerted more pressure for this were the British companies in Argentina, that wanted priority in the allocation of exchange by the Office of Exchange Control, and a favorable rate of exchange for the repatriation of utilities. This would be achieved with the Roca-Runciman agreement of 1933 that included a "benevolent treatment" clause to British capital (Fodor & O'Connell, 1973, p. 52).

It seems that Niemeyer was not very influenced by the pressure of the British companies to suggest explicitly this kind of solution to the Argentine government. The material in the archives also shows that it was not possible for Niemeyer to obtain exact figures about the blocked remittances in Argentina. Everybody, including railway representatives, admitted exchange control was necessary and working well (note "Railways," Niemeyer, February 1, 1933e). Besides, Niemeyer found that the British companies were exaggerating the amount of deposits waiting for remittance.²³ At first the British companies had presented all of their deposits in Argentina as deposits waiting for remittance, something that seemed impossible for Niemeyer, since it included "all the ordinary working standing cash of the firms in question" (Niemeyer to Irving, February 1, 1933d. See also "Exchange Control," Niemeyer, February 2, 1933b, and Niemeyer to Hambro, February 13, 1933c).

After some investigation of exchange control here we believe that British firms have in fact had considerable preference in rationing exchange. This of course cannot be stated publicly without provoking counter protests. You may like to hand this impression to the Treasury, who I think would be well advised to proceed with caution. (Confidential Cable to the Bank of England, Niemeyer, January 21, 1933a)

After February, the discussion became entangled with the negotiations that would lead to the Roca-Runciman agreement. Niemeyer always showed his disagreement of how the negotiations were being handled. He thought in the end, Great Britain did not have much to offer and the results could be to "drive the Argentines into the beckoning hands of the Americans" (Niemeyer to Hambro,

February 13, 1933c). Niemeyer thought that the best thing to do was just to try to assure exchange for the railway companies, since it was impossible for Argentina to eliminate exchange controls. Finally, the Roca-Runciman agreement was signed in May of that year. Argentina guaranteed to Great Britain the availability of the whole amount of British pounds resulting from the exports to that country. Prebisch participated in the negotiations of this agreement, and that, added to his participation in a military government, linked forever his image to the Argentine oligarchy.

Prebisch, contrary to Niemeyer, had different ideas about the matter of exchange. In the first place, he didn't take for granted that the world would go back to a generalized gold standard. In that case, the central bank should have the tools to undertake an autonomous policy that took into account its own interests. That's why the exchange control system was maintained and had to gradually be transferred from the Office of Exchange Control to the new Central Bank.²⁴

In spite of the changes introduced by Prebisch, just a few days before the project was sent for discussion to the Parliament, the British officials continued to discuss the possibility of insisting in the aspect of the exchange regime:

We wonder whether as an alternative to the Minister of Finance's proposal for the revaluation of gold, it would be possible to put up some scheme whereby the peso was based on sterling and would follow the upward or downward course of the pound, to be stabilized in the future when the pound is stabilized. (Meynell to Peacock, December 10, 1934a)

Besides the widening of the sterling block, the other result the British expected from the establishment of a gold exchange standard in Argentina was the release of gold. This was consistent with the interests in concentrating gold reserves in central countries. Accordingly, the Niemeyer project contemplated that the bank reserves could be constituted in gold or currency of countries under the gold standard. The results the British expected from this was:

the release of a considerable amount of gold. Owing to the present currency system the gold held in Argentina is considerably in excess of the amount considered necessary in countries where the note issue is in the care of a central bank. Even now the proportion of gold in the Conversion Office and the Banco de la Nacion to notes actually in circulation is in the neighbourhood of 100% and as the gold holding of the country is about £90 million, it will be seen that if a proportion of even 50% gold or better still a gold exchange standard were adopted, probably as much as £40 million would be released. (Internal Memorandum, Unsigned, January 3, 1930a)

This proposal wasn't successful either. After having seen the losses suffered by the countries that had reserves in gold during the Great Depression, Prebisch established a limit of 10% to the proportion of foreign currency the central bank could hold among its reserves. The crisis had shown no country was exempt of situations that could result in an abandonment of the gold standard.

If the world goes back soon to what is now considered as monetary normality and if the principal currencies, which today are not convertible, return to the gold standard, these reforms will have prepared the field for the Argentine currency to recover its stability too, on a basis more adequate to the peculiar character of our economy. But if instead of going back to the

generalized gold standard and a relative freedom in international transactions, the world continued to present the prospect of closed economies, with autonomous currencies, the Republic, thanks to a new organization of money and credit, will be able to pursue its own policy taking care of its own interests and avoiding when possible that those circumstances damage its fundamental economic institutions. (Prebisch, 1934a, p. 62)

Additionally, Prebisch's project maintained the regime of exchange control that was in place since 1931. The Central Bank was in charge of its administration, partially at first and totally from 1941. Even if implemented as an emergency measure, Prebisch later convinced himself that exchange control could be a complement to the monetary policy of the central bank, which could resort to it or not depending on the prevailing conditions. It was:

a valuable instrument that would allow us –in a country of the economic physiognomy of Argentina –a reasonable compromise between the rigid system of a gold standard, which as we have seen subjected the economy to big and intense fluctuations, and the regime of inconvertible paper money, depreciated and fluctuating, that has its serious problems too. (Prebisch, 1991b, p. 10)

Exchange control was widely used by the central bank in its first years, when Prebisch was its general manager.²⁵ It was used to prioritize certain imports, by requiring import licenses to buy exchange in the official market, and to administer exchange in times of scarcity. It was also used to privilege imports coming from certain countries with exchange agreements. After the beginning of Second World War, the problem was not any more the scarcity of exchange but the scarcity of goods. In face of this situation, the Central Bank eliminated all the exchange restrictions but administered the quotas of rationed goods according to the country's needs.

The Mandate and Instruments of the Central Bank

The mandate of the central bank was not the same in both projects. Prebisch put emphasis on the necessity of neutralising external fluctuations and its effects in the internal economy, while Niemeyer was more concentrated on a regulation of credit consistent with the aim of maintaining convertibility.

According to Niemeyer, the bank had to:

- (1) Coordinate the expansion or contraction of the volume of credit and guarantee a greater liquidity in the state of individual banks, through the formation and control of a banking central reserve fund.
- (2) Regulate the volume of credit and the consequent demand of circulating medium, in such a way that the Argentine peso maintains the external value that had been assigned to it by law.
- (3) Regulate the effects of public loans on credit and commercial activities, advising the government in all matters relative to loans, and be in charge of the issue of government loans and debt service (Niemeyer, 1934b, p. 144).

In Prebisch's version of the statutes of the bank, the objectives were:

- (1) To concentrate enough reserves to moderate the consequences of the fluctuations in exports and investment of foreign capital on currency, credit, and commercial activities, in order to maintain the value of money.

- (2) To regulate the quantity of credit and of means of payment, adapting them to the real volume of business.
- (3) To promote the liquidity and the proper functioning of banking credit, and to apply the dispositions of inspection, verification, and banking regime established in the Banking Law.
- (4) To act as financial agent and advisor of the government in its operations of foreign or internal credit and the issue and service of public debt (Prebisch, 1934b, p. 145).

While the British project didn't mention in the mandate the problem of the fluctuations of the balance of payments, to Prebisch it was the main problem of the Argentine economy. However, to Prebisch the most important flaw of Niemeyer's project was not the proposed mandate of the central bank, but regarded the instruments the bank was given to achieve its goals. In spite of the great external vulnerability of the Argentine economy, that Niemeyer had recognized in his report on Argentina, his project didn't provide to the bank the necessary instruments to soften economic fluctuations. The only instrument the bank had available was the management of the discount rate. Prebisch, on the other side, believed that rediscount was not enough: in a period when banks didn't look to rediscount, rising the discount rate wouldn't have any effect. To Prebisch the most important instruments of the bank were exchange control – as explained in the previous section – and open market operations.²⁶

In fact, during a visit to London in 1933, Prebisch went several times to the Bank of England to search for advice about some matters, especially open market operations, which were not considered in the British project.

Dr. Prebisch is coming here on Tuesday and one of the points in which he is especially interested is the question of market operations. (Note on "Niemeyer Plan," June 26, 1933)

This aspect of the Niemeyer project was also criticized by Frank Connolly, a former official of the Bank of England and at the time Director of the Economic and Monetary Department of the Bank of International Settlements.²⁷

These provisions would appear unduly to restrict the Bank not only in pursuing a deliberate policy, but also in offsetting the possible deflationary effect of the concentration of the commercial banks' reserve balances with it.

[...]

The restrictions on its operations and the omissions in the granting of apparently necessary powers to undertake open market operations makes one doubt its ability to fulfil its primary purpose. This appears particularly regrettable because in the past (as is brought out very clearly in paragraph 5 of the Report) the commercial banks themselves have gone a long way towards neutralising the violent influences of external fluctuations on the internal credit position. (Connolly to Niemeyer, May 23, 1933)

Given that these comments arrived to Niemeyer during Prebisch's stay in London, he asked Connolly please not to let them arrive to Prebisch's ears:

I would rather you would not broadcast them until I have had an opportunity of seeing you next week. More particularly do not broadcast them to people like Prebisch. (Niemeyer to Connolly, May 29, 1933h)

On the contrary, Niemeyer tried to convince Prebisch that he was right:

Prebisch is still here and came to see me the other day. I hope shortly to carry him off to the country for a couple of days, in which period I will endeavour to inoculate him with the true virus. (Niemeyer to Meynell, May 26, 1933i)

There are not records of the conversation, but probably Niemeyer tried (without success) to convince the young Argentine officer of the convenience of forbidding the bank to perform that kind of operations.

The Revaluation of Gold and Its Use

The third source of disagreement between both projects had to do with the value of the gold held in the Conversion Office. It was agreed that the Central Bank had to be created from the assets and liabilities of that institution.

According to Niemeyer, gold had to be credited to the BCRA at its par value of m\$N 2.27 for each gold peso, the value established by the convertibility law of 1899.²⁸ To cover the difference between the assets of the Conversion Office and the money issued, the government had to give bonds to the BCRA, bearing no interest. If once the value of the peso was established by law, this value implied a revaluation of gold; the difference would be used to cancel these bonds. It is important to notice that this implied that the government had to get itself into debt to create the bank. This contradicts the recommendations Niemeyer himself made in other parts of his project to reduce the state debt.

In the Prebisch project, gold had to be revalued at its market price at the time of the creation of the Central Bank, since Prebisch considered it was unlikely that in the case Argentine returned to convertibility in the future, this was made at the old parity value.²⁹ The benefits obtained from the gold revaluation had to be credited to the national government in an account in the central bank and used to cancel debts with the National Bank, to buy the shares of the central bank, and to constitute reserve fund and capital of the Institute for the Liquidation of Bank Investments (ILBI).³⁰

The matter of revaluation horrified the British. It was one of the most criticized aspects because they thought the effects would be inflationary. Prebisch had this fear too, but created a scheme to avoid inflation, establishing beforehand the use the government had to make of the benefits of gold revaluation.

Besides recognizing the reality of Argentina as a primary exporting country, there was another reality Niemeyer hadn't taken into account: the banking situation stemming from the Great Depression. The ILBI, inspired in the Reconstruction Finance Corporation of the United States, had to buy the bad assets of banks and try to sell them progressively. The aim was that the departure point of the new banking system and the new central bank was not hindered from the beginning by the effects of the crisis. This Institute had to exist only until the banking situation was solved:

The creation of the ILBI intends to fix a new departing point for the development of the banking system in order that the Central Bank can function and the Banking Law can be applied, without finding the serious obstacles left in the field of credit by a crisis of extraordinary duration and intensity and by certain deviations that have occurred also in the norms of the investment of banks' resources. (Prebisch, 1934a, p. 89)

The British officials didn't look upon the Institute favorably because of the participation of the government in it and because they thought it would have inflationary effects.

We mistrust entirely the government constitution of the Mobilisation Institute.

[...]

It seems inevitable that considerable inflation will result. (Clay to Baring, January 16, 1935a)

Anyway, they recognized the question of bank insolvency had somehow to be solved and they ended up considering the ILBI was the least bad option. Niemeyer hadn't thought of any plan to rescue banks:

his [Prebisch's] plan has the merit of presenting a method of handling the situation, less dangerous than other measures which might have to be taken under the stress of an immediate necessity. (Meynell to Mildmay, December 10, 1934b)

Niemeyer not only was opposed to the crucial point of Prebisch's project – the revaluation of gold – in which all the project lied. Besides, he did not have a rescue plan for the banking system. Prebisch said that when he met Niemeyer in the World Economic Conference in London in 1933, he asked him:

'Sir Otto: how did you considered the problem, that for me is very serious in Argentina, of the bad assets of the banking system?' 'Ah – he said – with an increase of international prices of 10 or 15% all is resolved'. They had called the famous physician without opening up, without letting him see the body, for embarrassment. He had no idea [...]. (Prebisch in Magariños, 1991, p. 112)

However, some memoranda had circulated in the Bank of England alerting of the problems of some banks, especially the *Banco Español del Río de la Plata* and the *Tornquist House* (see Memorandum "Some considerations on the banking situation in Argentina," Unsigned, June 3, 1932b; "Banco Español del Río de la Plata," Unsigned, August 18, 1932c). These banks will be among the four banks that were closed at the time of the creation of the BCRA. Thus, it is difficult that Niemeyer didn't know the situation. He probably thought that it was better to let them fail, since he thought that Argentina was overbanked, than to make a rescue plan that could make his fears of inflation a reality.

The British officials didn't receive the Prebisch project with enough anticipation to make suggestions about it to the Argentine government, with the exception of some informal comments:

It is a little embarrassing having to discuss a scheme which is complete in every detail but has not yet been introduced into Congress. It is too late for constructive criticism and too early for congratulations. (Clay to Baring, January 17, 1935b)

CONCLUDING REMARKS

Generally, Prebisch is known for his thought on development issues, but his role in the creation on the Argentine Central Bank shows an aspect less known: his experience in monetary and baking matters. The anti-cyclical policies followed

by the Central Bank of Argentina were seen later as an example for other primary exporting economies.³¹ Ragnar Nurkse and Robert Triffin were among the few that recognized Prebisch's legacy in central banking.³²

However, we cannot say that Prebisch was a theoretician of central banking. Since the beginning his contributions appear pragmatic, based in his knowledge of the Argentine economy. Prebisch didn't comment or quote bibliography on the specific subjects of central banking theory or history, as he did when studying the Argentine economic cycle. This doesn't mean he didn't have a conception about the central bank, but that instead of approaching the problem from a theoretical angle, he saw it from the point of view of the objectives, functions, and instruments of the bank.

The project of Niemeyer is a reflection of what were considered at the time the British orthodox principles of central banking, promoting central banks independent from the governments of their respective countries and focused on the maintenance of the external value of money. The fears of inflation and of the dangers of government intervention were recurrent elements in this approach. Niemeyer was considered one of the most emblematic representatives of the "treasury view," which was the vision articulated by Winston Churchill and his team at the Treasury that stated that public spending was not an effective way of reducing unemployment since any increase in public spending crowded out an equivalent amount of private spending in consumption or investment.

It was from the perspective of the fears of inflation that Niemeyer criticized Prebisch's project for the ILBI and the use of the revaluation of gold. Many of the changes Prebisch made to Niemeyer's project can be analogously seen in the light of his fears for deflation.³³

Prebisch had as well a deep knowledge of the Argentine economy and the consequences left behind by the Great Depression. His studies on the Argentine economic cycle allowed him to provide to the bank the necessary instruments to perform effective anti-cyclical policies in the first years of the bank and at the same time to cope with the consequences of the Great Depression. There was a coherence in his project as a whole that included besides the central bank, the Banking Law and the ILBI. Niemeyer had considered only the liquidity issue, but the crisis had left also a solvency problem that had to be dealt with.

Prebisch applied the economic theory he had studied in the University to unveil and interpret the regularities in the Argentine monetary history, which he explained mainly on the basis of Taussig's, Williams', and Fisher's works.

Fisher studied a closed economy and examined the effects of an exogenous increase in the quantity of money. All the elements of the equation of exchange varied in the transition period, but in the end the definitive effect was on the price level. Prebisch related Fisher's analysis to Taussig's one, extending the explanation to an open economy. The increase in the quantity of money was a consequence of gold inflows brought about by a positive balance of payments. These gold inflows not only entailed the consequences shown by Fisher, but also allowed the return to convertibility. Moreover, the increase in the level of prices had a further consequence in the Argentine case: it stimulated imports, which

together with the accumulation of debt interests provoked the overturn in the balance of payments and the suspension of convertibility. Gold inflows were composed mainly by foreign loans and investment. The explanation of the exogeneity of gold flows was based on Tugan-Baranovsky, who had shown that the flows of capital from the industrial countries to the underdeveloped ones depended mainly on the investment opportunities in Europe.

Another important element in Prebisch's explanation of the cycle was what he called the "original sin" in the institution of the banks. Taking the first Argentine banks as a point of departure, Prebisch showed that they were permanently undercapitalized. They issued enormous quantities of money and constructed important credit structures based on fictitious shareholders' funds. This element accentuated the ascending and the descending phases of the cycle: there was a disproportionate expansion of credit in the ascending phase and a big contraction in the descending phase. This is why the bank supervision will have an important role in Prebisch's central bank.³⁴

The most used instruments to neutralize the effects of the fluctuations of the balance of payments during the period 1935–1943 ended up being the ones rejected by Niemeyer: exchange control and open market operations. The link between the flows of foreign capital and the variations in the quantity of currency will be managed through sterilisation and rediscount. The link between issues and credit will be subordinated to the respect on the part of the banks of banking regulation and to bank supervision by the BCRA. The effects of foreign capital flows on the exchange rate will be limited by introducing exchange control, which will be used also to limit the quantity of imports in the case where an increase in internal prices tends to encourage them. The liquidity and solvency problems of the banks, which appeared each time foreign capital left the country, and which Prebisch attributed to the chronic undercapitalisation of banks, will be solved by creating a central bank with enough shareholders' funds.

Exchange controls and open market operations were applied in different forms, depending on the economic context, which required a certain degree of discretionality on the part of the authorities of the bank. Prebisch's design of the bank allowed the flexibility necessary to apply the instruments in different ways according to the economic situation, while Niemeyer's design was much more rigid. This flexibility allowed the Argentine Central Bank to create instruments to absorb funds according to its needs and to change the features of the regime of exchange controls according to the situation of the balance of payments.³⁵

Between 1945 and 1948, when Prebisch visited as an advisor Paraguay, the Dominican Republic, and Venezuela, he proposed regimes of exchange control similar to the one Argentina (except the Dominican Republic, which wanted to maintain the convertibility with the US dollar) and included in the statutes of the respective central banks the faculty of performing open market operations. Additionally, he introduced measures that granted even a greater degree of flexibility as compared to the Argentine case, like allowing the central bank to change the minimum coefficient of reserves and to hold reserves in foreign exchange.

Niemeyer thought Prebisch's project reflected:

the general abandonment during the crisis of all decent principles of Central Banking and Public Finance. (Mr Connolly's Comments, Niemeyer, June 2, 1933)

In spite of the important differences, both projects had something in common: they focused on maintaining certain stability of the Argentine economy given its agricultural structure, but none of them allowed to change it.

Only in 1946, with a wide reform of the financial system under Perón's government, the Central Bank will be thought of in function of the necessity to industrialize the country. The safeguard of the "good functioning of the bank credit" would be interpreted now in an opposite form,

related to the way in which credit is granted from the point of view of the needs of financial support presented by the different sectors of economic activity. [...] Considering credit as a means of supplying capital, it is obvious that in the interests of the national economy are that the major part of that supplied capital is used for the production of goods and services, because that is the production that increases national income. (BCRA 1947, pp. 22–23)

This notion of investment credit was completely opposite to the notion of credit held by both Prebisch and Niemeyer, which thought banks could only lend for short periods of time for working capital and investment had to be done only with savings.

NOTES

1. This was a Review directed by Prebisch and edited by the Banco de la Nación Argentina, which was the most important in the country. Prebisch had established the bank's Office of Economic Research in 1928 and was its director until 1935.

2. In 1931, Prebisch participated in the elaboration of a project based on Brazil's Niemeyer project, which in the end wasn't adopted.

3. During these years, it was formally a bimetallic standard.

4. Prebisch translated part of Williams' work to Spanish and continued his relationship with him along the years (see Brenta, 2017).

5. Williams work was an attempt to verify for a particular case the thesis proposed by Taussig (1917), which explained the mechanisms of adjustment of the balance of payments after a unilateral transfer of capital between two countries. Other PhD students that tried to verify Taussig's theories in particular cases, also supervised by Taussig himself, were Frank Graham (1922) for the United States, Jacob Viner (1975) for Canada, and Harry Dexter White (1933) for France.

6. For more details on the debates that followed Taussig (1917), see Sember (2013).

7. Prebisch had studied Fisher's works and commented on them. See Prebisch (1991c and 1991d).

8. Even if Prebisch's aim was to identify the objective causes of the cycle, there were also subjective causes like "the appreciation of the opportunities Argentina offered and of the probabilities of rapid enrichment intervened in the incorporation of new capital" (Prebisch, 1991a, p. 161). Prebisch, however, did not want to explain the subjective factors, because they would have meant to trespass on the field of other disciplines different than economics. Later, when his main concern was development, Prebisch had completely changed his mind on that point: "I am persuaded of the impossibility of explaining development, and thus the distribution of income, within the framework of a mere economic theory." (Prebisch, 1981, p. 15).

9. For more on this, see Pérez Caldentey y Vernengo (2012).

10. This law was inspired in the National Banking System of the United States. Any banking organization was authorized to issue notes provided they complied with some conditions. In Argentina, this granted 20 banks the right to issue. The experiment ended with the Baring Crisis of 1890.

11. The Board had to administer stocks to stabilize prices and grant a minimum price to producers.

12. As documented by Goodhart (1988), the cases of rivalries between central commercial banks and its customers were very common.

13. For more details on the relationship between both countries, see Fodor and O'Connell (1973).

14. This led later to the Roca-Runciman treaty, in which Argentina granted to Great Britain all the exchange coming from exports to that country.

15. An internal memorandum stated that:

“The general feeling of the country is undoubtedly more pro-British than pro-American and a British mission would probably be preferred by the Argentine people. President Irigoyen, however, suffers badly from xenophobia, but is probably less antagonistic to Great Britain than to any other foreign country” (Internal Memorandum, Unsigned, January 3, 1930a).

Some of the officials that thought so were T. K. Bewley, R. V. Nind Hopkins, and S. D. Waley of the Treasury and Sir Otto Niemeyer of the Bank of England.

16. Enrique Uriburu was cousin of President José Félix Uriburu and was Finance Minister after Pérez, from April 1931 to February 1932.

17. “even if I should prefer to remain obscure, if they really think it necessary they may make an announcement in Buenos Aires the 21st. November. I will add that they should not in the announcement connect me in so many words with the Bank of England” (Niemeyer, Internal note, November 16, 1932b).

18. “I am not at all anxious to advertise the fact that I have a Treasury official with me. I do not propose to stress this side of Young's career in the Argentine” (Niemeyer to Rae, December 20, 1932c).

19. The Jockey Club, founded in 1882, was the center of political and social gathering of the Argentine oligarchy.

20. “the Bank of the Nation will of course to some extent be a serpent in the grass, though in fact we have done them very well” (Niemeyer to Hambro, April 7, 1933g).

21. This element was not present in Prebisch's project of 1934.

22. Prebisch, instead, did not seem so convinced. He included an article (article 41 of Prebisch's project) in case convertibility was restored, but he did not take it for granted.

23. “the more I look at them [the figures] the more suspicious I become” (Niemeyer to Irving, February 1, 1933d).

24. This transfer will be finished in 1941.

25. Prebisch was general manager of the Central Bank between its creation in 1935 and 1943.

26. For more details on the use of these instruments in the first years of the Central Bank see Sember, 2018.

27. I thank Arturo O'Connell for this information.

28. The gold peso was defined in 1881 as 1.6129 grams of gold 9/10 fine.

29. The gold peso was revalued at m\$N. 4.95 for each gold peso, which meant a revaluation benefit for the national government of m\$N. 663 million.

30. The role of this institute will be explained later.

31. These policies avoided deflation in the descending phases of the cycle but also checked expansion in the ascending phases, which didn't allow the country to grow in the same intensity as other countries in similar situation did. O'Connell (1984) shows that the participation of the manufacturing sector in the GDP increased only from 18% in 1929 to 20.9% in 1939, and it was intensive in labor and based on the use of already existing plants.

32. Triffin said that Prebisch was one of the best economists he knew (see Pazos, 1988, p. 190). See also Triffin (1966, p. 141, fn. 2) and Helleiner (2009). Sayers (1976, 1:524)

said that Prebisch was “a man destined for high place in the annals of central banking” but didn’t recognize the important role he had in the creation of the Argentine Central Bank.

33. Prebisch however was not an “inflationist”, he just thought deflation was worse than inflation.

34. The expression “original sin”, which Prebisch used in relation to the constitution of banks, has recently been used in the literature to designate the impossibility of the developing countries to take loans in their own currency, determining then a currency mismatch between assets and liabilities: assets are denominated in domestic currency, while liabilities are denominated in foreign currency. When in face of a difficult situation, the domestic currency is devaluated, the debtors in foreign currency fail. If instead the peg is defended by exporting reserves and increasing the interest rates, the domestic short-term debtors fail. Prebisch clearly saw this exchange risk, even if he did not use the expression “original sin” in this sense.

35. See [Sember \(2018\)](#) for details on the functioning of these instruments in the period 1935–1945.

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