1

Interwar Central Banks

A Tour d' Horizon

Barry Eichengreen and Andreas Kakridis

1.1 INTRODUCTION

Central banks are ubiquitous. Of the 195 sovereign states in the world today, 185 have delegated money issuance, monetary policy, oversight of the payment system, and lender-of-last-resort functions to specialized institutions known as central banks.[1] Their pronouncements make headlines. These send tremors through money and asset markets, whose reaction central banks seek to channel using forward guidance and other communication. Ever-growing lists of their functions have entered college textbooks, as have tales of their exploits in helping countries navigate global financial shoals.

Such has not always been the case. A century ago, nearly two-thirds of the world's sovereign states lacked a central bank (Figure 1.1). Central banking institutions then in existence commanded less authority. Their functions were circumscribed, their mandates ambiguous, their allegiances divided between multiple roles as commercial banks and appendages to the Treasury.

The key period of transition was the 1920s and 1930s. Between 1919 and 1939, twenty-eight new central banks were set up, most in what are now called emerging markets and developing economies. The studies collected in this volume examine the origins and early operation of these banks.[2]

[1] The definition implicit in this formulation is functional and cannot be applied uniformly or historically; many of today's central banks started with a subset of these functions. Capie et al. (1994: 5) bypass this hurdle by arguing that 'in one sense, we recognise [central banking] when we see it'.

[2] Of twenty-eight central banks established between 1919 and 1939, twenty-two are covered by the various country-specific case studies and comparative chapters in this volume.

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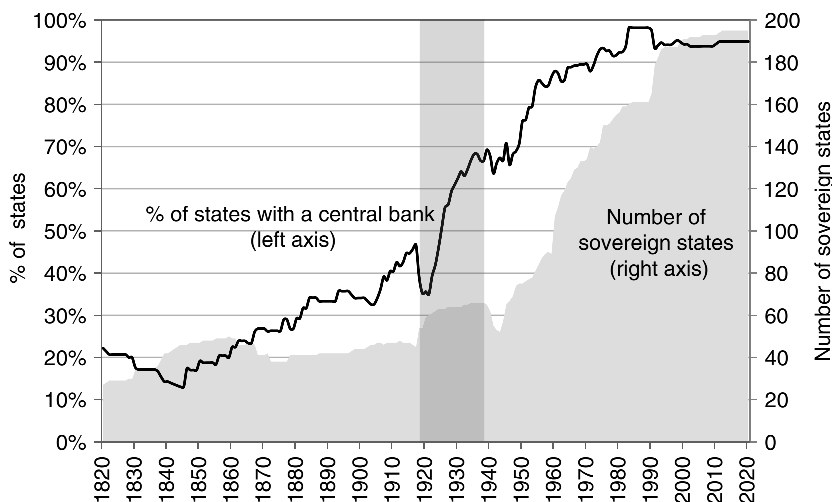

FIGURE 1.1 Sovereign states and central banks, 1820–2020
Source: See Appendix.

While an extensive literature documents the historical development of central banking in the now-advanced economies, the historical literature on central banking in emerging and developing countries, then and now, is more limited.[3] This imbalance deserves correction. Creating a central bank was seen as a key step in the process of modernization in late-developing economies. It was a step toward putting economic policy on a sound and stable footing and integrating emerging economies into the global system.

The list includes the Reserve Bank of India, even though India did not become a free nation until 1947 or adopt a constitution until 1950 (and thus is excluded from the inter-war data underlying Figure 1.1). Countries not considered in this volume are Estonia, Yugoslavia, Latvia, Lithuania, Albania, and Ethiopia; for recent literature in English, see Troitiño et al. (2019) on Estonia, Jeftic (2021) for Yugoslavia, Puriņš (2012) on Latvia, Ahmetaj (2017) on Albania, and Mauri (2011) on Ethiopia.

[3] Limited should not be misunderstood to mean non-existent. Holtfrerich et al. (1999) offer two chapters on central banks in emerging and developing countries. Contributions to Cottrell (1997) focus on Central and Eastern Europe. Maxfield (1998) covers the post-Second World War period, when central banks were set up differently in newly independent countries (also evident in our Figure 1.1). Earlier work includes Kirsch and Elkin (1932) and de Kock (1954), while very recent contributions include Jacome (2015) and Caldentey and Vernengo (2019). Distinct but related is scholarship on monetary management before the emergence of central banks (de Cecco, 1975; della Paolera and Taylor, 2001), and on so-called money doctors advising on the design of monetary institutions (Drake, 1989; Flandreau, 2003).

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No sooner had the ink of newly drafted central bank statutes dried than the Great Depression swept across economies and political systems, putting new institutions to the test. Few interwar central banks successfully met the challenge. As a result of the political reaction to this failure, central banks became key agents in the Polanyian transition from the unfettered market system of the nineteenth century to the managed economy of the twentieth. In 1944, Karl Polanyi argued that the nineteenth-century combination of laissez-faire capitalism, unregulated labour markets, and the gold standard contained within it the seeds of this reaction, as popular opinion turned against the instability and inhumanity of market mechanisms (Polanyi, 1944). New central banks had been established in the 1920s in an effort to temper the operation of this system. When they fell short (Schenk and Straumann, 2016), the economic and political crisis of the 1930s brought a Polanyian reaction. Private banks of issue were nationalized. Central banks were enlisted in managing the economy in cooperation with other branches of government. This set the stage for their role in supporting import substitution in Latin America and central planning in Eastern Europe during and after the Second World War. The newly established central banks of the 1920s and 1930s thus were integrally involved in the pivotal economic developments of the mid-twentieth century.

The ideas underpinning both the spread of central banking and the subsequent reaction are introduced in Chapter 2. Chapters 3 and 4 then focus on the role of the League of Nations and the Bank of International Settlements. These two organizations promulgated international standards for the structure and conduct of central banking (best practice, if you will) and sought to foster international cooperation amongst these newly created monetary institutions. Part II of the volume turns to eight country studies and two chapters of greater geographical ambition, one on Latin America and one on the British Dominions. All chapters nevertheless provide readers with the necessary political and economic background before tackling the key questions that run through the entire volume. Under what circumstances was each new bank established? What was the role of domestic and international players and how did they impact the structure, mandate, and powers of the resulting institutions? The authors are careful to distinguish de facto and de jure independence, as well as compliance (or otherwise) with the so-called rules of the game, which extended beyond the rules and regulations associated with the operation of the gold standard. All country studies discuss the impact of the Great Depression: the specific challenges to each economy,

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the monetary policy response, the extent to which policy was conditioned by each bank's recent past, but also how it affected its future, not least by influencing the speed of economic recovery.

1.2 THE INTERWAR WAVE OF NEW CENTRAL BANKS

If not the father of *all* things, war was certainly the father of many of the new central banks of the 1920s. This was true of new states that emerged from the dissolution of the Habsburg, Ottoman, and Russian empires. It was equally true elsewhere, however, as old monetary arrangements were swept away and new banks were established.[4]

Table 1.1 lists, in chronological order, the twenty-eight new central banks established between 1919 and 1939. Most of these institutions received statutory independence and a mandate to defend the value of the currency in terms of gold or gold-convertible foreign exchange.[5] As Harold James explains in Chapter 2, with extensive references to German experience, independence was designed to mitigate risks of fiscal and financial dominance that had become apparent with wartime and post-war inflation.[6] This, in a nutshell, was the argument behind the interwar drive to establish new central banks, and why most were established with the primary objective of averting inflation and maintaining the gold standard.

This mantra gained broad international currency, not least through the efforts of a network of central bankers, financiers, civil servants, and

[4] Other well-known aspects of the war's financial legacy, such as the structural imbalances emanating from wartime shifts in producers, markets, and borders, the complications arising from reparations and inter-allied debt, the 1920–1 recession and countries' diverse roads to stabilization are not discussed in this introduction, which has a narrower focus. Needless to say, these developments influenced the new institutions. Feinstein et al. (1995) offer a succinct summary.

[5] This was the gold-exchange standard, which was meant to economize on scarce gold supplies; limits on the purchase of gold bullion to large quantities and the withdrawal of all gold coin from circulation were other aspects of the post-war gold standard (Eichengreen, 2019: 59).

[6] Insulated from political interference and operating at arm's length from business, central banks were designed to resist pressures to finance budget deficits and provide inflationary credits to the private sector. In modern parlance, central bank independence was expected to solve the problem of time-inconsistency by requiring commitment to monetary rules (Kydland and Prescott, 1977; Barro and Gordon, 1983). Despite its 'rediscovery' in the context of rational expectations, the underlying idea was hardly new, especially in post-war years. Historical parallels date back at least as far to the central banks of Norway, Denmark, and Austria-Hungary, which were established after the end of the Napoleonic wars (Capie et al. 1994: 5). For a discussion of the German experience with central bank independence since the nineteenth century, see Holtfrerich (1988).

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TABLE 1.1 *Central banks established in the interwar years (in chronological order), 1919–1939*

	Country	Central bank	Year[1]	Interwar money doctors/foreign missions[2]
1	Yugoslavia	National Bank of the Kingdom of Serbs, Croats, and Slovenes	1920 [1884]	Harry Arthur Siepmann, 1927 Banque de France, 1931
2	South Africa	South African Reserve Bank	1920	Henry Strakosch, 1920* Edwin Kemmerer and Gerhard Vissering, 1924–5
3	Latvia	Bank of Latvia	1922	–
4	Lithuania	Bank of Lithuania	1922	–
5	Peru	Central Reserve Bank of Peru	1922 [1913]	W. W. Cumberland (gov't financial adviser, 1921–4*) Edwin Kemmerer, 1931
6	Austria	Austrian National Bank	1923 [1816]	LoN/Drummond Fraser, 1921; LoN/Arthur Salter, 1922*; LoN/Albert Janssen, 1923*; Francis Rodd (BIS) and Peter Bark (BoE), 1931; LoN/Carel Eliza ter Meulen and Otto Niemeyer, 1931. Advisers: Charles Schnyder von Wartensee (1923); Anton von Gijn (1924–6); Robert Ch. Kay (1926–9); Gijsbert W. J. Bruins (1931–2), and Maurice P. Frère (1932–6).
7	Colombia	Central Bank of Colombia	1923 [1905]	Edwin Kemmerer, 1923* and 1930
8	Australia	Commonwealth Bank	1924 [1920]	Ernest Harvey (BoE), 1927 Otto Niemeyer (BoE) and T. E. Gregory, 1930
9	Hungary	Hungarian National Bank	1924 [1878]	LoN/Arthur Salter and Joseph Avenol, 1923* LoN/Henry Strakosch, 1924* Advisers: Harry Arthur Siepmann (1924–6) and Henry J. Bruce (1931–6)

(*continued*)

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TABLE 1.1 (*continued*)

	Country	Central bank	Year[1]	Interwar money doctors/foreign missions[2]
10	Poland	Bank of Poland	1924 [1918]	Edward Hilton Young, 1923–4* Edwin Kemmerer, 1925 and 1926 Adviser: Charles Dewey (1927–30)
11	Albania	National Bank of Albania	1925	LoN/Albert Calmès, 1922 LoN (indirectly)/ Mario Alberti, 1924–5* Adviser: Jan Doekes Hunger, 1923–4*
12	Chile	Central Bank of Chile	1925	Edwin Kemmerer, 1922, 1925,* and 1927 Adviser: Walter M. Van Deusen (1926–33)
13	Mexico	Bank of Mexico	1925	Edwin Kemmerer, 1917*
14	Estonia	Bank of Estonia	1926 [1919]	LoN/Joseph Avenol and Alexander Loveday, 1925* LoN/Albert-Édouard Janssen, 1926* Adviser: Walter James Franklin Williamson
15	Czechoslovakia	National Bank of Czechoslovakia	1926	–
16	Guatemala	Bank of Guatemala	1926	Edwin Kemmerer, 1919 and 1924
17	Ecuador	Central Bank of Ecuador	1927	John Hord (gov't financial adviser, 1922–6) Edwin Kemmerer, 1926–7* Adviser: Earl B. Schwulst (1927–8)
18	Bulgaria	Bulgarian National Bank	1928 [1885]	LoN/René Charron, 1926* LoN/Otto Niemeyer, 1927* Advisers: René Charron (1928–31), Jean Watteau (1931–2), Nicholas Koestner (1932–40)
19	Greece	Bank of Greece	1928 [1920]	LoN/Joseph Avenol, 1927* Adviser: Horace G. F. Finlayson (1928–37)

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	Country	Central bank	Year[1]	Interwar money doctors/foreign missions[2]
20	Bolivia	Central Bank of Bolivia	1929 [1924]	Edwin Kemmerer, 1927* Adviser: Abraham F. Lindberg (1929–31)
21	Turkey	Central Bank of the Republic of Turkey	1930	Mr. Friedleb, 1927; Gerard Vissering, 1928*; Karl Mueller, 1929; Hjalmar Schacht, 1929*; Count Giuseppe Volpi, 1929*; Edwin Kemmerer, 1934
22	Ethiopia	Bank of Ethiopia	1931 [1906]	Everett Colson (adviser to H. Selassie, 1930–5)*
23	New Zealand	Reserve Bank of New Zealand	1933	Otto Niemeyer (BoE), 1930
24	Canada	Bank of Canada	1934	Lord Macmillan and Charles Addis (BoE), 1933*
25	El Salvador	Central Reserve Bank of El Salvador	1934	Frederick Francis Joseph Powell (BoE), 1934*
26	Argentina	Central Bank of Argentina	1935	Otto Niemeyer (BoE), 1934
27	India	Reserve Bank of India	1935	Hilton Young Commission/Henry Strakosch, 1926*
28	Venezuela	Central Bank of Venezuela	1939	Hermann Max (Central Bank of Chile), 1939*

1. Years in [brackets] refer to the year a predecessor bank acquired de jure monopoly of issue in the country; when no such [year] appears, the new central bank was the first one to exercise such monopoly.
2. Missions comprising several experts are identified solely by the official who headed them, with additional details provided in corresponding chapters or notes; institutional affiliations are also noted, when relevant. LoN stands for League of Nations, BoE is Bank of England, and BIS is the Bank of International Settlements. Missions with an * are considered important for the establishment of the central bank.

Sources and notes on individual countries in the Appendix.

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academics (Meyer, 1970; Schuker, 2003; Marcussen, 2005). With missionary zeal the Bank of England encouraged the establishment of overseas clones of itself (Sayers, 1976: 201). Otto Niemeyer, senior Treasury official turned Bank adviser, was dispatched as money doctor to administer the appropriate medicine. Eager to check this British imperialism, the Banque de France launched missions to Romania and Poland.[7] The governor of the Federal Reserve Bank of New York, Benjamin Strong, shared Norman's suspicion of politicians and his vision of a global network of cooperating central banks (Chandler, 1958: 281–285) and for his part encouraged American money doctors to spread the gospel. The most prominent American money doctor, Edwin Kemmerer, advanced this vision of central banking in Latin America and elsewhere on behalf of New York financial circles (Seidel, 1972; Drake, 1989; Eichengreen, 1989; Helleiner, 2009).

Multilateral institutions such as the League of Nations also helped to disseminate new monetary ideology. Patricia Clavin (Chapter 3) explains how new ideas about central banking dovetailed with the League's desire to limit state agency and relegate policy decisions to an international, rules-based depoliticized sphere. Intergovernmental conferences in Brussels in 1920 (under the League's auspices) and Genoa in 1922 called on governments to return to the gold standard and establish central banks free of political control and open to cooperation. An Economic and Financial Organization (EFO) was set up within the League to gather intelligence and provide advice on economic and financial matters, including those related to central banking. Its representatives emphasized fiscal prudence, currency reform, and central bank independence, where the latter would be guaranteed by a statutory commitment to gold convertibility, limits on lending to the public sector, and a cap on state ownership.[8]

Although the EFO projected itself as impartial and multilateral, it was close to London and the Bank of England in practice (Péteri, 1992). Its head, Arthur Salter, was British and had a collegial relationship with Norman. The US decision not to join the League tilted its scales toward London – much to the chagrin of the French, who remained suspicious of the League's activities. These political tensions pushed central bankers away from the League and towards the Bank for International

[7] Pierre Quesnay and Charles Rist played important roles in the stabilization of the leu, while the latter also became an adviser to the Bank of Romania. Romania is excluded from Table 1.1 because the National Bank of Romania had been established in 1880, and the reforms carried out in 1929 did not produce a stark discontinuity – see Cottrell (2003), Mouré (2003), and Chiappini et al. (2019).

[8] New institutions would be set up as private joint stock companies.

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Settlements (BIS), which opened its doors in 1930 as a discreet venue for central bank cooperation away from meddlesome politicians (Toniolo, 2005). As Piet Clement shows in Chapter 4, the vision behind the new organization extended far beyond the management of German reparations to functions previously performed by the League and that would later be entrusted to the Bretton Woods institutions.

1.3 STABILIZATION AND CONDITIONALITY

New central banks were often set up in the effort to attract foreign capital. Bankers preferred lending to countries with a central bank on the gold standard. Hence developing countries eager to attract foreign capital could not afford to ignore their doctors' prescriptions. Surveying Latin America for this volume (Chapter 12), Flores Zendejas and Nodari find no causal relationship between past macroeconomic performance and the establishment of new central banks; what mattered instead was the desire to attract foreign capital, which setting up a central bank promised to fulfil.

Similar considerations informed policy in Europe's war-ravaged economies. With a trade surplus and no hyperinflation, policymakers in Czechoslovakia felt little pressure to tie their hands. But faced with the prospect of being excluded from international financial markets, they were coaxed into setting up a central bank, as Jakub Kunert explains in Chapter 8. In Chapter 11, Şevket Pamuk similarly describes how Turkish officials seeking to attract foreign investment invited foreign advisers, who paved the way for a new central bank in 1930.

Conditionality was strongest in supervised stabilizations. The League of Nations organized a string of programmes in the 1920s, four of which are covered by Hans Kernbauer (Austria, Chapter 5), Györgi Péteri (Hungary, Chapter 6), Andreas Kakridis (Greece, Chapter 9), and Roumen Avramov (Bulgaria, Chapter 10).[9] Austria was the first country to accept League assistance and submit to foreign control; this took the form of the appointment of a foreign commissioner in charge of fiscal policy and a foreign adviser to the new Austrian National Bank. The Austrian model was then exported to Hungary and Estonia. While Czechoslovakia and Poland also negotiated with Geneva, both ultimately rejected the League's terms. Bulgaria and Greece were last to stabilize with the League's assistance, their reforms tied to loans for refugee resettlement.

[9] See League of Nations (1945); the only two cases not covered in this volume are Estonia and Danzig.

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But conditionality was not unique to the League. As Cecylia Leszczyńska shows in Chapter 7, similar conditions underpinned Poland's second stabilization in 1927, which was backed by the Federal Bank of New York and Banque de France and came on the heels of a Kemmerer mission. The abortive attempt by the BIS to stabilize the Spanish peseta in 1930, described by Clement, was taken from the same playbook.

Stabilization programmes, whether bilateral or multilateral, combined conditionality with external supervision. If independent central banks were meant to lend credibility to monetary policy, foreign enforcement was designed to enhance the credibility of stabilization and encourage fiscal and monetary rectitude.[10] Stabilization programmes could be painful and controversial. Political reaction was strong in Austria, for example, where stringent financial terms combined with heavy-handed intervention in the country's relations with Germany; further, the role of international banks in the process fuelled antisemitism. In Hungary, the peg to sterling precipitated a painful *Sanierungskrise* in 1924–5; by 1926 an exasperated senior economist at the Hungarian National Bank complained to the League's appointee, Harry Siepmann, that it might have been easier 'to just gas Hungary with cyanide' (see Péteri, Section 6.4). In Greece, controversies around stabilization toppled the coalition government, and calls for the abolition of the Bank of Greece persisted into the 1930s. In many ways, interwar adjustment programmes anticipated the post-1945 activities of the International Monetary Fund (IMF), in both their allegedly apolitical design and the political reaction they provoked.

A problem was the 'one size fits all' approach to stabilization and central bank design. Plans for new institutions derived from the experience of advanced countries were often 'impracticable or even irrelevant' to the problems of emerging markets.[11] As several chapters explain, shallow markets, combined with prohibitions on open-market operations aimed at preventing the indirect financing of public expenditure, limited the

[10] Santaella (1993) sees League stabilizations as attempts to overcome commitment problems à la Barro and Gordon (1983); in a similar vein, but with a modern focus, Reinsberg et al. (2021) discuss the IMF's rationale and record of prescribing structural loan conditions to increase central bank independence. Whether conditionality is bilateral or multilateral may affect credibility and thus impact financial outcomes and access to credit; Flores Zendejas and Decorzant (2016) make this argument explicitly for the interwar years and League stabilizations.

[11] Triffin (1944: 101); Triffin was writing about central banks in Latin America, but his point could easily be extended to the other countries examined in this volume. Plumptre (1940) makes the same argument about central banks in the Dominions; In Chapter 13 John Singleton reviews several of the interwar textbooks on central banking.

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ability of central banks to control the money supply. The problem could be exacerbated by conflicts between the bank of issue and commercial banks (for example in New Zealand, Australia, and Argentina, among others) that previously possessed limited central banking powers. Such conflicts were acute when the new institution was not the sole treasurer to the state (as in Greece, Hungary, or Czechoslovakia). John Singleton calls central banks in this position 'banks in waiting'. He attributes their weakness to money doctors who, eager to bind emerging markets to the gold standard, paid inadequate attention to the capacity of new central banks to provide services to their host governments and economies.[12]

Did countries seeking to tap international capital markets have no choice but to adopt the model forced upon them? 'Beggars cannot be choosers' was Siepmann's reaction to questions about the design of Hungary's stabilization programme (Péteri, Section 6.3). His colleague in Greece, Horace Finlayson, noticed locals' negative reaction to externally guided banking reform – how this reform was received with a mixture of suspicion and hostility. The new central bank was 'nobody's child', an orphan placed on the country's doorstep by foreign advisers. Questions of parenthood, or lack of programme 'ownership', as this problem is known in the literature on IMF adjustment programmes (James, 2003), arose in several countries covered in this volume.

At the same time, external enforcement could be welcomed as a way of deflecting political fallout from reforms that domestic elites recognized as necessary but unpopular. This argument, made by Kernbauer (Chapter 5) for Austria, is implicit in a number of other instances described in these pages.[13] Foreigners, in addition to serving as convenient scapegoats, were instruments for settling domestic distributional conflicts. Domestic interest groups and foreign advisers, finding themselves in the same trenches, formed alliances. In Greece, for example, commercial banks were keen to use League of Nations advisers in support of their campaign to rid themselves of unprofitable state debt.

Sometimes, domestic resistance could be effective in checking foreign interference. Although Santaella (1993) cites the absence of a single

[12] Flores Zendejas and Nodari counter that banks designed by Kemmerer missions were less rigid than those influenced by British money doctors, but neither were able to use conventional tools such as discounts and open-market operations to control their markets.

[13] Similarly, several countries invited foreign intervention for reasons of foreign policy: Hungary sought British assistance to offset the pressure of the Little Entente; Poland turned to the United States and France to deflect territorial revisionism by Russia and Germany. But inasmuch as these examples substitute one form of leverage (financial) for another (foreign policy support), they are less revealing of ownership.

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occasion when League of Nations' advisers used their veto power as evidence of tough external enforcement (knowing that ambitious fiscal initiatives would be vetoed, no government dared implement them), this could equally be taken as evidence of the opposite. The correspondence between Niemeyer and Horace Finlayson, the British consultant charged with monitoring the Greek agreement, reveals a constant tug of war between Athens, London, and Geneva, sometimes resulting in the Bank of England and League of Nations having to agree to uncomfortable concessions. The 'sneaking nationalization' of Hungarian monetary management, over the objections of foreign advisers, is another example of how those responsible for the operation of these new institutions were sometimes able to deviate from their operational guidelines. In Bulgaria, domestic political opposition to privatizing the central bank, as advocated by foreign advisers, led to its indefinite postponement. Similarly, the Austrian National Bank systematically ignored its foreign advisers when providing liquidity to struggling banks.

1.4 INSTITUTIONAL CONVERGENCE?

By the late 1930s, central banks were operating in two-thirds of sovereign states, up from one-third in 1920 (Figure 1.1). Still, this appearance of institutional convergence masked the persistence of very different visions of central banking (Singleton, 2011: 58). If the League of Nations and leading central bankers envisioned an international network of cooperating banks tied to a liberal economic order, many new institutions were set up with nationalist and statist objectives (Helleiner, 2003: 152).[14] Publics and politicians saw their central banks as symbols of national sovereignty. This was true of European successor states but also, for example, of Turkey, where money issue was wrested from the foreign-owned Imperial Ottoman Bank, marking the Republic's break with the Ottoman past.[15] Inasmuch as new central banks were meant to attract

[14] To be fair, Norman and Strong also hoped that the new institutions would bolster their own *national* currencies, not least by keeping their foreign exchange reserves with the Fed or the Bank of England, while using London and New York to raise new capital. Norman's messianic zeal was thus also 'for the good of sterling' (see Péteri, Section 6.3). The Polish decision to base the złoty on the Latin Monetary Union franc, discussed by Leszczyńska, probably reflects similar motives.

[15] Note how greater central bank independence, formally understood as autonomy from the state's financial needs, thus took on several additional meanings: independence from other countries, independence from foreign capital, and so on.

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foreign capital and investment, policymakers saw them as instruments of activist intervention rather than as constraints on government.

The tension between these visions is evident, for example, in the case of Britain and its empire. As Singleton explains in Chapter 13, by encouraging new banks of issue, London hoped to insulate monetary management from local political control and keep it within sterling's orbit. The Dominions, by contrast, saw their new banks as a first step towards financial autonomy and active policy. Given this conflict over the meaning of independence, both sides risked disappointment.

But the struggle was not just between the metropolitan centre and colony but also within the metropolitan bureaucracy itself. G. Balachandran (Chapter 14) describes how early controversies surrounding the establishment of an Indian central bank reflected a power struggle between the Bank of England and the India Office. Both agreed on the importance of keeping Indians out of monetary affairs. But whereas the India Office insisted on direct control, Norman wanted policy in the hands of an institution free from the India Office's political interference, but allied with the Bank of England. Decisions were postponed until the deflationary crisis of the 1930s made further delay untenable. India then became the first colony with its own central bank. But any illusions as to the true power of the new institution were dispelled when the India Office replaced the governor with a civil servant and in 1938 overruled a decision to devalue the rupee.

Colonialism distinguishes India's case but also invites us, more generally, to think differently about central banks. One way or another, the new institutions were designed to remove management of monetary affairs from the domestic political arena at the very time when the latter was becoming more representative. Extension of the franchise, the rise of labour politics, and the growth of social spending after the First World War rendered governments more likely to prioritize employment over gold convertibility. As one money doctor put it: 'the trend of political evolution the world over [...] is in a direction which makes it less safe to entrust governments with the management of currencies than it may have been in pre-war days.'[16]

If delegation to a technocratic body was meant to contain this problem, the results could be disappointing. The hope that political problems

[16] Henry Strakosch to Basil Blackett, 17.10.1925; Treasury: Papers Otto Niemeyer, National Archives, T176/25B; see also Eichengreen (1992: 31) and de Cecco (1994: 3).

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could be bypassed by institutional fiat proved an illusion. As several chapters reveal, the very process of de-politicization was political, not only in its motives, but also in its distributional consequences.

1.5 THE GREAT DEPRESSION IN DEVELOPING ECONOMIES – A POLICY DILEMMA

Many emerging markets and developing countries ran current account deficits in the 1920s, financing them with foreign – mainly US – capital.[17] After 1928, when stock market volatility and a shift in monetary policy brought US capital exports to a halt, debtors were forced to retrench. Countries reliant on US capital, such as Germany and Poland, slipped into recession even before the United States. Next came the collapse in commodity prices, precipitated by shrinking demand and dumping of supplies. Countries like Hungary, Poland, Bulgaria, Argentina, Australia, and Brazil, who specialized in agricultural exports, faced deteriorating terms of trade, falling incomes, and balance of payments difficulties. By 1931, most developing countries – including those that stabilized under League of Nations tutelage – were having trouble keeping current on their foreign debts. As capital- and commodity-market shocks compounded one another, the recession deepened and spread.

Deflation especially strained debtors, whose liabilities increased in real terms.[18] The pressure shifted to banks, and countries with weak financial systems experienced banking crises (Bernanke and James, 1991). Emerging markets were vulnerable to these disturbances, especially in countries where banks financed long-term assets (for example loans and equity) with short-term foreign liabilities. When foreign capital fled, depositors followed, and banking crises morphed into currency crises.

In Europe's successor states, the banks never fully recovered from hyperinflation or adjusted their business to new national borders. Austria's

[17] This was part of the rebalancing of international payments that had occurred after the war, which undermined the stability of the gold standard. The United States became the largest international creditor. France and the United Kingdom remained net lenders, but their position was significantly diminished, while the rest of Europe became a net debtor, Germany absorbing more than half the capital inflows. Inasmuch as they recycled the dollars necessary to cover Europe's current account deficit with the United States, US loans were crucial in maintaining interwar monetary stability – until they came to a sudden stop (Feinstein and Watson, 1995; Accominotti and Eichengreen, 2016).

[18] Czechoslovakia stands out among our case studies as a net creditor spared the initial impact of the 'sudden stop' in capital flows. But it was not spared from the debilitating

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crisis in May 1931 is the best known example, not least because it spread to Hungary and – once compounded by trouble in Germany – helped to push sterling off gold. The Creditanstalt debacle reveals how efforts to paper over bank troubles turned Austria into the weak link in Europe's financial chain. But while domestic authorities may have been too soft on Austrian banks, Hans Kernbauer reminds us that foreign advisers were also too narrowly focused on fiscal and monetary discipline, to the neglect of financial fragilities. Back in 1924, they had vetoed an ambitious plan to re-capitalize Austria's financial system on grounds of expense. With more radical measures off the table, mergers were instead used to paper over banking-sector weaknesses. This precarious financial edifice came crashing down in 1931.

More broadly, central banks designed to fight deficit-fuelled inflation were ill prepared to address financial fragility. Like the earlier institutions after which they were modelled, they did not consider prudential supervision as part of their mandate.[19] Nor did they have the expertise, information, and instruments needed to regulate the financial system. The Bank of Greece, for example, lobbied tirelessly for legislation requiring commercial banks to disclose detailed financial information and hold mandatory reserves, in a futile effort to control a market dominated by its predecessor, the National Bank.[20]

Not that all new institutions were keen to police their banks. With more power came more responsibility, and a central bank responsible for commercial banks might be expected to act as a lender of last resort at times of crisis. Given a mandate to uphold the exchange rate at any cost, interwar central banks were at best ambivalent about this role. Intervention on behalf of the banking system invited speculation against

effects of protracted deflation. In 1931, the country's trade surplus turned to deficit. By the following year, industrial production was down 40% from its 1929 level.

[19] De Cecco (1994) also points out that the US Federal Reserve, tasked with bank supervision, was a partial exception to this rule; this suggests another reason to distinguish between central banks set up by European and American money doctors (see Chapter 12, this volume).

[20] A minimum reserve requirement had been inserted by Henry Strakosch in the original drafts of the 1927 stabilization plan negotiated in Geneva, but it was subsequently removed at the request of the Greek government, acting under the advice from the National Bank. When the proposal resurfaced in 1931, commercial banks resisted bitterly, going so far as to appeal to J. M. Keynes, who – clearly oblivious to Greek realities – suggested an agreement reached amicably between all parties, rather than through legislative fiat; the proposal was watered down in subsequent parliamentary debate.

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the exchange rate; if investors feared devaluation, capital flight would undermine both the liquidity of the financial system and the central bank's foreign exchange reserves. Thus, lender-of-last resort interventions were not only ineffective but could be counterproductive.

With the onset of the Depression, policymakers thus found themselves on the horns of a dilemma. The orthodox response was to stay on gold, raise taxes and discount rates, cut spending and credits, and thus preserve the foreign exchange necessary to maintain convertibility and service the country's external obligations. This is what most countries did initially, while struggling to secure additional loans and re-negotiate existing liabilities, including war debts and reparations.

The alternative was to abandon the gold standard and reflate, prioritizing output and employment over the currency peg. But this was unappealing for countries that had struggled to return to international markets in the 1920s. Inasmuch as the gold standard inspired investor confidence, devaluation threatened access to foreign capital. Moreover, debtors with substantial foreign-currency liabilities would be hard pressed to avoid default if that debt was revalued, and default could trigger commercial retaliation if creditor nations imposed sanctions or raised tariffs.

There was also a third option, but it required international cooperation. Monetary expansion in surplus countries (as per the rules of the game), coordinated central bank intervention to support the exchange rate in countries facing financial distress, a general moratorium on debt and reparations payments, and even simultaneous devaluations could have mitigated adjustment pressures and deflation. But cooperation was hindered by divergent interpretations of the challenge at hand and divided opinions on such matters as war debts and reparations. Moreover, the very asymmetry inherent in the gold standard – that deficit countries felt pressure to adjust while surplus countries did not – undermined the symmetry of the international reaction.

Multilateral organizations, for their part, were little help. In Chapter 3, on the League of Nations, Clavin singles out the Gold Delegation's inquiry into the operation of the gold standard, launched in 1928, as a turning point in the relationship between central banks and the League. Portrayed as technical, the inquiry inevitably acquired political overtones: any discussion of global monetary conditions raised questions about French and American gold accumulation that neither country wished to entertain. The Bank of England was not willing to jeopardize relations with the Federal Reserve, whose officials disapproved of the League's proceedings

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and advocated moving the Delegation's work to the BIS, newly created as a venue of central bank cooperation.

In the event, the BIS proved no more able than the League to muster a concerted response. An attempt in 1930 to provide credit facilities for investment faltered when the BIS's Directors discovered that the Bank's own liquidity was limited. A plan to finance a corporation to issue bonds and provide long-term credits was stymied by French concerns that it would drain capital from the Paris market. And the emergency loan to the Austrian central bank during the Creditanstalt crisis was only half what Austria requested and failed to stem the tide. Piet Clement asks whether these failures reflected difficult economic conditions or strained political circumstances. Without minimizing economic difficulties, he emphasizes the role of political conflict. Reparations were still outstanding, and the United States opposed any revision that might compromise its war debt claims. Opposed to the recently announced Austro–German customs union, France angrily scuttled proposals for a more ambitious Austrian rescue.

Left to fend for themselves, emerging markets could either defend the exchange rate at the expense of economic activity; or accommodate their economy and financial system at the cost of abandoning the gold standard. Most took the orthodox route at first, hoping to secure a trickle of foreign capital. But as the trickle dried up entirely, their position became increasingly untenable, and they began leaving gold. After sterling's devaluation in September 1931, these departures became a stampede. By the summer of 1933, when US President Franklin D. Roosevelt decried the 'old fetishes of so-called international bankers', Poland was one of the last developing countries still on the gold standard, not least because of its political and financial ties with Paris.[21]

Departures from gold took different forms (Table 1.2). Devaluation was most common. But in countries where inflation had been steep, devaluation evoked memories of hyperinflation. Such countries therefore chose to combine capital controls with protectionism in order to ration foreign exchange and/or alter the de facto exchange rate while maintaining the de jure price of currency in terms of gold. Both Bulgaria and Hungary resisted altering their official exchange rates but were drawn into elaborate clearing arrangements with Germany. The Turkish lira also spent most of the 1930s officially pegged to gold, enjoying nominal

[21] On Roosevelt's bombshell message and its effect on the World Economic Conference in London, see Clavin (1992) and Eichengreen and Uzan (1993).

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TABLE 1.2 *The Great Depression and interwar central banks (in alphabetical order)*

	Country	Currency	Dates of: Official gold standard suspension	Exchange control enforcement	First devaluation/ depreciation from par
1	Albania	Alb. frank	–	4/39	–
2	Argentina	Paper peso	16/12/29	13/10/31	11/29
3	Australia	Aust. £	17/12/29	–	3/30
4	Austria	Schilling	5/4/33	9/10/31	9/31; 4/34
5	Bolivia	Boliviano	25/9/31	3/10/31	3/30
6	Bulgaria	Lev	–	15/10/31	–
7	Canada	Canadian $	19/10/31	–	9/31
8	Chile	Peso	19/4/32	30/7/31	4/32
9	Colombia	Peso	24/9/31	24/9/31	1/32
10	Czechoslovakia	Koruna	–	2/10/31	11/34; 10/36
11	Ecuador	Sucre	8/2/32	2/5/32–7/10/32; 31/7/36–31/7/37	6/32
12	El Salvador	Colon	7/10/31	8/33–10/33	10/31
13	Estonia	Kroon	28/6/33	18/11/31	6/33
14	Ethiopia	Birr	–	–	–
15	Greece	Drachma	26/4/32	28/9/31	4/32
16	Guatemala	Quetzal	–	–	4/33
17	Hungary	Pengö	–	17/7/31	–
18	India	Rupee	–	–	10/31
19	Latvia	Lat	28/9/36	8/10/31	9/36
20	Lithuania	Litas	–	1/10/35	–
21	Mexico	Peso	25/7/31	–	8/31
22	New Zealand	NZ £	21/9/31	5/12/38	4/30
23	Peru	Sol	14/5/32	–	5/32
24	Poland	Zloty	–	26/4/36	–
25	South Africa	SA £	28/12/32	–	1/33
26	Turkey	Turkish lira	–	20/11/30	–
27	Venezuela	Bolivar	–	1/12/36	9/30
28	Yugoslavia	Dinar	–	7/10/31	7/32

Sources: See Appendix.

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stability behind stringent controls. Developing countries choosing to devalue were in any case reluctant to let their exchange rate float, so they sought to join one of the emerging currency blocs into which the post-1931 world was fragmented (Urban, 2009). Most British Dominions, with the exception of Canada, quickly joined the sterling area. Greece let the drachma float for a few months before re-pegging to gold and following the Gold Bloc from a distance. Chile and Colombia imposed exchange controls in 1931 and devalued in 1932, after which their currencies followed the dollar.

At this point, the choice between outright devaluation and the pretence of a gold peg, propped up by protectionism and exchange controls, became secondary. What mattered now was whether governments and central banks, having regained a modicum of monetary autonomy, opted to use it. Since many exchange-control countries had histories of high inflation, policymakers were often reluctant to reflate aggressively. Eichengreen (1992) compares countries that devalued with those maintaining the façade of the gold standard behind exchange controls. He confirms that exchange control countries were more reluctant to increase money supplies.

Timing also mattered. Countries that unshackled themselves sooner recovered faster (Eichengreen and Sachs, 1985; Campa, 1990). The depth of recessions in Poland and Czechoslovakia, to mention the most obvious examples from this volume, illustrate the costs of waiting too long before abandoning gold.

1.6 CENTRAL BANK FETTERS

Were central banks uniformly part of the problem that was the Great Depression? After all, these institutions had been designed to uphold the gold standard, whose failings contributed to the depth of the Depression. Indeed, Simmons (1996) argues that greater central bank independence perversely increased the system's deflationary bias: zealous to stave off inflation, central banks in surplus countries were reluctant to increase their money supplies. By sterilizing gold inflows they deviated from the 'rules of the game' and shifted the entire adjustment burden onto deficit countries.

This line of criticism, developed in the earlier literature, focused on leading central banks in industrialized nations, specifically France and the United States, rather than on newly established banks in emerging markets. We have already mentioned how many central banks in

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emerging markets often had little leverage over domestic credit conditions. In the early stages of the Depression this handicap was a blessing, insofar as they lacked the policy tools to engineer an even more powerful monetary contraction. Moreover, the handful of tools at their disposal was frequently used to mitigate, rather than exacerbate, deflation. This is apparent in their lender-of-last-resort interventions, which – as the Austrian example reveals – led to further drains of foreign reserves, as well as in a reluctance to let foreign exchange losses affect domestic circulation (see the cases of Hungary and Greece). Unlike France and the United States, most emerging markets were deficit countries, where breaches of the rules of the game were countercyclical and reflationary rather than deflationary.

Ultimately, of course, such interventions were futile: they could neither offset deflation nor continue indefinitely so long as gold convertibility was maintained. Eventually reserves would run out and the policy trilemma would bind, at which point exiting the gold-standard system might become irresistible (Obstfeld et al., 2004). Did new central banks affect the timing of these exits? The evidence doesn't speak clearly. Flores Zendejas and Nodari point out that Latin American countries still without a central bank were actually first to devalue. Focusing exclusively on eight European countries with central banks, Wolf (2008) finds that those with more independent institutions abandoned the gold standard earlier.[22] Wandschneider (2008) expands the sample to twenty-four countries but finds no correlation between central bank independence and the decision to leave gold.

Different conclusions reflect different country samples, but they are also indicative of the difficulty of quantifying central bank independence.[23] Interwar money doctors, like modern quantitative economic historians, focused on bank statutes as their measure of independence.[24] Statutory

[22] Wolf (2008) claims this was presumably because countries with more independent central banks were *less* worried about the potential loss of credibility from devaluation. But since a credible reputation is established by being hard-nosed, one could easily have expected the opposite to be the case – especially in the case of new central banks.

[23] Not least because independence itself is open to different definitions; for a critique, see Hartwell (2018).

[24] An important aspect of those statutes, in the eyes of British money doctors and the League of Nations, was setting up central banks as joint stock companies with private investors. Other measures included ceilings and prohibitions on state lending, long tenures for senior bank management (whose appointment was subject to government approval), and statutory mandates to maintain convertibility (Ulrich, 1931; de Cecco, 1994; Capie et al. 1994).

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provisions alone, however, cannot shield central banks from interference, any more than they can depoliticize an inherently political process.[25] This is especially true of newly established institutions, which have little time to build reputations or forge domestic political alliances.

Foreign allies, when present, failed to make up for this shortfall. This is not surprising: where statutory independence had been a symbolic gesture designed to placate foreign creditors, it was disregarded once international lending collapsed after 1929. In Czechoslovakia, for example, Jakub Kunert points out that the Banking Office, legally a department of the Ministry of Finance, was arguably more independent than its successor, the central bank, which was overruled by the government on exchange rate policy. In Poland, the regime of Józef Piłsudski eagerly awaited the term of the American central bank adviser to end so that it could 'stage a war to subjugate the Bank of Poland to the government' (Leszczyńska, Section 7.6). In Greece, the decision to stay on gold after sterling's devaluation was taken by the prime minister, who dismissed the central bank governor.[26]

Although distinguishing de facto from de jure independence is useful, doing so still doesn't provide an unambiguous guide to 1930s gold-standard policy. Some independent central banks resisted political pressures to devalue, but others faced the opposite challenge of resisting pressure from the government to stay on gold. By 1929, Poland's Piłsudski had effectively subjugated the central bank; its foreign adviser was gone, and a new governor, Władysław Wróblewski, had replaced his less compliant predecessor. As the recession deepened, the Bank of Poland recommended leaving the gold standard, only to be overruled by the government, Piłsudski insisting that a strong currency was needed to avoid inflation.[27] Similarly, Pamuk explains how the Turkish monetary authorities remained conservative in the 1930s despite autonomy from the government. Recalling high inflation during the First World War, they were unwilling to experiment with the lira.

This brings us to a central theme of this volume. Central banks are embedded within a broader network of institutions, political and societal relations, shared experiences, and ideas that shape their actions and effects (McNamara, 2002: 55). In this context, establishment of a new, independent central bank and subsequent pursuit of monetary orthodoxy, rather

[25] For critiques of the modern central bank independence literature in this vein, see Forder (1998 and 2005) and, more recently, Hartwell (2018); the case of the US Federal Reserve is examined by Conti-Brown (2017), as well as by Binder and Spindel (2017).

[26] Nor did bank ownership matter. Australia's state-owned bank was better at resisting political pressure than its privately owned counterpart in South Africa.

[27] Polish monetary policy did not change until after Piłsudski's death in 1935.

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than one determining the other, may both reflect a deeper common cause. Harold James hints at this when he reaches back to Adam Posen's (1993) seminal paper on the role of financial interests and history in creating a broader 'culture of stability' that explains *both* low inflation and central bank independence.[28] Memories of past inflation discouraged developing countries from leaving the gold standard in the 1930s, just as they had encouraged the establishment of independent central banks in the 1920s. Even where new banks were associated with more orthodox policy, the effect was not necessarily causal.

If the advent of new central banks does not explain subsequent policy choices, then what does? Why did some countries take longer to leave the gold standard than others? The possibility that they might be able to continue borrowing made some countries more patient, as we have seen. So did concerns over foreign retaliation in the event of a debt default. The association of the return to gold with national prestige discouraged politicians from sacrificing the political capital invested in stabilization. Interest groups standing to lose from devaluation defended orthodox policy, while those hurt by deflation pushed back (Frieden, 2014). Less democratic regimes were able to ignore such pressures for longest. In emerging markets, fear of inflation was compounded fear of floating (Calvo and Reinhart, 2002), which is why governments opted for capital controls and re-pegged after devaluing. It is why none of the countries discussed in this volume used their new-found freedom to pursue aggressive monetary expansion (cf. Mitchener and Wandschneider, 2015). The experience of the 1920s made policymakers err on the side of caution. The tragedy in the deflationary circumstances of the 1930s was that caution was the last thing required.

1.7 THE LEGACY

Surveying the landscape of interwar central banks, the Canadian economist Wynne Plumptre noted that 'one of the primary tenets of accepted central banking thought has been the importance of keeping central banks politically independent' (Plumptre, 1940: 23). By the time this sentence was written at the end of the 1930s, it was already out of date. In the wake of the Great Depression, an event widely interpreted as signifying the failure of market liberalism, governments reclaimed the powers delegated to central banks.

[28] The fact that many interwar central banks were established *after* inflation had been brought down suggests that both monetary stability and central bank independence were caused by some deeper, structural effect.

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Often, radical measures had to await a new government. Following sterling's devaluation in 1931 and the shift from Labour to the new Conservative-led National Government, Norman noticed an 'immediate redistribution of authority and responsibility' from the Bank to the Treasury (cited in Clay, 1957: 437; see also Kynaston 1995). In the United States, the Roosevelt administration pushed the central bank aside; a series of legislative reforms, starting with the Thomas Amendment granting the President the power to alter the dollar price in gold, curtailed the independence of the Federal Reserve.[29] Similar steps were taken by Leon Blum's government in France shortly before the Gold Bloc unravelled in 1936 (Mouré, 2002: 221–226).

Central banks in emerging markets followed suit, as their recently acquired powers were returned to national governments. Governors were replaced; statutes were revised. In New Zealand, the Reserve Bank built at Niemeyer's behest was barely two years old when the new Labour government nationalized it.[30] Most banks surveyed in this volume experienced a shift in the locus of power. Those that did not either had little power to begin with (as in India) or faced a divided government too weak to impose its will (for example Australia).[31]

Signalling the 'triumph of discretion over automaticity', the departure from gold gave policymakers leeway to experiment (Cairncross and Eichengreen 1983: 4). In Latin America, central banks engaged in re-discounting and open-market operations in an effort to encourage reflation. These policies have been heralded as a reaction against money-doctor orthodoxy and a mark of monetary emancipation. But Flores Zendejas and Nodari argue that the reality was more complex, at least when it comes to Edwin Kemmerer, who himself became a champion of counter-cyclical monetary policy in the 1930s and nudged Latin American central bankers toward greater activism.

Simultaneously, the rise in state activism involved central banks in additional facets of economic policy. From the 1930s, they were called

[29] A more radical economist, Marriner Eccles, was installed as Chairman in 1934 (Meltzer, 2003: 415–486).

[30] This was an extreme case: however widespread after the Second World War, central bank nationalizations were rare in the late 1930s, although the subordination of monetary policy to the Ministry of Finance was not. Denmark and Canada are the only other cases (Capie et al. 1994: 23), though some other statutory changes were equivalent to de facto nationalizations (Mouré 2002: 222).

[31] Mexico's reforms in the early 1930s, which sought to enhance central bank autonomy, are less an exception to the rule than a reminder that statutory provisions cannot guarantee de facto independence.

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on to manage clearing balances and exchange stabilization funds, provide liquidity to the state and banking sectors, and refinance specialized credit institutions' lending to farmers and industry. Tasked with administering exchange controls and clearing arrangements, they became agents of regulation and dirigisme. Their organizational charts and employee rosters expanded accordingly. The Bank of Greece, having started with a spartan staff of 400 in 1928, employed almost 2,200 people in 1940. Bulgaria's Finance Minister noted in 1933 how the country's 'entire economic life [was now] concentrated' in the hands of the central bank, a transformation that paved the way for its future role as the communist monobank (Avramov, Section 10.6). In the aftermath of banking crises, and now freed from the gold standard, central banks embraced their role of lenders of last resort. In some cases, that role extended to prudential supervision and bank regulation. Central banks took advantage of their new relationship to the state and of the swing of opinion against financial liberalism to consolidate their authority and tilt the balance of power away from commercial banks.[32]

These late 1930s trends then were reinforced by the exigencies of the Second World War. Now fiscal dominance was expected, not abhorred. Following the war, acute dollar shortages threatened post-war reconstruction. Borders again were redrawn, while Britain and France became embroiled in a reluctant retreat from empire not unlike that experienced earlier by the Austrians and Ottomans. Interwar history seemed destined to repeat itself.

But this time was different. Thanks to memories of interwar experience, reparations and war debts were minimized. With the advent of the Cold War, the United States financed Europe's trade deficit with Marshall Plan funds. The international monetary system was redesigned following Anglo-American blueprints negotiated at Bretton Woods. Exchange rates were again pegged, but now they were made more adjustable. Capital controls were authorized to shield countries from destabilizing hot money flows, and the IMF was charged with monitoring economic policies and helping countries with balance of payments difficulties. Much like its interwar predecessors, the Fund fashioned itself as an apolitical, rule-based agent of international cooperation. Continuity extended to personnel: Per Jacobson, an early member of

[32] An interesting example from the developed world comes from Eccles' initiatives and the passing of the 1935 Banking Act, which helped the Federal Reserve consolidate its power (Meltzer 2003: 484–486); for a survey of bank supervision laws around the world, see Zahn (1937); in most cases, supervision was shared with another public agency.

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the EFO staff transferred to the BIS in 1931, became IMF managing director in the 1950s.

For central banks, the end of the Second World War did not signal a return to earlier concerns over independence and financial liberalism. To the contrary, central banks coordinated closely with governments and continued to expand their range of responsibilities and interventions (Singleton, 2011: 128ff). Policy implementation now relied on direct controls (lending caps, reserve requirements, restrictions on bank asset holdings, and so on), while exchange controls provided leeway to pursue domestic policy objectives without sparking immediate balance of payments problems (Eichengreen, 2019). Policy outcomes were favourable, though whether this was a cause or consequence of the post-war golden age of economic prosperity is debatable.

In this new post-war environment, central banks possessed less independence but more power. Under Soviet-style central planning, the extreme case, they were fully integrated into the state-owned banking apparatus. But even elsewhere, emphasis on state intervention and modernization meant that central banks established in the 1920s and 1930s now became instruments of development policy, allowing the authorities to allocate credit and target industries in pursuit of economic growth. Before long, they were joined by another post-colonial wave of new central banks. The gold standard was gone, but the call at the 1920 Brussels Conference for all nations to establish their own central banks echoed down the years.

The coda then came in the 1980s and 1990s, as additional reforms were put in place in response to the failures (as well as the successes) of these credit-allocation and targeting policies, and specifically in response to the problem of accelerating inflation. This entailed renewed emphasis on the virtues of central bank independence (Bade and Parkin 1982; Alesina and Summers 1993). That emphasis manifested itself in steps to enhance the independence of established central banking institutions (the Bank of England, for example) and in the creation of new ones (the European Central Bank, arguably the most independent central bank of all). The reforms of the 1920s anticipated this contemporary paradigm. A look back at that history, through the lens of the studies that follow, sheds light on the circuitous route by which we got here.

APPENDIX: NOTE ON DATA SOURCES

The dates of establishment of each central bank were compiled on the basis of the most recent *Central Banking Directory* (Mitchell 2021) and

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the list of banks covered by Capie et al. (1994, Appendix B). Where necessary, this was combined with additional information from both primary and secondary sources, including the chapters in this volume. Doing so was particularly important when tracking down the money doctors and foreign advisers identified in Table 1.1. The UN archives in Geneva, which comprise the League of Nations' archives, proved invaluable in determining details of League missions and personnel. Additional sources used for countries not considered elsewhere in this volume, are mentioned in the notes to Table 1. Archival references are suppressed to save space.

The number of sovereign states per year was derived from the database constructed by Dedinger and Girard (2021), who identify 250 historically distinct sovereign 'political entities' from 1816–2020. These entities were then matched with data on central banks to arrive at the calculations underpinning Figure 1.1. The data in Table 1.2 were compiled from 'Table 101: Exchange Rates' in the *Statistical Year-book of the League of Nations, 1939–40* (League of Nations, 1940: 193–204).

Country notes and sources to Table 1.1

1 Renamed National Bank of the Kingdom of **Yugoslavia** in 1929, the bank was established in 1920 to extend the powers of the Privileged National Bank of the Kingdom of Serbia, which had been founded in 1884, to the (broader) Yugoslavian territory. Yugoslavian authorities negotiated with the Bank of England and the Banque de France from 1926, with a view to a obtaining a new loan. Harry Arthur Siepmann, allegedly in a private capacity, helped prepare a stabilization plan, and Britain attempted to organize a League mission in 1928, to no avail. Stabilization was postponed till 1931, and carried out with the aid of a French stabilization loan and Banque de France support; the 1931 reforms included an increase in central bank independence, as the dinar was pegged to gold. See Meyer (1970: 117) and Jevtic (2021).

2 Foreign experts were invited by the government of **South Africa**. See Chapter 13 in this volume.

3 After an abortive attempt to establish a Latvian rouble in 1919 and 18 months of high inflation, a stabilization program – known by the name of the country's Finance Minister, R. Kalning – was implemented in the spring of 1921. This brought public finance under control and led to the introduction of a new currency, the lat; de jure stabilization came in August 1922, followed by the establishment of the Bank of **Latvia**. Banknotes continued to circulate in parallel with a considerable volume of Treasury notes. See RIIA (1938: 131) and Puriņš (2012).

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(*cont.*)

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4 During the war, both Russian roubles and German Reichsmarks were circulating in **Lithuania**; after 1916, the latter were mainly exchanged for special 'Oberost' notes; these continued to be issued by Lithuanian authorities after the war (known as 'Auksinas'). Their link to the German mark brought rapid depreciation in 1922, leading to the introduction of the Lithuanian litas, set at one-tenth of the US gold dollar. Simultaneously, the Bank of Lithuania was established with a monopoly of issue and an obligation to maintain a gold cover of one-third. See RIIA (1938: 132) and Simutis (1942: 104).

5 The Reserve Bank of **Peru** was founded in 1922 at the behest of William Wilson Cumberland, a former student of Kemmerer's who served as senior customs collector and financial adviser to the government. Prior to its establishment, inconvertible bills (cheques circulares) were issued by a committee of bankers and businessmen (Junta de Vigilacia), who answered to the government. Cumberland modelled the Reserve Bank after the Federal Reserve and joined its board of directors, until his resignation in 1924. The Bank was overhauled after a Kemmerer mission in 1931. See McQueen (1926: 30), Seidel (1972: 536), Flores Zendejas (2021: 440) and Chapter 12 in this volume.

6 The **Austrian** National Bank's predecessors were the Chartered Austrian National Bank (est. 1816) and the Austro-Hungarian Bank (est. 1878), both of which had enjoyed monopoly of note issue within the respective borders of the Habsburg monarchy. The advisers listed concern the central bank, and should not be confused with the Commissioners-General appointed by the League, Zimmermann (1922–6) and van Tonningen (1931–6). See League of Nations (1945) and Chapter 5 in this volume.

7 **Colombia**'s first central bank had been created in 1905 but only lasted until 1909 (Ibañez Najar, 1990). After several years of monetary instability, **Colombia**'s central bank was ultimately established in 1923, shortly after Edwin Kemmerer's first visit to the country. Thomas Russell Lill, an accountant who had participated in the Kemmerer mission, stayed behind as financial adviser to the government, while a German national was hired as superintendent of banks. A second Kemmerer mission followed in 1930. See Seidel (1972), Drake (1989: 38, 69) and Chapter 12 in this volume.

8 Originally established in 1911, the Commonwealth Bank assumed (limited) central banking functions after its re-organization in 1924; the Reserve Bank Act of 1959, separated the central bank, henceforth called the Reserve Bank of **Australia** (RBA), from the rest of the Commonwealth Bank which carried on as a commercial and savings bank. The monopoly over the issue of bank notes belonged to the (federal) Commonwealth Treasury since 1910. The monopoly was taken over by an independent Note Issue Board (on which the Commonwealth Bank governor had the casting vote) in 1920, before being fully absorbed into the Commonwealth Bank in 1924. Harvey was invited by the Commonwealth Bank, while Niemeyer and Gregory were officially invited by the Australian government. See Chapter 13 in this volume.

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(*cont.*)

9 After the First World War, **Hungary** and Austria had to liquidate the Austro-Hungarian Bank (est. 1878), which had been the sole note issuing authority of the dual monarchy. Hungary thus created the Note Institute of the Royal Hungarian State on 1 August 1921, which maintained the monopoly of note issue until the Hungarian National Bank started its operations on 24 June 1924. The advisers listed concern the central bank, and should not be confused with the Commissioners-General appointed by the League, Jeremiah Smith, Jr. (1924–6) and Royall Tyler (1931–6). See League of Nations (1945) and Chapter 6 in this volume.

10 The Bank of **Poland** was preceded by the Polish National Loan Bank, which had been established by the Germans in 1916; in 1918, the Polish National Loan Bank became the interim bank of issue (with a monopoly on the issue of Polish marks, as crowns and German marks were withdrawn between 1918 and 1920), until the establishment of the new Bank of Poland and the introduction of the zloty. See Chapter 7 in this volume.

11 In 1922, responding to an official request for financial assistance, the LoN dispatched Luxembourgian professor Albert Clamès to investigate the financial situation in **Albania** and submit a report. Subsequently, J. D. Hunger was appointed financial adviser to the Albanian government. His proposals for a new bank of issue led to the Financial Committee's draft statutes for the new institution being approved in September 1923. Subsequent negotiations to secure the bank's capital were headed by Mario Alberti, who represented Italy on the Financial Committee in 1923, and eventually signed an agreement between the Albanian government and an international bank syndicate to establish the National Bank of Albania in March 1925. The syndicate comprised mainly Italian banks (COMIT, Credit, and Banco di Roma), as well as institutions from Switzerland, Belgium, and Yugoslavia; the bank was founded in Rome and Alberti became the first Governor. See Ahmetaj (2017).

12 In **Chile**, a conversion office was established as early as 1907 and several proposals to transform it into a proper central bank had been discussed. After 1913, the office engaged in additional banking activities (including re-discounting), and could thus be considered a predecessor to the Central Bank of Chile, which was established after a Kemmerer mission in 1925, and opened its doors in January 1926. At Kemmerer's behest, the US banker Walter M. Van Deusen, who had worked for several US banks in Latin America, became its technical adviser; Van Deusen also participated in Kemmerer's 1931 mission to Peru. Kemmerer had been to Chile back in 1922 and returned briefly in 1927, though neither visit led to central banking reform. See Seidel (1972), Drake (1989: 89), Carrasco (2009), and Chapter 12 in this volume.

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(*cont.*)

13 After the civil war, **Mexico**'s regional banks of issue were liquidated and circulation of gold and silver coins was gradually restored in 1916–17, when a Kemmerer mission was also organized. Of the two commercial banks that enjoyed note-issuing privileges across the entire country, some policy makers favoured the transformation of the Banco Nacional de México – the largest commercial bank and banker to the government – into a central bank. Kemmerer, however, recommended the establishment of a new institution. His proposal was eventually implemented in 1925, although with some discernible differences. See Nodari (2019) and Chapter 12 in this volume.

14 Established in 1919, the Bank of **Estonia** was a state bank that combined commercial banking with monopoly note issue (Estonian marks). A crisis in 1924 led to a request for League assistance, which in turn led to the 1925 and 1926 missions, recommending bank and currency reform; at the same time, Norman was approached to recommend a financial adviser. The Bank was reformed in 1926 (with BoE staff members Siepmann and Osborne helping redraft the statutes) and Walter J. F. Williamson became the Bank's financial adviser. The League helped Estonia issue a new loan in 1927; a portion of the proceeds helped move long-term assets from the Bank of Estonia to a new Mortgage Institute. A new currency, the Estonian kroon, was introduced and linked to the gold standard; the kroon was put into circulation in 1928. See RIIA (1938: 133) and Sayers (1976: 304).

15 The National Bank of **Czechoslovakia** replaced the Banking Office of the Ministry of Finance, which had had sole control of the koruna ever since its separation from the Austro-Hungarian crown, in 1919. The country eschewed League stabilization but the Bank of England was consulted regularly. See Chapter 8 in this volume.

16 Ever since 1899, when the government suspended convertibility for the banknotes issued by six banks, Guatemala had experienced considerable exchange rate fluctuations, while the US dollar was widely used in transactions. In 1923, efforts were made to stabilize the exchange rate. In 1924, the government invited Kemmerer to visit; a new monetary unit, the quetzal, was introduced and, in 1926, the Central Bank of **Guatemala** was established, but it differed significantly from Kemmerer's original proposals, so he did not recognize it as his own creation. See McQueen (1926), Calderón (2018) and Chapter 12 in this volume.

17 Projects to establish a central bank in **Ecuador** date back to 1890; however, until the establishment of the Central Bank of Ecuador, in 1927, six banks shared note issue privileges. At Kemmerer's behest, five North American experts were appointed, including Earl B. Schwulst (from the Federal Reserve Bank of Dallas) who became bank 'assessor'; he soon clashed with the Bank president and his contract was repudiated; Harry L. Tompkins, employed as the 'superintendent of banks' was removed in 1929. See Drake (1989), Naranjo Navas (2017), and Chapter 12 in this volume.

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(*cont.*)

18 Transformed into a fully fledged central bank in 1928, the Bulgarian National Bank had enjoyed the de jure monopoly of note issue in **Bulgaria** since 1885. The advisers listed concern the central bank, and should not be confused with the Commissioners appointed by the League, although both Charron and Watteau also served in that capacity. See Chapter 10 in this volume.

19 The Bank of **Greece** took over the monopoly of issue of the National Bank of Greece, which had been established in 1842, but only became the country's sole note-issuing authority in 1920. Prior to 1920, its monopoly had been regional. After the Avenol mission, negotiations on the new bank statutes continued in London, where Bank of England staff and Henry Strakosch played key roles. See Chapter 9 in this volume.

20 Established in 1911, the quasi-governmental Bank of the Bolivian Nation enjoyed a monopoly of note issue since 1914, though private banks had until 1924 to withdraw their issue; Kemmerer's mission in 1927, however, felt the need to establish a new institution and drew up the blueprints for the Central Bank of **Bolivia**, which was established by law in 1928 and opened its doors in 1929. At Kemmerer's behest, Abraham F. Lindberg was appointed 'technical assessor' for three years. Lindberg had previously been appointed chairman of the Permanent Fiscal Commission, a US-controlled supervisory body that had been a product of a 1922 loan to Bolivia. E. O. Detlefsen was appointed superintendent of banks for 1929–30. See McQueen (1926: 35), Drake (1989), Flores Zendejas (2021) and Chapter 12 in this volume.

21 Several experts were invited to advise the government of the Republic of **Turkey**. See Chapter 11 in this volume.

22 The Bank of **Ethiopia** was preceded by the Bank of Abyssinia, which had been established in 1906 and was controlled by the British-owned National Bank of Egypt. Soon after his coronation, Emperor Selassie arranged for the transfer of ownership and note-issuing privileges to a new, Ethiopian-owned institution, which thus became one of the first indigenous central banks in Africa. Monetary reform owed much to the work of Selassie's American financial adviser and staunch defender of the gold standard, Everett Colson. Colson had been recommended to Selassie by the State Department and was one of a 'trinity' of foreign advisers to the emperor (the other two being his military adviser, Eric Virgin (Sweden), and his legal adviser, Jacques Auberson (Switzerland)). The Canadian banker, C. S. Collier, formerly of the Bank of Abyssinia, became the Bank's Governor, until it was liquidated in 1936, shortly after the Italian occupation of Addis Ababa. See Pankhurst (1963: 115) and Mauri (2011).

23 Established through the 1933 Reserve Bank of **New Zealand** Act, the Bank began business on 1 August 1934 and was nationalized in 1936. Otto Niemeyer's visit came at the invitation of the New Zealand government, but is not related to the establishment of the RBNZ. See Chapter 13 in this volume.

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(*cont.*)

24 The establishment of the **Bank of Canada** was influenced by the Royal Commission of 1933. Macmillan had been a judge and was approached directly by the Canadian Prime Minister to chair the commission. Canada had also contacted Norman to request Sir E. Harvey, but Norman nominated Addis to the Commission instead. Besides Macmillan and Addis, the Royal Commission also had several Canadian members. See Chapter 13 in this volume.

25 In **El Salvador**, issuing rights were shared by three major commercial banks until the Bank of England dispatched F. F. J. Powell, who had previously assisted Niemeyer in his missions to Argentina and Brazil. The Powell mission proposed the conversion of one of the 'big three' (the Commercial Agricultural Bank) into a central bank and the reform was carried out in 1934, establishing the Central Reserve Bank of El Salvador. See Sayers (1976: 524), Sato (2012), and Chapter 12 in this volume.

26 In **Argentina**, prior to the establishment of the Central Bank of Argentina in 1935, paper money was issued in exchange for specie at a fixed rate at the Conversion Office (est. 1899), while the Bank of the Argentine Nation (est. 1891) managed gold reserves and provided credit to the state and other commercial banks. While the new institution was established after a Niemeyer mission, the final outcome differed significantly from orthodox prescriptions, not least due to the influence of Raúl Prebisch. See Sato (2012), Sember (2018) and Chapter 12 in this volume.

27 **India** is the only country included in the table that was not sovereign at the time. The 1861 Paper Currency Act vested the monopoly power of issue in the government, which set up a Currency Department. The three Presidency banks of Calcutta, Bombay, and Madras acted as its agents of issue and redemption in their respective areas of operation, but elsewhere the Currency Department operated through its own offices. In 1913 the Currency Department was replaced by the Office of the Controller of Currency, which was replaced by the RBI's Issue Department in 1935. Despite London's strong interest in Indian monetary affairs, the Hilton Young Commission was the first expert mission to visit India per se; Henry Strakosch was its leading member and a major influence on its majority report. See Chapter 14 in this volume.

28 Until the establishment of the Central Bank of **Venezuela**, banknotes were issued by four multiple banks, while government relied mostly on the largest one, the Bank of Venezuela. Plans to establish a central bank were first aired in 1936, as part of the February Program of reforms. Experts were dispatched to other central banks in the Americas and Hermann Max, of the Central Bank of Chile, was invited to contribute to the final draft. The bank was created in 1939, but opened its doors in 1940. See Delfino (2020) and Chapter 12 in this volume.

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