

Sugerencia de citación: Salas-Díaz, R. J. (2023). Kemmerer Lives! The Evolution of the Composition of the Central Bank Boards of Five Latin American Countries. *tiempo&economia*, 10(2), 1-34. <https://doi.org/10.21789/24222704.2049>

DOI:
<https://doi.org/10.21789/24222704.2049>

Kemmerer Lives! The Evolution of the Composition of the Central Bank Boards of Five Latin American Countries

¡Kemmerer vive! La evolución de la composición de las juntas directivas de los bancos centrales de cinco países latinoamericanos

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Abstract

This study examines the evolution of the composition of the boards of the central banks from Bolivia, Chile, Colombia, Ecuador, and Peru throughout the 20th century. Although the initial boards of those central banks were similar, they included representatives from different institutions, such as labor unions, bankers, business associations, and governments. Over eighty years, governments implemented several

¹ This piece is part of a larger project and became a paper after an idea received at the RIPE/IPE Pre ISA Conference Workshop 2023. Special thanks to Lena Rethel, Alison Johnston, and Ted Zuur. Omissions and mistakes belong to the author.

reforms that changed the composition of the boards , increasing the weight of business associations, while rapidly decreasing the participation of labor unions and bankers. In the 1960s and 1970s, government representatives took over the boards until the independence reforms of the late 1980s and early 1990s. Despite facing political turmoil and undergoing several restructurings, these five “Kemmerer” central banks evolved in parallel up to the new century.

Key words: Central banks; Latin America; Institutions; Interest groups; Appointment; Economic History.

JEL codes: I38, J16, J24, O21

Resumen

Este estudio examina la evolución de la composición de las juntas directivas de los bancos centrales de Bolivia, Chile, Colombia, Ecuador y Perú a lo largo del siglo XX. Aunque las juntas directivas iniciales de esos bancos centrales eran similares, incluían representantes de diferentes instituciones, como sindicatos, banqueros, asociaciones empresariales y de los gobiernos. A lo largo de ochenta años, los gobiernos implementaron varias reformas que cambiaron la composición de las juntas directivas, aumentando el peso de las asociaciones empresariales, al tiempo que disminuyeron rápidamente la participación de los sindicatos y los banqueros. En las décadas de 1960 y 1970, los representantes de los gobiernos asumieron el control de las juntas directivas hasta las reformas independentistas de finales de la década de 1980 y principios de la década de 1990. A pesar de enfrentar turbulencias políticas y sufrir varias reestructuraciones, estos cinco bancos centrales “Kemmerer” evolucionaron en paralelo hasta el nuevo siglo.

Palabras clave: Bancos centrales; América Latina; Instituciones; Grupos de interés; Nombramiento; Historia económica.

INTRODUCTION

At the dawn of the new millennium, central banks around the world were quite homogeneous. Their goals, functioning and governance were supported by a strong narrative in favor of their independence, political favorable conditions and a close-knit network of central bankers. That is why, in the 2000s, it was not surprising for anyone to discover that some Latin American central banks were similar. What would be of surprise is that these structures have been evolving in a similar trend since the 1920s.

Why did that happen? Five Latin American governments were advised by the same person and, because of that, the initial structures of their central banks in the 1920s and 1930s resembled each other. This paper analyses the evolution of the composition of the central bank boards that were developed similarly in the following countries: Bolivia, Chile, Colombia, Ecuador, and Peru throughout the 20th century. Four of these central banks – Banco de la República de Colombia (1923), Banco Central de Chile (1925), Banco Central de Ecuador (1927), and Banco Central de Bolivia (1929) – were founded following the mission led by Edwin Walter Kemmerer. Banco Central de Reserva del Perú had been founded in 1922, but the government restructured it in 1931 also following Kemmerer's advice.

Initially, the governance and structures of these central banks resembled each other (Flores Zendejas, 2021). All boards had important participation of private commercial banks. In Colombia, for example, commercial banks appointed twice as many board members as the government did. However, they also had a significant difference: The presence of representatives from labor unions. The boards of Chile, Ecuador, and Peru appointed one member from unions each, but Bolivian and Colombian boards did not. Another significant difference is that in all of these countries, except Colombia, business associations had appointment power. In Colombia, however, half of the commercial banks' appointees had to represent agricultural, business, or professional

interests. In spite of their differences, the similarities in the initial structures of the banks were preserved for a century and marked a path for the evolution of their boards.

Over the 20th century, the composition of the central bank boards in Bolivia, Chile, Colombia, Ecuador, and Peru underwent significant changes. Labor unions lost their representation in the boards of Ecuador and Bolivia rapidly, while Chile maintained a unique arrangement in which the President of the Republic sometimes appointed union representatives. In all countries, the appointment power of commercial banks was reduced due to public distrust of banking activity after the Great Depression. All Governments removed commercial banks' appointment power entirely in 1960, except Ecuador, where banks had a reduced vote until the end of the century.

In the 1960s, most countries created monetary boards populated by government officials to align the monetary policy with the macroeconomic policies. However, as economic discourses shifted in the 1970s, politically appointed members in independent boards became the norm. Today, all the appointments are in the hands of the executive, the legislature, or a mix. In Colombia and Chile, the President of the Republic appoints all board members, but former presidents also appoint some members to prevent one President from controlling the board. In Bolivia, the legislature presents a shortlist for each board member, and the President appoints the central bankers from these shortlists. Ecuador's President sends a shortlist to Congress, which confirms or rejects the appointees. In Peru, the President appoints three board members, and the legislature appoints the other three.

The reforms followed a similar path across countries, reflecting the certain path of dependency created by Kemmerer's initial intervention. A common concern was the political capture of the banks' policies. Certain countries established rules regarding the appointment of board members to prevent undue influence from interest groups. These rules included forbidding kinship ties or close connections to particular businesses, banks, or government offices. At the dawn of the monetary boards, all

countries moved towards granting the central banks' boards greater independence from their governments.

Kemmerer Banks Foundation

The cases of central banks that were founded before the eighteenth century were exceptional and their functions and governance were vastly different from what we now consider a central bank. During the 19th century, many national banks were private, profit-oriented and had special privileges granted by governments (Epstein, 2019). As the idea of managing economic crises evolved, those banks took on two general functions: Acting as bankers to central governments and being last resort lenders (Bignon, Flandreau, & Ugolini, 2012).

Two initiatives aimed at establishing a central bank in the United States failed in the 19th century. The first initiative, led by Alexander Hamilton, resulted in the establishment of the First Bank of the United States in 1791, amid political controversies. However, in 1811 the First Bank's 20-year charter was not renewed, and it ceased operations. The second initiative resulted in the establishment of the Second Bank of the United States in 1816, which also ceased operations 20 years later after President Jackson vetoed the bill to renew its charter in 1832.

Similar to the United States, several Latin American countries' attempts to establish central banks were unsuccessful. Argentina had three national banks (1826, 1836, and 1891), Colombia had two (1880 and 1905), and Peru (1821) and Ecuador (1890) each had one. The primary objectives of these national banks were to reduce their dependency on external inflows and provide fiscal leverage, but these initiatives failed ending in episodes of depreciation and inflation (Pérez-Caldentey & Vernengo, 2020).

The Federal Reserve of the United States, founded in 1913, was a latecomer compared to other developed economies. Two competing proposals were debated for its governance system. Republican Senator

Nelson Aldrich, influenced by bankers, advocated for the creation of a centralized institution with branches. President Wilson's advisors, Carter Glass and Parker Willis, proposed 21 decentralized regional banks keeping the institution away from the NYC bankers. Wilson added a centralized government-supervised board to this proposal resulting in the Federal Reserve dual system (Gómez Betancourt, 2010; Conti-Brown, 2018). Princeton Professor Edwin Kemmerer, who was an advisor during the Philippines' institutional transformation (Gómez Betancourt, 2022), closely observed the creation the Federal Reserve governance system (Conti-Brown, 2018). Between 1910 and 1913, he published seven articles and one book directly linked to this topic. Despite not having participated in any of the main proposals, President Aldrich hired him to conduct monetary research. He also corresponded with Willis about this matter and even worked with President Wilson when he was New Jersey's Governor (Gómez Betancourt, 2010).

The creation of central banks gained momentum after the turn of the century. The Brussels International Financial Conference in 1920 and the Genoa Conference in 1922 promoted the creation of central banks (Jácome, 2015). The first large central bankers' meeting happened at the Brussels International Finance Conference, organized by the League of Nations to address the economic chaos that followed the end of the First World War. Central bankers from thirty-nine countries unexpectedly coincided that every country had to have an independent central bank and that those central banks needed to commit to their government's pre-war policy goals. The Genoa International Economic Conference in 1922 reaffirmed that national central banks needed to be created, and the gold standard had to be restored (Marcussen, 2005).

The central banks that had been founded before the 1920s acted as guarantors of financial stability by functioning as lenders of last resort, and they were sometimes successful in preventing or managing banking panics (Bordo & Siklos, 2017; Ugolini, 2017). From the turn of the century to the end of the First World War, Latin American countries experienced a period of economic volatility. To maintain their monetary and financial stability, many of them started working to establish their own central

banks (Monsalve & Winkelried, 2022). In Colombia, between 1909 and 1919 fourteen bills proposed the establishment of a bank with issuing powers authorized by the state and ruled partly or entirely by it, but none were successful (Ibañez Najar, 1990). Similarly, in Chile, six bills were presented between 1918 and 1924 to establish a central bank or an institution with some of its functions, but they were also unsuccessful (Carrasco, 2009).

Moreover, the establishment of Latin American central banks was also in the interest of United States companies, who sought to expand their investments in the region while minimizing risk (Drake, 1989). Additionally, Benjamin Strong, the first governor of the Federal Reserve – a highly pragmatic banker with long experience, and a common distrust of politicians – took this interests at heart (Marcussen, 2005)

In the early 20th century, it was fashionable for Latin American governments to hire foreign experts to design and implement institutional reforms (Seidel, 1972; Flores Zendejas, 2021). Following the advice of experts, several countries founded their central banks during the 1920s and 1930s (Drake, 1989; Pérez-Caldentey & Vernengo, 2020). The United States, in an effort to export knowledge and expand its area of influence, encouraged a group of professional economists to participate in missions aimed at reforming institutions in other countries.

Edwin Kemmerer was among the first of these technical missionaries. As a Princeton economics professor, he traveled the world to advise developing economies on monetary policy. He counselled countries as diverse as Egypt, Turkey, South Africa, Germany, Poland, China, México, Guatemala, and Cuba, as well as dependencies of the United States including the Philippines and Puerto Rico (Drake, 1989; Gómez Betancourt, 2022). Kemmerer's largest impact was in South America and his missions in the region served three purposes: To create a familiar institutional economic framework for United States companies, to synthesize the opinions of national political contenders, and to expand Latin American

governments' extractive and distributive capacities (Drake, 1989; Flores Zendejas, 2021).

The first group of central banks in Latin America were founded following the experience of the United States, especially since most of them were the result of the US missions led by Walter Kemmerer.² That group includes the central banks of Colombia (1923), Chile (1925), and Ecuador (1927). It also includes the transformation of the national banks of Bolivia (1928) and Perú (1931) into central banks. Their mandates included an exclusive right of issue, the centralization of gold reserves, the correct functioning of the payment system, and the provision of varying degrees of government financing (Jácome, 2015; Pérez-Caldentey & Vernengo, 2020).

Initially, the governance and structures of these Andean central banks resembled each other (Flores Zendejas, 2021). All boards had important participation of private commercial banks. In all of these countries except Colombia, business associations had appointment power. However, in Colombia, half of the commercial banks' appointees had to represent agricultural, business, or professional interests. The major difference among the boards' compositions was whether or not labor unions were represented.

Most banks of issue during this time were privately owned joint-stock companies which were not mandated to lend funds to governments (Ugolini, 2011). Similarly, the central banks from the Kemmerer missions were established as joint-stock companies, but with a focus on maintaining financial stability. At the time, there was a general distrust among bankers, businesspeople, and politicians in the government's ability to manage central banks, which led them to adopt a governance structure, in which governments only contributed capital but had no

² Kemmerer also advised the governments of Mexico and Guatemala before his missions in the Andean region in 1917 and 1919. However, the Central Bank of Mexico was not established until 1925, due to the Mexican Revolution and with some modifications to Kemmerer's proposal (Flores Zendejas, 2021). Additionally, Banco Central de Guatemala, founded seven years after Kemmerer's visit, was transformed into Banco de Guatemala in 1946. Hence, I did not include them in the study group.

decision-making power (Almeida, 1994; Carrasco, 2009; Avella Gómez, 2014; Monsalve & Winkelried, 2022)

Table 1. Who appointed the members of the central bank's boards after the first Kemmerer Mission in the 1920s in each country?

	COL -1923	CHI -1925	ECU-1927	BOL-1929
Government	3	3	2	2
Domestic Banks	4	2	2	2
Foreign Banks	2	1	-	-
Business Associations	-	2	3	3
Labor Unions	-	1	1	-
Public Shareholders	1	1	1	2
Total	10	10	9	9

Sources: Drake, *The Money Doctor in the Andes*, 1989; Law 25 of 1923, Colombia; Decree Law 486 of 1925, Chile; Almeida, 1994, Ecuador; Law 632 of 1928, Bolivia.

Notes: The table indicates the year of the reform.

This distrust did not limit the appointment power of the governments, but it did limit their voting power. Kemmerer emphasized this distrust when he supported the confirmation of the appointment powers in Chile and Ecuador (Almeida, 1994; Carrasco, 2009). In Colombia, Law 25 of 1923 established that the government contributed half of the capital and the right to appoint three of the ten board members, who had voice but did not vote (Avella Gómez, 2014; Sastoque Ramírez, 2018). Similarly, in Chile, Decree Law 487 of 1925 also established that the government had the right to appoint three board members who did not vote, and its shares had a value of 13 % of the total bank capital. In Ecuador and Bolivia, the government obtained the power to appoint two out of nine members. In Bolivia, Law 632 of 1928 established that the government-appointed delegates had no voting power either.

Shareholder bankers were invested to elect directors to each country's central bank board. In Colombia, the bankers doubled the government's appointment power, while in other countries, they had an equal share. In both Colombia and Chile, the Kemmerer missionaries advocated for the inclusion of foreign bank representatives on the board, as they were deemed less susceptible to government pressure (Ibañez Najar, 1990; Carrasco, 2009). However, in Ecuador, the missionaries did not push for this inclusion due to the low presence of foreign bankers (Drake,

2013). Similarly, there was no participation of foreign bankers on the board of the Bolivian central bank.

As in the United States, members of the government were opposed to private bankers' interests controlling over the central banks. However, since the government had no voting power, Kemmerer proposed that business associations should also have a say on the central bank boards (Almeida, 1994; Drake, 2013; Avella Gómez, 2014).

In Colombia, the solution was to require that half of the commercial bankers' appointees were representatives of agriculturalists, businesses, or professional associations. In Chile, the National Agricultural Society and the Manufacturer Development Society each appointed one member, while the Saltpeter Producers Association and the Chamber of Commerce appointed another. In Ecuador, the business association was allotted three members, which reflected the conflict between the economic power on the coast and the political power in the capital. The Chamber of Commerce and Agriculture of Guayaquil appointed one member, while the Chamber of Commerce, Agriculture, and Industry of Quito appointed a second, and the Agriculturalist Society of Quito a third. In Bolivia, the Associate Industrialist and Miners appointed one member, the Chambers of Commerce appointed another, and the Societies of Agriculturists and Agriculture Proprietors appointed a third.

Labor unions appointed one member each to the boards of Chile, Ecuador, and Peru, but Bolivian and Colombian unions did not. This idea was likely introduced in Chile due to the unions' support of a central bank that fought against the loss of monetary value and was then adopted by the banks of Ecuador and Peru (Drake, 2013). In Ecuador, however, the unions could not agree on their delegate, and the Ministry of Social Prevision and Labor had to appoint the first workers' director to the central bank board (Almeida, 1994).

Public shareholders were entitled to appoint at least one member to each central bank board. However, the original laws that regulated these

institutions included additional restrictions to prevent the capture of banks' policies by political or private interests. In Colombia, Law 25 of 1923 did not impose restrictions on the directors. However, the Governor could not be a public employer, executive or employee of a commercial bank. In Chile, Law 486 declared that appointees could not be current or former members of Congress or executives/employees of a shareholder bank. In Ecuador, representatives of commercial banks could not be appointed to the board. In Bolivia, Law 632 of 1938 prohibited public employees from serving as board members. Also, it restricted executives, employers, or anyone holding more than 20% of associate banks' shares from serving on the board.

The Great Depression: Crisis and the First Reforms

The Great Depression increased the general public's distrust in private banking, resulted in a management crisis and in failed efforts to reestablish the public confidence in central banks (Goodhart, 2010; Capie, 2016; Ugolini, 2017). Subsequently, economists around the world debated policies aimed at stabilizing and tightening the financial system while acknowledging cycles and recessions as manifestations of aggregate demand: Keynesian ideas were on the rise (Capie, 2016; Blanchard & Summers, 2017). Governments, then, began to assert greater control of their central banks and the banking system. Regulations and restrictions on banking activity increased during this time (Haldane & Qvigstad, 2016; Ugolini, 2017; Jones & Matthijs, 2019) and interbank cooperation and coordination developed with the creation of the Bank of International Settlements (BIS) and by regular meetings of bankers in Basle during the interwar period.

In the 1930s, the governments of the Andean countries set in place reforms aimed to adjust the functions, instruments, and governance structure of central banks to respond to the economic challenges of the time.³ Specifically, the reforms targeted the external sector, which was

³ During this period, several Latin American countries established their central banks, including El Salvador (1934), Argentina (1935), and Venezuela (1939).

affected by loan restrictions and losses in international trade. Governments began to play a critical role in formulating monetary policy, shifting the focus of central bank policies from inflation control to promote economic growth while still preserving exchange rate stability (Jácome, 2015; Pérez-Caldentey & Vernengo, 2020). The end of the gold standard increased the relevance of exchange policy and gave more room to the use of counter-cyclical monetary policies (Ugolini, 2011; Jácome, 2015; Pérez-Caldentey & Vernengo, 2020).

The first board of directors of a Kemmerer bank that was restructured was that of Ecuador. Three years after its foundation, a reform removed the union representative from the board and gave the Agriculturalist Society of Guayaquil the power to appoint a member. The impetus for this reform came from the coastal business association, which had argued that they were being deliberately excluded from the board (Almeida, 1994).

In 1930, the president of Banco de Reserva del Peru sought permission from the board to engage Edwin Kemmerer in a bank reform. Despite attempts by banks, businesses, and the government to obtain loans from the bank following the effects of the 1929 crisis, the directors made it clear that the bank's mission prevented them from providing liquidity. They stated that credit policy was only implemented to fulfill the issue purpose, even if it went against the interests of the bankers on the board. In January of 1930, Kemmerer arrived in Peru in the midst of a necessary currency devaluation with a fixed gold standard rate, and the closure of the country's largest commercial bank (Hampe, 1995).

The board of Banco de Reserva del Peru originally consisted of three government delegates, six delegates from domestic and foreign shareholder banks, and a tenth director from a foreign agent of the bank that was yet to be constituted at the time of the bank's founding in 1922 (Hampe, 1995). To ensure the bank's independence from other interests, the board had several safeguards, including the prohibition of electing executives of already represented banks, members of the congress, the

judicial system, public employees, or any two people who belonged to the same family or society (Monsalve & Winkelried, 2022).

Decree Law 7137 of 1931 included Kemmerer's recommendations, changing the bank's name to Banco Central de Reserva del Peru and chartering it as the issue bank for 30 years. Like other banks, the government had a voice but did not have voting power. The board initially had ten to eleven members. The country's President appointed three, but the bankers saw a reduction in their participation to three appointees. The shareholders appointed one director, and the business associations had appointment power of three members. One member was from the National Agrarian Society, a second from the National Society of Industries, and a third from the Chamber of Commerce. The last member of the board was a temporal delegate from J. & W. Seligman & Co. due to the conditions of a loan celebrated between the government of Peru, the firm, and the National City Bank in 1927 and ratified in 1931. Kemmerer also proposed the participation of workers. Therefore, he suggested that one of the government appointees must be knowledgeable about unions and be "sympathetic with workers' class aspirations" (Hampe, 1995).

Given the economic climate, Colombia found it necessary to reassess its economic institutions. As a result, Law 82 of 1931 was enacted. It renewed the bank issue rights, regulated the bank's loan policy, and altered the composition of the board. Under the new law, the Coffee Growers Federation was granted the power to appoint one board member, while the Agriculturalist and Chambers of Commerce could appoint another. Additionally, the appointment of the Minister of Finance became a fixed government representative on the board.

In December of that year, Banco Central de Reserva del Peru hosted a South American Central Banks Conference in Lima. Kemmerer, the representatives from the central banks of Bolivia, Colombia, Chile, Ecuador and Peru, and representatives from the Federal Reserve Bank of New York attended the conference. There were discussions about creating the necessary conditions to sustain the gold standard, led mainly by Kemmerer's recommendations (Monsalve & Winkelried, 2022). Despite

Kemmerer's defense, the fact that the United Kingdom had abandoned the gold standard two months before the conference, forced the Latin American countries to do so as well in the following months.

The discussions about the complexities of Latin American economies – which required more than the replication of economic models from the first world – are noteworthy in the memoirs of the conference. Economics scholars and experts from the most advanced universities were unaware of their specificities. Therefore, it became evident that spreading and debating the empirical knowledge of money and banking in Latin America was necessary (Uribe, 2012).

After the gold standard was abandoned, banking reforms granted some flexibility to the Kemmerer central banks, so that they could provide loans to governments, largely aimed at mitigating the effects of the post-crisis period. Additionally, augmented government participation was allowed on the board, while commercial banks lost part of their involvement.

In Peru, seven months after the conference, Law 7538 de 1932 was enacted. It included another government representative on the board of the central bank. The Law also retained the President's authority to appoint a person affiliated with the worker class until the Law of Unions was passed, which stated that the appointee had to be selected from a shortlist provided by the unions. Furthermore, this union imposed additional restrictions on boards, prohibiting the participation of members of the congress, the judicial power, public employees, and individuals in bankruptcy from serving on the board. Non-bank appointees were required not to be executives/employees and shareholders owning more than 10% of the shares of an associate bank. Another restriction imposed was that no more than one person that belonged to the same family, financial company or its subsidiaries could be appointed. A curious exclusion that reflected both issues of mobility and centralism was that the Law barred individuals residing more than 50 km from Lima from serving on the board.

The Colombian government hired Kemmerer for the second time in 1931 to establish a reform that would empower the central bank and the economic authorities with more tools to face the challenges posed by the Great Depression. Due to the impossibility of obtaining new international loans, the Kemmerer mission focused on expanding the capacity of Banco de la República to grant loans to the government (Junguito, 2022). The new mission led to the enactment of Law 46 of 1933, which increased the government's debt to the bank. Additionally, as business associations already had direct representation, the appointment power of the bankers was reduced to three: Two for domestic banks and one for foreign banks.

Although the reforms implemented so far have generally reduced the voting power of central banks, in Ecuador, consecutive reforms changed their voting power, while Chile maintained the same composition.

In Ecuador, the 1933 reform of the central bank resulted in a reduction of total board members from 9 to 5. The reform maintained the appointment power of the government and the national banks on two members but reduced that of the business associations and public shareholders.

In Chile, Decree Law 2266 consolidated the reforms made to the central bank during the period. While it did not change the votes nominally, it modified the mechanisms. It transferred the power of the producers of saltpeter to the newly created Chile Saltpeter and Iodine Sales Corporation, which established a monopoly through a contract between the government and the producers. Additionally, it retained the Union's appointee but transferred it from the Workers Federation to all unions with more than 500 unionized workers.

In Ecuador, the 1936 reform expanded the board of the central bank to 8 members, with one additional member appointed by the business associations and another by the legislature. This expansion again emphasized the regional divisions. The reform stipulated that the government and the business associations of agriculture, trade, and

industries should each appoint one member who resided in Quito, while another member had to reside in Guayaquil. The commercial banks and the legislature were to appoint one member who resided in Quito, and the bank directory would elect the last member from Guayaquil (Banco Central del Ecuador, 2002).

These changes imposed by the reform lasted less than two years. With the ascent of a new dictatorship, the government created a National Economic Council and invited Manuel Gómez Morin, a key figure in the foundation of Banco de México, to preside over and plan a new bank reform (Banco Central del Ecuador, 2002; Luna Andrade, 2017). In 1938, Supreme Decree 59 changed the central bank's administration to a council of 10 members, which surprisingly reduced the government's representation on the board. The president selected only one member from a shortlist provided by the State Council. The public shareholders appointed another member. Commercial bankers increased their representation by appointing four members, two residing in Quito and two in the coastal provinces. The Supreme Court selected the remaining four members from a shortlist presented by the business associations, with one member each from the industrialists, trade representatives and agriculturists from the Quito area and agriculturists from the Guayaquil area (Luna Andrade, 2017).

Table 2. Who appointed the members of the central bank's boards in 1938?

	BOL - 1928	PER - 1932	COL - 1933	CHI - 1935	ECU - 1938
Government	2	3	3	3	1
Domestic Banks	2	2	-	2	4
Foreign Banks	-	1	-	1	-
Domestic & Foreign Banks	-	-	3	-	-
Business Associations	2	3	2	2	4
Labor Unions	-	1	-	1	-
Public Shareholders	2	-	1	1	1
Total	8	10	9	10	10

Sources: Drake, *The Money Doctor in the Andes*, 1989; Law 632 of 1928, Bolivia; Law 7538 of 1932, Peru; Law 46 of 1933, Colombia; Decree Law 2266 of 1935, Chile; Almeida, 1994 and Banco Central del Ecuador, 2002, Ecuador.

Note: The table indicates the year of the reform.

Good Neighbor Policy, the Second Wave of Advisors and New Reforms

With the onset of the Second World War, the increased need for coordinated efforts between central banks and fiscal policy led governments to adopt general macroeconomic policies, while central banks took charge of managing government debt, credit, and investment policy (Goodhart, 2010; Ugolini, 2017; Wendschlag, 2018; Epstein, 2019). The Federal Reserve, under the Good Neighbor policy, was a proponent of some of these policies, and, with them, a new generation of economic and financial missionaries arrived in Latin America (Helleiner, 2014; Pérez-Caldentey & Vernengo, 2020).

In Peru, in December 1941, a Supreme Decree eliminated the participation of the unions in the board by reducing the President's power to appoint their representative or a person aligned with the workers' interests. Domestic banks retained their two appointments, but foreign banks lost their appointment capacity. The three business associations preserved the appointment power granted to them in 1931, with one member from the National Agrarian Society, a second from the National Society of Industries, and a third from the Chambers of Commerce.

After the Second World War, there was a widespread trend of central bank nationalization. Some countries transformed their central banks into public-private entities, or they fully nationalized them. In the post-war period, most countries prioritized full employment, stabilization of prices and international competitiveness as their main objectives (Bordo & Siklos, 2017; Wendschlag, 2018; Jones & Matthijs, 2019) and central banks became essential advisors and key institutions in government efforts to achieve these objectives by leveraging their accumulated skills and experience (Brimmer, 1971; Goodhart, 2010; Wendschlag, 2018; Epstein, 2019). In addition, central banks in developing countries implemented policies, such as providing capital to industrial and agricultural development banks, establishing securities funds, offering differential

discount rates to allocate credit, and imposing reserve and import deposit requirements (Epstein, 2019).

In Bolivia, the 1945 Organic Law of the Bank created two Directive Boards, one for the Monetary Department and one for the Banking Department. The board of the Monetary Department included a president and four directors elected by the government, a representative of the commercial banks, a representative of the large-scale mining, and a representative from the rural societies.

In the 1940s, Banco Central de Ecuador hosted two missions from the Federal Reserve. In 1940, Banco Central de Ecuador hired Professor Frank Fetter and J.C. Corbett from the Federal Reserve to study the economic conditions of the country (Banco Central del Ecuador, 2002). Subsequently, in 1947, the country requested a mission from the International Monetary Fund and the Federal Reserve, which sought to align with the Bretton Woods standards and achieve monetary stability. This mission was directed by Robert Triffin and included David Grove as a representative of the Federal Reserve (Banco Central del Ecuador, 2002; Luna Andrade, 2017).⁴ Although a Law about exchange control was approved, new political instability delayed the approval of the bank reform until 1948. With this new Law, the board of directors was renamed as the Monetary Board and initially consisted of nine members (Luna Andrade, 2017). Four members were appointed from the public sector, including one appointed by the Legislature, one by the Minister of Finance, one from the National Economic Council, which was created a decade earlier, and one from the National Institute of Prevision. Four members were appointed from the private sector, including two from the business associations and two from the commercial banks. The final member was elected from among the entire Monetary Board.

In 1948, after a period of political turmoil following the assassination of the leading presidential candidate, the Colombian government sought assistance from the International Bank for Reconstruction and

⁴ Robert Triffin and David L. Grove had already participated in the transformation of the Banco Central de Guatemala into the Banco de Guatemala in 1946.

Development (IBRD) to rebuild the capital city. Launchlin Currie led a mission from the IBRD to assess the country's needs and recommend resource allocation (Sandilands, 2015; Álvarez, Guiot-Isaac, & Hurtado, 2020). Banco de la República hosted the mission. Additionally, the contractual term of Banco de la República as the bank of issue was about to expire in 1953. Drawing from the experience of Grove as an advisor to Ecuador, the government agreed to an international commission from the Federal Reserve of New York, led by Grove, to organize adjustments to the banking structure and credit policies. Based on the resulting report, the bank created the Commission of Banking Reforms to analyze the feasibility of extending the bank's lifespan and reforming its structure and objectives. Several reform proposals, which involved academic debates among foreign advisors, were presented (Sandilands, 2015; Álvarez, Guiot-Isaac, & Hurtado, 2020).⁵

Between 1951 and 1953, multiple decrees and laws reformed Banco de la República, reflecting the developmental practices of the time and the government's ideas for corporate governance. Against the recommendations of foreign advisors, the reform expanded the participation of business associations on the board. Decree 2057 of 1951 extended the bank's right of issue for 20 years and changed the composition of the board. The government was entitled to appoint three members, domestic and foreign banks to appoint three, and the National Coffee Federation with one appointment. Additionally, the societies of agriculturalists and cattle ranchers were allowed to nominate individuals for one appointment, and the chambers of commerce and the industrialist with another. One of the government appointments had to be the Minister of Finance. The decree reduced the appointment power of commercial banks, nominally increasing the voting power of the government, which was responsible for appointing two members among the nominees of the trade associations.

Decree-Law 106, which replaced the previous Law of the Central Bank in Chile in 1953, conceived the central bank as an autonomous institution,

⁵ In 1952, Currie returned as an advisor of the government in the commission in 1950, and in 1952 the IBRD send Albert Hirshman as its economic policy advisor, both had different perceptions about monetary and fiscal policy.

responsible for promoting the organized and progressive development of the national economy through credit and monetary policies aimed at avoiding inflationary or depressive measures. The Law retained the appointment powers described in previous laws and decrees but included four additional directors elected by the legislature as a consequence of the expanded powers of the government institutions by Law 8707.

Table 3. Who appointed the members of the central bank's boards in 1954?

	PER - 1941	BOL - 1945	ECU - 1948	COL - 1951	CHI - 1953
Government	3	5	3	3	3
Domestic Banks	2	1	-	-	2
Foreign Banks	-	-	-	-	1
Domestic & Foreign Banks	-	-	2	3	
Business Associations	3	1	2	3	2
Labor Unions	-	-	-	-	1
Public Shareholders	1	-	-	-	1
Legislature	-	-	-	-	4
Other	-	1	1		
Total	9	8	8	9	14

Sources: Peru: Supreme Decree of December of 1941. Bolivia: Organic Law of the Bank of 1945. Ecuador: Luna Andrade, 2017 and Banco Central del Ecuador, 2002. Colombia Decree Law 2057 of 1951. Chile: Decree Law 106 of 1953.

Note: The table indicates the year of the reform.

Macroeconomic Coordination and Entirely Government Appointed Boards

During the 1960s, central banks began to assume an increasingly active role in promoting economic development. The planning process of central banks involved deliberations on integrating stability functions with development responsibilities.⁶ During this period, many of them shifted from having a significant involvement of commercial bankers and selected business associations on their boards to being more oriented towards government directions, and in some cases, directly elected by the country's Presidents.

⁶ The establishment of the central banks of Brazil (1964) and Uruguay (1967) marked the evolution of two distinct groups of banks in Latin America. In countries influenced by the Kemmerer model, monetary policy was assigned to the central banks while financial supervision was delegated to another agency. However, in Argentina, Paraguay, and the recently founded central banks, both responsibilities of monetary policy and financial supervision were combined (Jácome, 2015; Flores Zendejas, 2021)

In 1960, a third Organic Law of Banco Central de Chile was passed, maintaining the central bank's broader goal but modifying the board's appointment and composition. The new Executive Committee of the bank included a fourth member appointed by the President. The foreign and domestic banks were empowered to have three delegates together. The Law maintained the union delegate but changed the wording from "workers" to "employers and workers".

Similarly, in Ecuador, the Decree Law of November 24 in the same year constituted the Monetary Board, which had eight members. Four public members were appointed, including one delegate from the Legislature, the Minister of Finance, the Minister of Development, and a delegate from the National Economic Council. Four private members were appointed, with two from commercial banks (one from the banks of the coast and one from the banks of the Quito area) and two from chambers of commerce and industries, following the same regional division (Banco Central del Ecuador, 2002).

In Peru, debates arose over the composition of the central bank's board. Law 13958 of 1963 aimed to balance public and private interests with a 10-member board. Three members were appointed by the government, one of whom represented workers. Three were appointed by the banks, with one from the public development banks, one from the commercial banks of Lima, and one from the commercial banks of the rest of the country. The business associations retained their three members, with one appointed by the National Agrarian Society, one by the National Society of Industries, and one appointed jointly by the chambers of commerce of the Country, the Chamber of Commerce of Lima, and the National Retailers Corporation. New restrictions and incompatibilities were imposed (Hampe, 1995). However, struggles with the government led to four board presidents resigning within five years (Martinelli & Vega, 2022)

In Colombia, Decree Law 2206 in 1963 transferred monetary, exchange, and credit authorities from the private board of directors to a government-appointed board. Following the examples of Paraguay,

Guatemala, and Ecuador, the Colombian government established a new Monetary Board. The board included the Minister of Finance, the Minister of Development, the Minister of Agriculture, the Director of the National Planning Department, and the economic secretary of the presidency, all with no voting power. The director of Banco de la República was the only voting member who was not directly appointed by the President. Additional decrees later added more non-voting members to the board in the following years.

The struggles for control over Banco Central de Reserva del Peru led to a new Organic Law in 1968, which changed the bank's objective to promote credit and foreign exchange conditions for the national economy's organized development, and to increase the growth, real income, and high employment levels (Martinelli & Vega, 2022). The number of directors increased to 12, with six appointed directly by the President. Five directors represented business associations, selected by the President from shortlists provided by various organizations, including, the National Society of Fishing and the Workers Confederations. However, the lack of regulations on their tenure and nomination processes rendered their independence inconsequential (Hampe, 1995). In 1968, two Decrees Law further transformed the board, with one maintaining on the board the six presidential appointees only and the other expanding them to eight. By 1970, the bank's policies were fully integrated within the Ministry of Finance (Martinelli & Vega, 2022).

The economic struggles of the balance sheets of Banco Central del Ecuador led to a restructuring of the bank through Supreme Decree 91 of 1970. This decree removed the Legislature representative and empowered the President to make an additional appointment. It also grouped the bankers to appoint one representative, while maintaining the differentiation between the capital and the coast appointees of the business associations.

In Bolivia, Decrees Law 9428 and 9440 concentrated the authority of Banco Central de Bolivia on all members appointed by the government. Decree 9440 entitled the government to nominate the president of the

bank and three directors, with the requirement that one of them had a degree in economics and another in law. The remaining members were also appointed by the government but from a shortlist provided by public economic authorities. These included an employee from the Ministry of Finance, an employee from the Ministry of Planning, and an employee from the Central Bank with at least 15 years of tenure.

In 1975, a fourth organic law was passed in Chile, creating the Monetary Council. Its members included the Minister of Economic Coordination, Finance, Economy, and Development and Reconstruction, the Director of National Planning, the president of the bank, and a delegate of the President of Chile. This law also permitted the bank to fund the government under special circumstances.

The 1979 Constitution of Peru introduced a new mechanism for the appointment of the board of the Banco Central de Reserva. The Constitution allowed the government to nominate the president of the bank and appoint three other members of the board, while the legislature ratified the president and appointed the remaining three members of the board.

Table 4. Who appointed the members of the central bank's boards in 1979?

	COL - 1963	ECU - 1970	BO L- 1970	CHI - 1975	PER - 1979
Government	5	3	7	6	4
Domestic & Foreign Banks	-	1	-	-	-
Business Associations	-	2	-	-	-
Legislature	-	-	-	-	3
Other	-	-	-	-	-
Total	5	6	7	6	7

Sources: Drake, *The Money Doctor in the Andes*, 1989. Colombia: Law 21 of 1963 and Decree 2206 of 1963. Chile: Fourth Organic Law. Ecuador: Banco Central de Ecuador, 2002, and Luna Sebastian, 2017. Bolivia: Decree Law 92428 of 1970 and Supreme Decree 9440 of 1970. Peru: Decree Law 17784 of 1969 *Memories of the Central Bank of Reserve* 1968, and 1969 and the 1979 Constitution.

Dawn of the Latin American Monetary Boards

The collapse of the Bretton Woods System can be attributed to multiple factors. The most significant were the abandonment of the dollar-gold parity by the United States (Kindleberger & Aliber, 2015), the inflationary pressures experienced by developed countries from 1965 to 1983, the oil price shocks (Bordo & Siklos, 2017), and misleading macroeconomic policies. In the late 1970s, during the second oil crisis, conservative governments and central bankers, who were skeptical of government intervention and market regulation, came to power (Wendschlag, 2018).

Prior to this period, central banks had multiple goals. However, after the 1970s, central bank goals narrowed to focus primarily on price stability and credibility through the adoption of monetary policy rules (Grabel, 2000; Haldane & Qvigstad, 2016). This shift was driven by an increasing focus on price control and the rise of neo-Keynesian theories that emphasized the conflicts of interest associated with government economic management (Dow, 2014; Bordo & Siklos, 2017; Wendschlag, 2018; Jones & Matthijs, 2019). As a result, independent central banks that followed explicit rules with narrow instruments gained traction, as economists regained trust in the self-stabilizing properties of the market.

In Chile, new restrictions were imposed on central bank lending in the late 1970s. In 1979, a Law established that the Central Bank could not purchase treasury bonds or extend credits to firms other than financial institutions as part of their normal operations. The Chilean Constitution of 1981 included the concept of an independent central bank. According to the Constitution, unless the country faces an imminent threat of war, the central bank cannot support any public expenditure. In 1989, a new Organic Law was enacted, establishing the Bank Council with the principal aim of price control aligned with the government's economic policies. The appointment power of the five counselors remained with the President, who issued a decree through the Ministry of Finance but required approval

from the Legislative. Furthermore, these counselors were no longer part of the government.

The 1991 Colombian Constitution incorporated the concept of an independent central bank. The Constitution removed the developmental functions from the central bank while preserving its functions as the state's fiscal agent. It also established price control as the principal objective of the bank. However, the Constitutional Court amended this during the 1997-1999 crisis to include "in coordination with general economic policies". As a result, the Monetary Board was dissolved, and a new Board of Directors was constituted. The new board had seven members, including the Minister of Finance, five members appointed independently from the government, and the Governor, elected by the board.

In May 1992, Ecuador passed a new Monetary Law, which introduced a new board configuration for the central bank, granted some degree of autonomy, and encouraged a focus on abating inflation (Cueva & Díaz, 2022). The new Law enlarged the voting members directly appointed by the President by one. They were the Minister of Finance, two representatives, and the bank's governor. The board continued to include private appointments from business associations and commercial banks (Jácome, 2004).

In Peru, Decree Law 26123 of 1992 established monetary stability as the main goal of the central bank while retaining the existing governance structure. The President of Peru retains four appointments, including the bank's president, who is ratified by the legislature and appoints the other three members as well.

In Bolivia, Law 1670 of 1995 established that the President elected the directors from a shortlist provided by the Lower Chamber of Congress. The law also introduced a requirement in which the president of the bank was required to have a university degree and established several prohibitions based on kinship, conflicts of interest, as well as records of financial crimes and bad debts.

The last reform of the century took place in Ecuador with the 1998 Constitution, which granted the central bank technical and administrative autonomy from the government, following the model of other Kemmerer banks. The Constitution established price stability as the core objective of the monetary authority and limited lending to the government and financial institutions, except in cases of unavoidable liquidity issues. A central bank board replaced the monetary board, which excluded all private sector and government representatives. The new board comprised five members, all appointed by the President of Ecuador, but subject to possible veto by Congress (Jácome, 2004; Cueva & Díaz, 2022).

Conclusion: New century, Same Banks, New Struggles

Kemmerer's advice led to the creation of five Latin American central banks with similar governance structures. Kemmerer found a way to represent competing sectors with high distrust in each other's interests within the central bank boards. Initially, these boards had significant participation from domestic banks, some representation from business associations, and public shareholders, as well as the participation of government delegates with voice but no vote. However, there were differences in the presence of labor unions and foreign bankers on the boards.

Throughout the 20th century, labor unions, bankers, and business associations lost their appointment powers, and now the Presidents of Colombia and Chile appoint all board members. To prevent a single president from controlling a central bank board, successive presidents appoint some board members in Colombia and Chile. In Bolivia, Ecuador, and Peru, the executive and the legislature share the appointment process. In Bolivia, the legislature presents a shortlist for each member of the board of directors and for the central bank president, and the President appoints the central bankers from these shortlists. In Ecuador, the President sends a shortlist to Congress, which confirms or rejects it. In Peru, Congress appoints three members, and the President appoints the other three.

The numerous reforms to the board members' requisites – prohibitions and inabilities – in the five countries reflect their increasing compliance with governments, i.e., several reforms happened under military rule. Also, the reforms show the evolution of power and the population's trust in the different groups that were empowered to nominate and appoint board members. The “Kemmerer” central banks were founded when the primary concern was the political capture of the issue authority. Still, there was also some distrust in entirely private boards, especially in the hands of private banks. The rise of business associations was also a concern to some extent, and the government's reconvening of the monetary authorities led to a new inflationary period that evolved into the independent boards that we have today.

This work shows that although the countries did not perform common reforms to their central banks, their reforms followed a similar trajectory. Even today, the boards of the central banks of Bolivia, Colombia, Chile, and Peru resemble each other. However, the central bank of Ecuador, which has a dollarized economy, now has Monetary Councils that obey an entirely different regime, supporting the idea of a certain path dependency created by Kemmerer's intervention. However, long-term institutional persistence is difficult to grasp in developing economies.

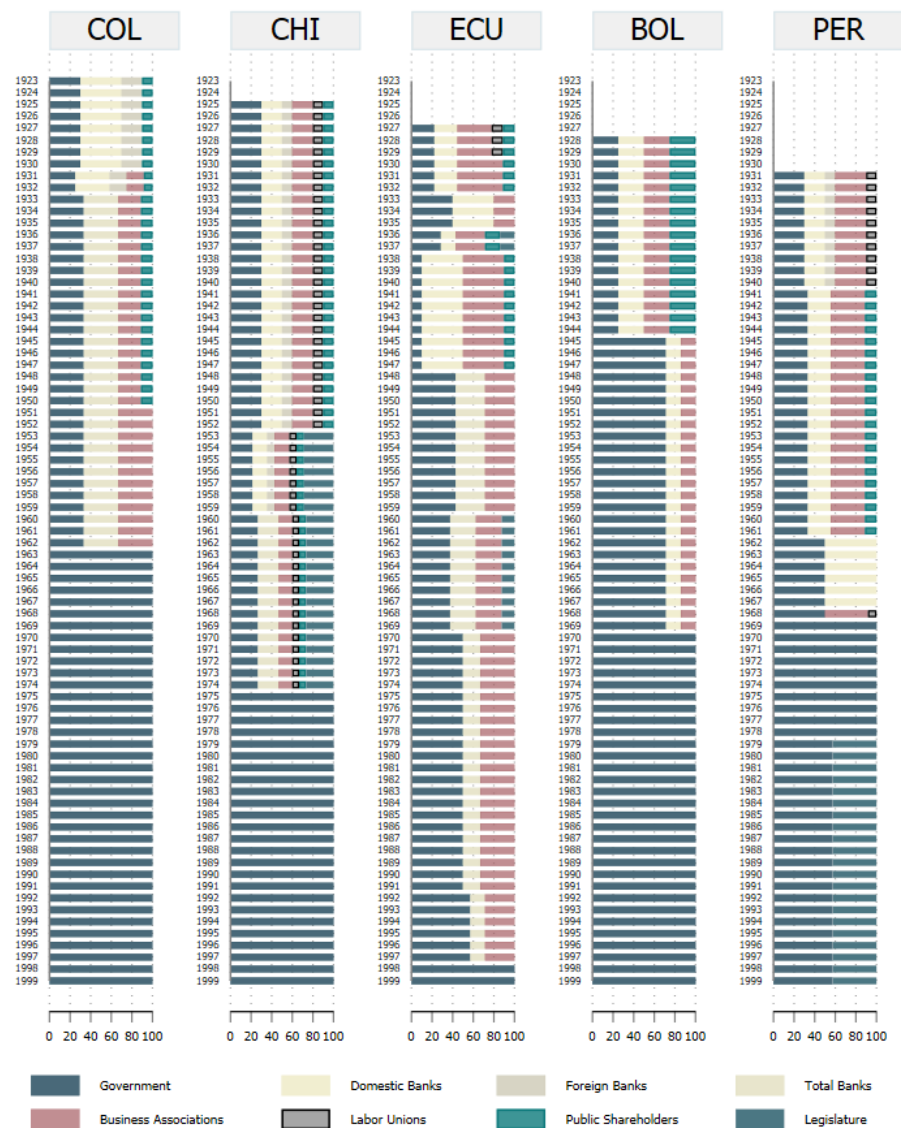
Discussion

Until the Great Recession, there was a widespread belief among economists that economic stability could be achieved by narrowing central banks' goals to inflation control and establishing their independence from government intervention. Up to some extent, it really helped control inflation. However, the Great Recession shattered this paradigm, challenging the foundations of the central banking consensus. The crisis raised questions about the self-stabilizing mechanisms of the economy, the long-term impact of temporary shocks, and the limitations of price stability as the sole objective. Monetary policy after the Great Recession was concerned with preventing deflation, and central banks had to enhance their communication and coordination strategies with treasuries and among themselves to safeguard their credibility as a critical

barrier against deepening crises (Dow, 2014; Borio, 2014; Goodhart, 2016; Haldane & Qvigstad, 2016).

Central banks' goals, functions, and governance have evolved in response to historical needs and theoretical trends triggered by economic crises. The ongoing challenges posed by the COVID-19 pandemic and resurging inflation further highlight the evolving landscape of central banking, which will likely have additional implications for the central bank boards of the Kemmerer banks.

Graph 1. Participations by appointing power on the Kemmerer boards, 1923-2000



Sources: Drake, *The Money Doctor in the Andes*, 1989. **Colombia:** Laws 25 of 1923, 82 of 1931, 46 of 1933, Law 21 of 1963, and 31 of 1992; Decrees 2057 of 1951 and 2206 of 1963, and Political Constitution of 1991. **Chile:** Decrees Law 486 of 1925, 2266 of 1935, 106 of 1953, 47 of 1960, and 1078 of 1975, and Law 18840 of 1989. **Ecuador:** Almeida, 1994, Banco Central de Ecuador, 2002, and Luna Sebastian, 2017. **Bolivia:** Laws 632 of 1928 and 1670 of 1995, Decrees Law of 23 of October of 1930 and 92428 of 1970, and Supreme Decrees 9440 of 1970. **Peru:** Decrees Law 7137 of 1931, 17739 and 17784 of 1969; Laws 7538 of 1932 and 13958 of 1936, Memories of the CBRP 1941, 1942, 1968, and 1969.

Note: The graph does include the Governors or Presidents of the banks when they are appointed by the board.

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