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Central bank independence in Latin America: Politicization and de-delegation

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Abstract

In the last three decades, legal delegation of monetary policy to independent central banks (CBI) has achieved the status of a global norm of good governance. The recent backlash against this independence is an important but understudied trend. Our article analyzes the potential for delegation reversals with a focus on Latin America where CBI was effective in maintaining price stability, but placed important policy constraints on governments. We theorize that, in the shadow of the global norm for CBI, the increasing distance in preferences between the government and the central bank, and the procedural hurdles to change the status quo, explain the intensity of challenges to the delegation contract or the delegated agent. An analysis of the frequency of irregular central bank leadership replacements, and instances of politicization and de-delegation show the plausibility of our argument. We also show that, in Latin America, reforms de-delegating monetary policy have been small, balancing the needs that justified delegation in the first place, but rolling back the most stringent constraints placed on financing the government.

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1 | INTRODUCTION

This article analyzes the process of delegation, politicization, and de-delegation of monetary policy to central banks, looking at the case of Latin American countries. While there is an important literature analyzing the causes and effects of delegating monetary policy to central banks, the evolution of this delegation has not received much attention in the literature.[1] Our paper contributes to this volume's research program by analyzing the nature of legal delegation of monetary policy and proposing a framework to understand the potential for politicization of central banking, and for different degrees of delegation reversals.

Central banks are key non-majoritarian institutions (NMIs) (Lijphart, 1984; Thatcher & Sweet, 2002). Since the late 1980s, in a process that parallels the case of other NMIs discussed in this volume (Thatcher et al., 2022), most countries carried out economic policy within the confines of delegated monetary policy to independent central banks (CBI). This global trend toward more CBI has had important consequences on inflation, economic growth, and even political stability (Alesina & Summers, 1993; Bodea & Hicks, 2015b; Broz, 2002; Cukierman, 1992; Garriga & Rodriguez, 2020; Grilli et al., 1991; Keefer & Stasavage, 2003), and central bankers themselves tout their independence from politics as a perquisite for economic growth.[2] Monetary policy delegation and CBI was also promoted as best practice by international financial institutions (Kern et al., 2019), and was rewarded by financial markets (Bodea & Hicks, 2015a, 2018; Garriga, 2021; Maxfield, 1997).

Yet, academics and practitioners question delegation to central banks on grounds of democratic accountability (De Haan & Amtenbrink, 2000; Stasavage, 2003) or due to CBI's negative externalities when politicians aim to elude delegation for political survival (Aklin & Kern, 2020; Aklin et al., 2021). Furthermore, governments have attacked central banks' decisions (Binder, 2021a, 2021b; Selmayr & Zilioli, 2007) and, more drastically, dismissed central bank leadership in an abrupt and irregular manner (Dreher et al., 2008, 2010). In rarer instances, governments have reclaimed powers delegated to central banks, regaining some political control over monetary policy.

We propose a typology that looks at principal-agent policy divergence and procedural hurdles in central bank laws to predict the intensity of conflict over delegation. The variation of these factors in Latin America leads us to expect limited politicization and minor instances of de-delegation, rather than massive legislative changes. *In contrast with other cases studied in this special issue in which reversals appear to be non-existent* (Pollack, 2022; Quaglia, 2022; Stone Sweet & Sandholdz, 2022), *between 1970 and 2019, Latin American countries saw 13 clear reversals of delegated legal independence to central banks*. In those instances, de-delegation mostly involved small, incremental changes in legislation, without prior major efforts to delegitimize central banks as institutions. These formal legislative reforms touched all aspects of delegation, but, most frequently, they allowed the government to borrow from the central bank in more favorable terms, reduced the exclusive authority of the central bank over monetary policy, and made the central banks more susceptible to political interference by altering the goals for monetary policy. Politicization and major de-delegation prove to be rare in Latin America. Ecuador's central bank experience under-President Rafael Correa (2007–2008) exemplifies a successful attempt at institutional bashing with an outcome that decisively wrestled control of monetary policy way from the central bank. Yet, Ecuador's experience remains un-replicated across the region. Other countries that proceeded with de-delegation (e.g., Argentina, Venezuela) adjusted legislation only marginally, although repeatedly, and politicization was absent in the wake of such episodes.

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2 | THEORETICAL FRAMEWORK

2.1 | Delegation and design

CBI share the basic characteristics of NMIs. They have delegated authority for a slice of the government's policy portfolio, insulating monetary decisions from political cycles; they lack direct electoral accountability; and aspire to embody technocratic best practices for governance. For monetary policy, delegation has been equated with CBI which is broadly understood as central bankers' ability to decide and implement measures to pursue price stability without interference from the government.

A stable currency is a staple of good governance. However, historically, central banks have evolved as governments' fiscal agents and many countries struggled to keep fiscal pressures in check. Without a currency anchor, following the collapse of the Bretton Woods system and the two oil shocks of the 1970s, high inflation resurfaced. At that time, most central banks remained appendages of the ministries of finance, providing loans to the government and private businesses (Cukierman, 2008), and inflation control was not their primary mandate. Only in the late 1980s, delegating monetary policy to a nominally independent central bank focused on inflation started to become a key institutional mechanism to maintain price stability.[3]

A large literature analyzes the causes and effects of monetary policy delegation. Countries give more formal—legal—independence to their central banks for multiple reasons, most prominently to solve a credibility problem related to time inconsistent inflation preferences (Barro and Gordon, 1983; Kydland & Prescott, 1977; Rogoff, 1985), to remove monetary policy from day-to-day politics (Bernhard, 1998; Boylan, 1998; Broz, 2002; Hallerberg, 2002; Treisman, 2000), or in response to international factors (Bodea & Hicks, 2015a; Johnson, 2016; Kern et al., 2019; Maxfield, 1997; McNamara, 2002; Polillo & Guillén, 2005).

Delegation means that, formally, through legislative changes, the principal—the government—cedes authority over day-to-day operations to the central bank. Maxfield (1997) documents instances of informal delegation, suggesting that sophisticated investors understand even subtle changes to central bank governance. Yet informal delegation is hard to gauge and lacks focal point features. Therefore, most principals have increasingly delegated monetary policy by outright changing central bank legislation. In most countries, this is accomplished by passing *regular legislation*, meaning that, in turn, regular legislation alone is also sufficient to *reverse* delegation.

Central bank laws define the agents' autonomy, and the institution's zone of discretion (Thatcher and Stone Sweet, 2002). Central bankers' autonomy is more protected when laws stipulate relatively long mandates, little interference of the executive branch in their appointment, and only extreme circumstances to justify their dismissal. In many countries, the principal retains the power to appoint the leadership of central banks. Yet, the law may limit the government's prerogatives by including the legislature or non-political bodies in staffing decisions.

The zone of discretion also includes the specific design of monetary policy (targets and instruments), even though some governments limit the agent's autonomy by retaining control over the inflation target that the central bank is mandated to achieve. Because central bank credit to governments is a historical root of inflation, more autonomous agents can legally reject the government's financing requests, dictate the terms of loans, or have an input in fiscal policy. Finally, central bank laws may direct agents to achieve policy goals beyond low inflation and these objectives can be at odds with each other or hard to balance. In contrast with other NMIs, setting multiple goals with a limited set of policy instruments does not imply more autonomy

for monetary policy. Rather, multiple objectives open the door for political (and financial sector) influence on monetary policy and can muddle accountability (Conti-Brown, 2016; Goodhart and Lastra, 2018; Kern and Seddon, 2021). For example, a joint objective of low inflation and economic growth can be used in times of economic uncertainty to favor politicians' electoral prospects. This reduces the agent's autonomy by allowing seeping political influence and diminishing effectiveness: Suspicion of political influence makes the agent's job of reducing inflation costlier because it undermines the agents' credibility (Adolph, 2013).

2.2 | Contingent effectiveness and externalities of delegation

The perceived legitimacy of the delegation contract depends on its effectiveness and monetary policy delegation to pursue stable prices has produced low inflation (Cukierman, 1992; Cukierman et al., 2002; Garriga & Rodriguez, 2020; Jacome & Francisco 2008; Klomp & de Haan, 2010) and other desirable outcomes (Bodea & Hicks, 2018; Klomp & de Haan, 2009). Yet theoretically and empirically, the success of delegation to CBI has been contingent on countries' broader institutional set-up for several reasons.

First, delegation laws are incomplete, and those voids “are filled by tradition at best and by power politics at worst” (Cukierman, 1992, p. 355). Second, the principal-agent relationship always entails implicit or explicit threats to amend the central bank law or otherwise “override” the central banker (Bodea, 2010; Jensen, 1997; Keefer & Stasavage, 2003; Lohmann, 1992). Finally, because central banks are relatively low-transparency institutions, political transgressions against independence are hard to detect, making credibility hard to establish (Bodea, 2010; Broz, 2002). Therefore, the agent's low transparency makes effectiveness in reducing inflation contingent on institutional constraints and greater political transparency, which across the board enhance legal enforcement.

Monetary policy delegation has also had unintended consequences on the economy and political actors. For example, Stiglitz (2013) argued that CBI' predominant focus on inflation at the cost of stabilizing growth and employment, contributed to income inequality and poverty. Additionally, externalities can arise because monetary policy is out of reach, and fiscal policy is somewhat constrained due to the same delegation. Thus, politicians may rely on other policies to generate favorable outcomes, like the deregulation of the financial sector and looser credit standards, which, in turn, can give rise to costly financial crizes (Aklin & Kern, 2020). And, while central bankers appear careful to avoid pushing governments on their fiscal policy at sensitive times like before elections (Bodea & Higashijima, 2017), the leverage of central bankers into this policy area which is outside direct delegation creates important reasons for a backlash.

2.3 | Contestation, institutional adaptation, politicization, and de-delegation

While legal monetary policy delegation to pursue low inflation has become a global best practice (Bodea & Hicks, 2015a; Kern, Reinsberg, and Rau-Göhring, 2019; McNamara, 2002), de facto independence remains fluid. Politicians adapt to the loss of legal jurisdiction over monetary policy, but monetary policy remains a cheap and attractive policy tool. Therefore, even with delegation, monetary policy stays political. Lohmann (1992) prominently identifies the conditions when the central bank voluntarily accommodates government's demands in extreme situations

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for fear of losing nominal delegation. For example, CBI may accommodate government's fiscal deficit close to elections, following an electoral calendar rather than the business cycle (Bodea & Higashijima, 2017) or alter their communication in response to public opinion (Moschella et al., 2020). *Thus, informal contestation over monetary policy and its externalities is expected despite legal delegation.*

Indeed, informal contestation of CBI is frequent (Binder, 2021a, 2021b; Ehrmann & Fratzscher, 2011; Havrilesky, 1995; Selmayr & Zilioli, 2007). On the side of the principal, contestation of delegation usually amounts to public requests for lower interest rates, statements that the central bank's policy is not appropriate for economic conditions, or meetings called by the government with the central bank. In turn, central banks can protest that politics is not part of their decisions, note that government's rebukes reduce their credibility to achieve low inflation, or even remark on government's fiscal policy plans as inflationary. Binder (2021a, 2021b) identifies instances of political pressure on central banks. In Latin America, since 2010, each year, two to five countries have seen informal pressure on central banks to adjust monetary policy.

This background of contestation of central banks' decisions can be punctuated by graver forms of political intrusion. In this volume, politicization is defined as “a sustained, public challenge to the legitimacy” of NMIs that pressures for a change in the formal institutional structure to reduce delegation. Politicization is different from requests for policy change or rhetorical attacks that do not constitute serious attempts to activate a de-delegation process. *In fact, in the case of delegation to central banks it is possible to clarify the theoretical scope of politicization, explain the possible deterrents of politicization, and elaborate on the expected degree of de-delegation.*

Our argument is premised on two important characteristics of monetary policy delegation to central banks. First, delegation can be granted through legal instruments that entail high procedural costs to modify—such as constitutions or international treaties—or, most frequently, through regular legislation that can be amended with simple majorities. Similarly, the delegation contract can impose low or high hurdles to dismiss the agent. For example, more protected central bankers may be removed for very limited reasons, and through a process involving the legislative or judicial branches. In other cases, removal may lawfully result from unilateral executive decisions. We posit that differences in the institutional hurdles affect the likelihood of observing politicization and de-delegation. For principals aiming to preserve the appearance of due process it is harder to amend constitutions or dismiss agents that are well protected under the law.

A second feature is the global consensus on monetary policy delegation to achieve price stability as best practice. The International Monetary Fund has included conditions related to delegation in its funding programs (Johnson, 2016; Kern et al., 2019; Nelson, 2017; Polillo & Guillén, 2005) and countries have pro-actively delegated anticipating competition for capital (Bodea & Hicks, 2015a; Maxfield, 1997). This established norm increases the costs of not just de-delegation itself, but also of intense, prolonged politicization by domestic actors. Those costs are magnified for countries that are dependent on the reaction of global capital (Bodea & Hicks, 2018; Garriga, 2021; Maxfield, 1997).

In this context, we argue, initial delegation reflects an equilibrium: Even if driven by outside factors, originally, the scope of delegation to the central bank reflects the principal's preferences. To be clear, although CBI can bring economic and reputational gains (i.e., price stability, access to capital markets), it is politically costly because it removes a potent policy instrument that can manipulate the economy. In that sense, delegation is the principal's revealed calculation that benefits exceeded costs at that time. Yet, the preferences that converged on delegation change. We view the ensuing intensity of preference divergence as driving the kinds of backlash against delegation.

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The principal and the autonomous agent may become at odds with each other for different reasons. The simplest scenario is if the agents fail to perform their functions. The delegation law normally stipulates mechanisms for replacing non-performing or contract-breaching agents.[4] In those cases, we should not expect an attack to the legitimacy of the institution, but on the performance of the agent, and a regular removal of the central banker.

More complex scenarios involve increasingly divergent preferences over the substance of delegation—that is, the use of monetary policy to pursue a low inflation mandate. This can happen because other considerations outweigh the value the principal assigns to low inflation and reputational gains, or because the agents use their zone of discretion to move central bank's policies further away from the principal's preferences—even when the principals maintain their preference for price stability or an economic orthodoxy reputation. In either case, as the preference distance increases, the principal has several options: They can informally challenge the central bank's policy positions, hoping for either central banks acquiescence or to deflect responsibility for the central bank's policies. This, as we noted, we expect as a common occurrence. The principal may also dismiss and replace the agent, hoping for a more agreeable central banker. Finally, the preference distance may be large enough for the principal to challenge the basis of delegation. In those cases, we should observe increasing politicization, attempting to delegitimize both the agent and its delegated mission, or formal changes to the delegation contract to reduce either the zone of discretion or the autonomy of the agent.

We argue that the kinds of challenges to the delegation contract or the agent depend crucially on the evolving preference distance between principal and agent, and the procedural hurdles to alter the status quo. Table 1 below summarizes our expectations. Importantly, we consider the external, reputational costs of politicization and de-delegation as consistently elevated in the past 3 decades due to the global norm status achieved by CBI. While financing pressure may vary for countries due global liquidity changes or lender characteristics (Kern and Seddon 2021; Zeitz, 2021), those external costs of trouncing the CBI norm have remained high in Latin America (Bodea & Hicks, 2018). This means reforms reversing delegation are never costless.

The distance between the principal's and agent's preferences ranges from small—for example, ideal interest rate or inflation target, or the somewhat greater divergence over temporary use of central bank finances—to large incompatibilities regarding government financing needs and the role of institutions, or their ability to contribute to public goods provision. Thus, changes in governments' fiscal position due to recessions or natural resource price cycles alter how the principal copes with the constraints imposed by legal delegation (Campello & Zucco, 2016). Similarly, partisanship changes, coups or incumbent takeovers transform the identity of the principal and their preferences, changing the cost-benefit calculation around monetary policy delegation. In the first case—when the principal-agent preference distance remains small—we expect challenges to target the agent (central banker), either personally or in terms of policy choices, but not the legitimacy of delegation. If there are severe hurdles to remove the central banker—for

TABLE 1 Expected challenges to delegation

		Principal-agent preference distance	
		Small (challenges to the agent)	**Large (challenges to the contract)**
Procedural hurdles to change the status quo	Low	(a) Frequent irregular central bankers removal	(b) Minor de-delegation
	High	(c) Less frequent irregular central bankers removal	(d) Politicization/Major de-delegation

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example, an inter-branch participation procedure—it is less likely for disagreements to progress to dismissals because they would entail serious violations of the legislation, with higher reputational and economic costs. In contrast, minor procedural hurdles are likely to result in frequent irregular replacements of the central banker. Although irregular, these replacements do not entail major violations of the delegation framework and should result in lower reputational costs to the principal.

Larger preference distance likely results in more drastic measures, including challenges to the legitimacy of the delegation, and eventually, de-delegation. We expect to observe politicization when there are serious procedural hurdles and the preferences of the principal and those of the agent are distant enough to make the principal publicly question whether delegation is justified. Because the costs of altering the delegation contract are high—due to the global norm around CBI and to the need to reform constitutional or international texts—the principal needs to mobilize large domestic support in an overt fight over the future of an institution as consequential as the central bank. Politicization is an appropriate strategy to shore up that support. When politicization is successful, we expect that the ensuing de-delegation will be substantial and the central bank will lose a significant amount of control over monetary policy. On the contrary, in contexts of relatively low procedural hurdles to revise the delegation contract, a principal facing divergent preferences does not need to engage in "a sustained public attack on the legitimacy" of the central bank. If the preference distance makes the delegation contract not desirable, the principal can procedurally swiftly alter the contract. These interventions can more precisely target the source of the preference divergence, without the need of major overhaul of the delegation. Furthermore, targeted small de-delegations may not overtly challenge the global norm, resulting in smaller reputational costs.

3 | DYNAMICS OF MONETARY POLICY DELEGATION IN LATIN AMERICA

This section examines the delegation, politicization, and de-delegation of monetary policy to central banks in Latin American countries. For the process of delegation and de-delegation, our focus is on legal reforms to central bank governance that result in increases or decreases of CBI. To examine politicization, we look at salient instances as covered by the international press.

Most Latin American countries established central banks in two waves. Between 1920 and the Great Depression some countries modeled their central banks after the Federal Reserve.[5] These central banks monopolized money issuance, but lacked explicit mandates: Their basic functions were to preserve monetary and banking system stability, and provide limited financing to the government (Jacome, 2015, pp. 7–8). Central banks created after the collapse of the Gold Standard[6] had broader monetary functions such as controlling money and credit, and some of them included banking supervision (Jacome, 2015, p. 14).

After World War II, central banks were repurposed to achieve governments' new goals—what Jacome (2015) calls the "developmental" phase. Central banks were explicitly mandated to support expansionary economic policies at the expense of inflation control. Additionally, central banks focused on exchange rate stability, in compliance with Bretton Woods rules. Often, central banks were mere executors of the government's decisions: Either government's delegates sat on the central bank's board (Argentina 1949), or the executive made credit and reserves decisions (Chile 1953). More importantly, most countries used central banks reserves to finance fiscal deficits with few or no constraints. Starting in the 1970s, international factors– the collapse of

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Bretton Woods, and the oil crizes—and domestic conditions—high fiscal deficits, inflation, and ideological and institutional shifts—increased the demand for central banks to focus on price stability. Inflation control was among the top priorities of the governments in the 1990s, and key for their survival in power (Biglaiser and DeRouen, 2004; Remmer, 1993; Treisman, 2004).

With this backdrop, academic consensus and international pressures promoted a dramatic shift in the institutional design and functions of central banks in the region. In the 1990s, most Latin American countries delegated monetary policy to more autonomous central banks, tasked with the primary goal of price stability, reflecting the alignment of preferences between national governments, international actors, and newly independent central bankers.

3.1 | Delegation and design

We analyze the process of delegation of monetary policy to central banks along three dimensions: (i) the autonomy of the central banker to conduct monetary policy insulated from political pressures, (ii) the scope of the delegation—that is, degree of authority over monetary policy and lending to the government–, and (iii) the mandate to use these powers to pursue price stability.

We measure these three dimensions using the legal index of CBI developed by Cukierman (1992), with data from Garriga (2016), updated to 2019.[7] This index proxies the aforementioned three dimensions as follows: (i) *Agent autonomy* is measured as protections to the central bank governor's tenure. (ii) We measure the *scope of delegation* by focusing on the central bank's authority over monetary policy formulation, and the extent of the central bank's powers to resist or condition the government's financing requests—what we call fiscal constraints. (iii)Finally, the *objectives* of the central bank indicate the ability of the agent to focus on price stability, or the requirement to consider other potentially conflicting goals. Each of the components and the weighted index (overall independence) range from 0 (minimum) to 1 (maximum) independence or delegation. Appendix 1 details the coding.

Figure 1 shows the reforms of central banks' laws that resulted in changes in the *overall* independence index. The regional average of CBI suggests that until 1991 most countries delegated little monetary policy to their central banks. A cluster of reforms the following year altered the regional outlook: Argentina, Colombia, Ecuador, Nicaragua, Peru, and Venezuela dramatically increased delegation, followed by Mexico (1993), Bolivia, Costa Rica, Guyana, Paraguay and Uruguay (1995).

In our sample, there are 44 reforms affecting overall CBI. Of them, 31 increased CBI in 21 countries—all the sample, but Brazil and Panama. Figure 2 disaggregates the components of the CBI index, showing interesting dynamics in the components of the CBI index. First, since the 1990, most central banks were delegated substantive powers in monetary policy, and were empowered to limit the government's fiscal spending (scope) and to prioritize price stability objectives over other goals. Second, despite several reforms, the autonomy of the central banks' governors has not changed dramatically on average. Even before 1991, nominal agent autonomy was quite high and, except for one case (Dominican Republic, 2002),[8] there were no reforms reducing the autonomy of the central bank's governor after 1995. However, as we discuss below, the region saw significant changes in the other areas of delegation.

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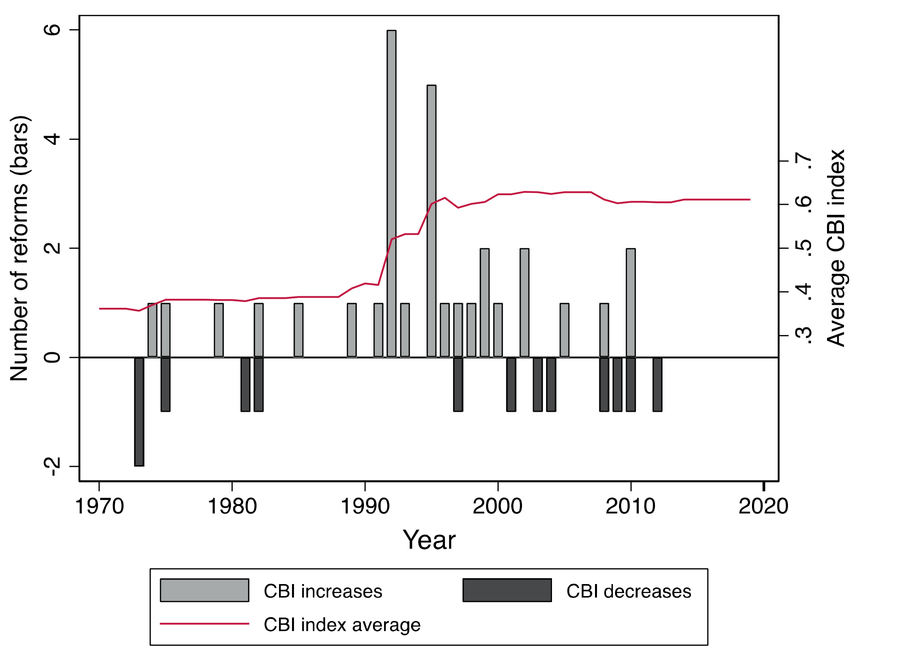

FIGURE 1 Central bank independence. Regional average and reforms per year and direction. Latin America, 1970–2019

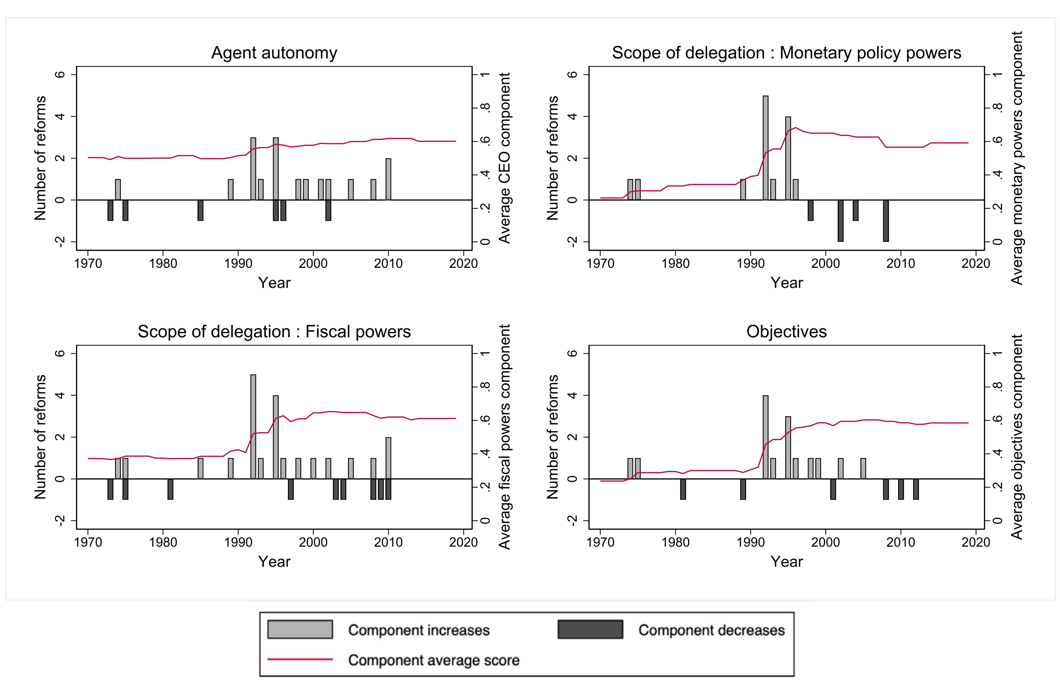

FIGURE 2 Regional average and number of reforms, by component[9]

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3.2 | Contingent effectiveness and externalities

The wave of delegation to central banks in Latin America correlates with lower levels of inflation. Figure 3 illustrates the regional average inflation, CBI, and timing of reforms increasing and decreasing delegation. Some scholars highlight that inflation started declining in the region before the central banks reforms (Jacome & Francisco 2008). Although this is apparent in Figure 3, other research shows the persistence of a general negative association between CBI and inflation in developing countries (Bodea & Hicks, 2015b; Garriga & Rodriguez, 2020).

Success in inflation control also had distributive and political effects. Although it is hard to separate the effects of CBI from other austerity measures implemented simultaneously, some research suggest that CBI has positive effects on growth, and there are mixed results regarding negative effects of inequality (Aklin & Kern, 2020; Sturm et al., 2020) and unemployment (Baccaro & Rei, 2007; Garriga, 2016). Notice however that academic evidence is not necessary for politicians to challenge the effectiveness or externalities resulting from delegation of monetary policy to central banks (Agur, 2018; Goodhart and Lastra 2018). Perhaps more importantly, CBI imposed fiscal constraints on governments (Bodea et al., 2019; Bodea & Higashijima, 2017; Klomp & Sseruyange, 2020), which can become really binding when real economic conditions like growth or employment deteriorate or governments' policy preferences change.

3.3 | Institutional adaptation, politicization, and de-delegation

Above, we derived a series of expectations regarding when we should observe politicization and de-delegation (Table 1). Two characteristics are key for the case of Latin America. First, in the majority of countries, delegation is granted through regular legislation where simple majorities

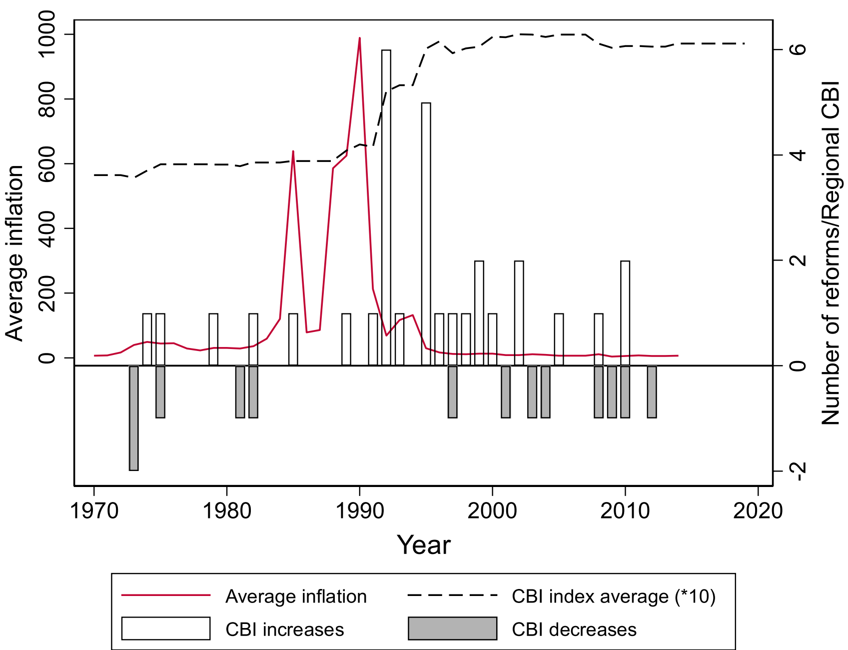

FIGURE 3 Average inflation and central bank independence (CBI). Latin America (1970–2019)

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can speedily alter the delegation contract,[10] limiting the likelihood of prolonged political fights. This feature of delegation is coupled in Latin America with strong principals (Cox and Morgenstern, 2001; Morgenstern et al., 2013).[11] The net result is relatively low procedural barriers to de-delegation, which stands in stark contrast with other NMI where de-delegation can involve unanimity of votes in an international organization or agreement from multiple layers stakeholders (Pollack, 2022; Quaglia, 2022; Stone Sweet & Sandholdz, 2022). A second feature is the global quasi-universal consensus on CBI as good governance coupled with the Latin American countries' dependence on international capital.[12] For these countries the costs of intense, prolonged politicization and de-delegation are magnified.

In our theoretical framework, these characteristics suggest that we should expect small preference divergences to result in frequent irregular central bankers' removals in countries with dependent central banks, characterized by fewer protections to the tenure of the central banker—cell (a) in Table 1—and less frequent removals in countries with more legal procedural hurdles to remove the central banker or alter legal delegation –cell (c) in Table 1. Data on central bank governors' replacement show that in the region, irregular turnovers are far more frequent than regular ones (Dreher et al., 2008, 2010). In 49 years (1970–2019), there have been 234 irregular and 52 regular turnovers in 23 countries (Figure 4). This seems exceptionally high for any NMI, especially when the law states that the governors should hold their office five or more years on average (Figure 3). The turnover rate in the sample ranges from 0.48 turnover/year (Ecuador)—or about one such central bank CEO replacement every 2 years—to less than 0.1 turnover/year (Cuba)—or one every 10 years (Appendix 2 shows more details).

The turnover frequency before the 1990s is puzzling, because delegation was relatively low – central banks did not have much power and were subordinated to the government. Central banks' governor removals in this period may mirror institutional or political instability or result from blame deflection.[13] In the 1990s, the process of legal delegation coexists with fewer irregular

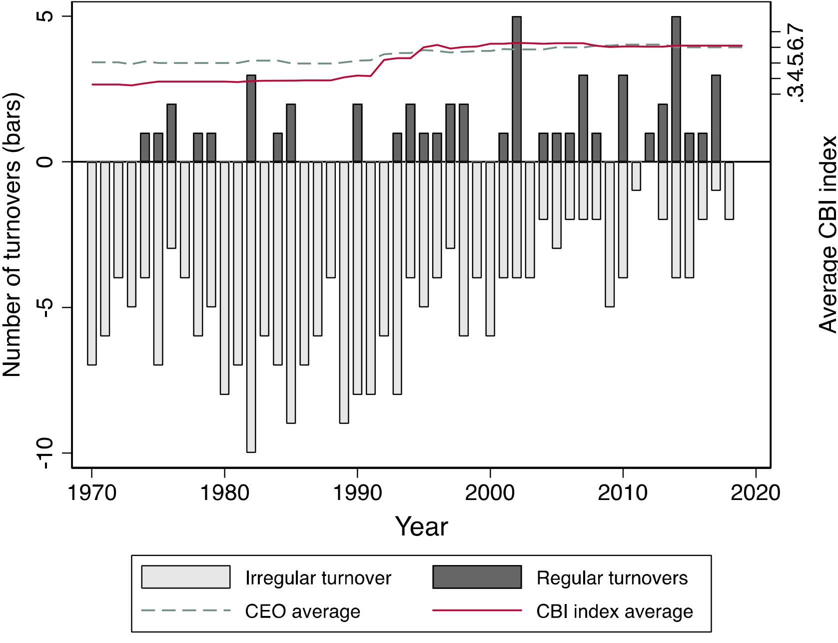

FIGURE 4 Regular and irregular replacement of central bank governors (1970–2014)

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removals, which is consistent with our expectations. This can result from the alignment of the preferences of the principals, agents, and third actors at the onset of delegation—smaller preference distance. Three additional reasons seem to have protected the delegation contract: CBI were successful in maintaining price stability; central bank governors publicly challenged attempts of politicization or violations of the terms of delegation,[14] and their prerogatives were backed by courts[15]; and third parties—international financial institutions and financial markets—imposed further costs to politicization (Bodea & Hicks, 2015a, 2018).[16] These two latter factors reflect elevated costs to replace central bankers irregularly.

Figure 5 shows the timing of the regular and irregular turnovers, in relation with the autonomy of the central bank governor, and the overall independence of the central bank. As reflected by the average regional picture, in most countries as the overall CBI index protections afforded to bank governor tenures increase, the frequency of irregular turnovers drops.

It is noteworthy that in the 2000s, when political preferences in the region shifted to the left—arguably increasing the preferences distance between left-leaning principals and conservative agents—the frequency of irregular turnovers decreases.[17] This supports the idea that procedural obstacles for central bankers' removal result in a higher threshold for governments to attack the agent. The conflict between the Argentine government and its central bank governor illustrates these dynamics. In 2010, President Fernández de-Kirchner attempted to fire the governor of the central bank for refusing access to reserves to repay foreign debt. Redrado appealed this dismissal stating that the law required Congress' intervention. A judge reinstated him, and other court rulings confirmed this decision.[18] After 3 weeks of political crisis followed closely by the international specialized press, Redrado resigned. Ironically, President Fernández refused to accept

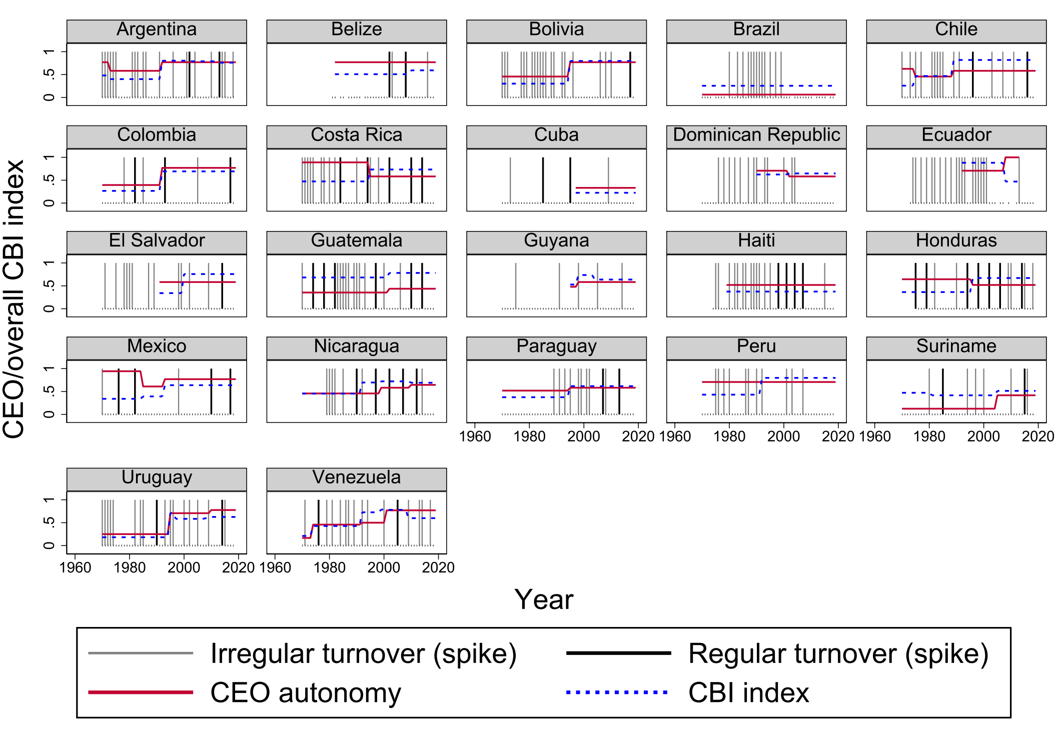

FIGURE 5 Regular and irregular turnover of central bank governors, by country (1970–2014). Dreher et al. (2008) do not have data for Panama

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the resignation until the Congressional commission issued its findings, after which Redrado was "regularly" replaced.[19] In spite of the tensions that surrounded this crisis, the government's actions were limited to central bank governor intimidation and did not entail a challenge to the statutory independence of the central bank. Also, despite the urgency of the matter—settling foreign debt commitments and an open challenge to the president's authority—legal-procedural hurdles were followed, including the intervention of courts and Congress.

Finally, and as noted above, there have been instances of de-delegation: 13 reforms reduced delegation across nine countries (Argentina, Ecuador, El Salvador, Guyana, Nicaragua, Panama, Suriname, Uruguay, and Venezuela). Four of these reversals happened before 1982, and a new wave of reversals started in the 2000s (Figure 1).[20] As expected, except for Ecuador (2008), most reforms have been minor, and share the following noteworthy characteristics. First, in contrast with delegations increasing CBI (averaged 0.23 in the 0–1 CBI score), de-delegations were of a much smaller magnitude (average 0.095) (Table 2).[21] Second, delegations generally affected all dimensions of CBI—CEO independence, central bank's objectives, monetary policy authority, and fiscal constraints on the executive (Figure 2). In contrast, reversals have been more targeted, and affected mostly the scope of delegation to the central banks (Figure 6): Nine reforms reduced the limits on lending to the government–allowing governments to request funding or more favorable terms for advances—and two expanded the role of the government in crafting monetary policy. Four reforms affected the objectives of the central bank, giving increased priority to outcomes such as employment, economic growth, or financial stability over the sole focus on inflation.[22] Only one reform reduced the central bank governor's term in office. Additionally, some of the reversals include minor increases in delegation in other components, but the overall effect is a reduction of delegation.[23]

The magnitude of de delegations, and the cases in which we observed politicization are consistent with our expectations. In countries with relatively low reform hurdles—CBI granted by ordinary legislation—de-delegations are small, and they overwhelmingly affect the ability of the central bank to finance fiscal deficits. Besides the 13 clear de delegation instances, the region has also seen "targeted" de-delegation hidden in laws that increased overall CBI. Five reforms that increased on the whole the scope of delegation, simultaneously limited agent autonomy (Chile 1975, Mexico 1985, Costa Rica 1995, Honduras 1996, and Dominican Republic 2002, see Appendix 3). We interpret this as government's attempt to use delegation to exploit the agents' expertize and receive reputational gains, while ensuring the agent's preferences would be likely aligned with the government's. A review of news outlets in the period prior to most de-delegation episodes—with the exception of Ecuador, discussed below—reveals only very limited politicization.

Consistent with our theoretical premises, the most dramatic reversal in the region happened after an intense process of politicization in Ecuador, where monetary policy delegation was enshrined in the constitution. In Ecuador, reforms in 1992 and 1994 mandated the central bank to focus on reducing inflation (Jacome, 2004). CBI was further increased in the constitutional reform of 1998, which strengthened the appointment process to the central bank board. The 1998 reforms occurred during an ongoing banking crisis, which forced the central bank to prioritize providing liquidity to banks rather than the inflation control mandate. Consequently, these reforms to central bank governance were insufficient to curb inflation. Facing high inflation and a deepening economic crisis, in 2000, Ecuador's Government made the US dollar the legal tender. By restricting the central bank from issuing currency, dollarization limited greatly the role of the central bank in monetary policy, limited now to use its US dollar reserves to provide some liquidity to banks and to offer limited support for fiscal deficit financing (Beckerman, 2001).

TABLE 2 Reforms reducing overall CBI. Changes by component

Country	Year	Overall index: CBI t	CBI $t-1$	Index components: 1. CEO t	1. CEO $t-1$	2. Objective t	2. Objective $t-1$	3. Policy t	3. Policy $t-1$	4. Fiscal t	4. Fiscal $t-1$
Argentina	1973	▼ **0.371875**	**0.440125**	▼ **0.5825**	**0.77**	0.4	0.4	0.0825	0.0825	▼ **0.4225**	**0.508**
Panama	1975	▼ **0.297248**	**0.305932**	0.693333	0.693333	0.4	0.4	0.0825	0.0825	▼ **0.013158**	**0.047895**
Suriname	1981	▼ **0.344125**	**0.406625**	0.125	0.125	▼ **0.4**	**0.6**	0.2675	0.2675	▼ **0.584**	**0.634**
Uruguay	1997	▼ **0.6345**	**0.69825**	0.7075	0.7075	0.6	0.6	0.75	0.75	▼ **0.4805**	**0.7355**
Bahamas	2000	▼ **0.404375**	**0.408125**	0.4575	0.4575	0.6	0.6	0.165	0.165	▼ **0.395**	**0.41**
Venezuela	2001	▼ **0.707273**	**0.739773**	▲ **0.77**	**0.5**	▼ **0.4**	**0.8**	0.75	0.75	0.909091	0.909091
Argentina	2003	▼ **0.816875**	**0.823026**	0.77	0.77	1	1	0.75	0.75	▼ **0.7475**	**0.772105**
Guyana	2004	▼ **0.558458**	**0.648106**	0.583333	0.583333	0.6	0.6	▼ **0.2675**	**0.5**	▼ **0.783**	**0.909091**
Ecuador	2008	▼ **0.455469**	**0.826875**	▲ **1**	**0.7075**	▼ **0.4**	**0.6**	▼ **0**	**1**	▼ **0.421875**	**1**
Venezuela	2009	▼ **0.616364**	**0.707273**	0.77	0.77	0.4	0.4	0.75	0.75	▼ 0.545455	0.909091
Nicaragua	2010	▼ **0.6785**	**0.6845**	▲ **0.645**	**0.5825**	0.6	0.6	0.75	0.75	▼ 0.719	0.8055

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TABLE 2 (Continued)

Country	Year	Overall index		Index components							
		CBI		1. CEO		2. Objective		3. Policy		4. Fiscal	
		t	*t* − 1	*t*	*t* − 1	*t*	*t* − 1	*t*	*t* − 1	*t*	*t* − 1
		▼				▼					
Argentina	2012	**0.766875**	**0.816875**	0.77	0.77	**0.8**	**1**	0.75	0.75	0.7475	0.7475

Notes: ▲ = increase from previous year; ▼ = decrease from previous year.

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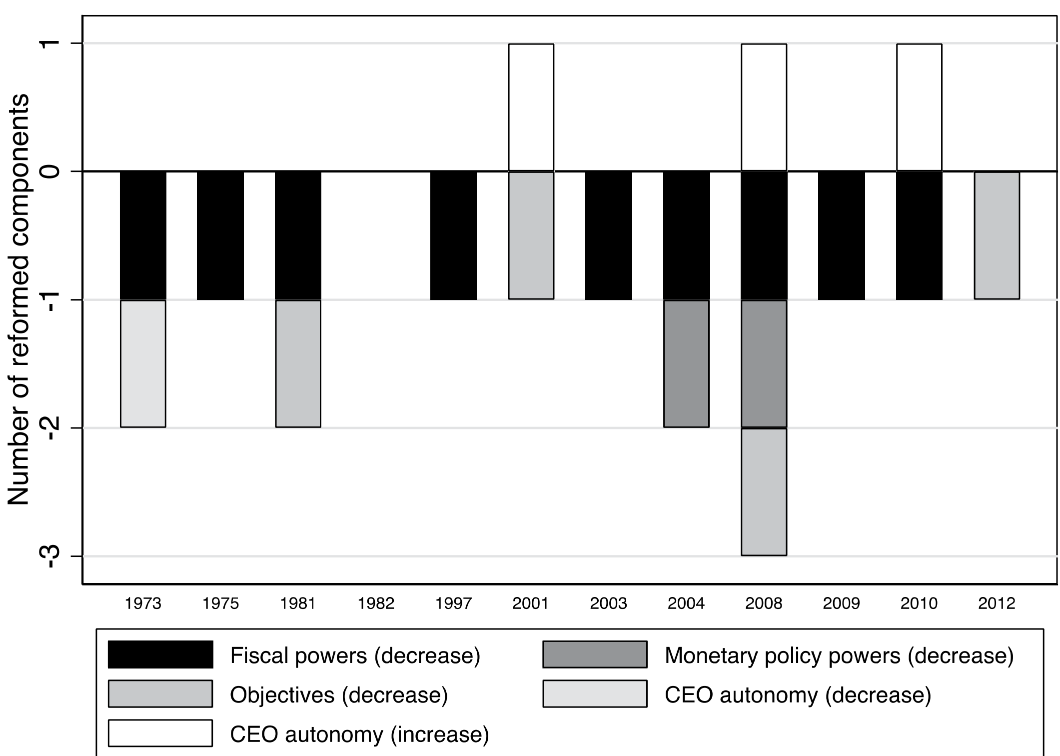

FIGURE 6 Reversals in overall central bank independence (CBI), by component and direction

The start of central bank politicization in Ecuador can be traced to the October 2006 presidential elections. Rafael Correa, then economy minister[24] and left populist candidate,[25] called for an end to earmarked oil earnings to pay foreign debt, and questioned the country's dollarization. Once in office, President Correa sought a new constitution strengthening the president's powers. In parallel, Correa noted repeatedly that the central bank was an expensive institution with no role in a dollarized economy, planned to merge the central bank with financial institutions regulators, supported legislation to cancel government's debt to the central bank,[26] charged the central bank with the country's dollarization,[27] and accused it of providing misleading statistics.[28] This high level of politicization peaked in 2008 as Ecuador's constituent assembly approved a draft constitution that broadened the powers of the presidency, including its control over monetary and credit policy.[29] The new constitution marked the largest instance of de-delegation of monetary policy in Latin America—roughly halving the CBI index we use to measure delegation.

Ecuador's politicization is not mirrored in the lead-up to other de-delegation episodes. Many delegation reversals were overlooked by the international press or the IMF (Nicaragua 2010, Guyana 2004, Uruguay 1997). In others, politicization is absent. For example, sustained attacks on the central bank as an institution did not precede the 2012 legislative reforms in Argentina. Perhaps this was due to accommodative behavior following Redrado's dismissal in 2010: Central bank credit to the government steadily increased and the central bank also spent significant resources defending the peso on the eve of the presidential elections in October 2011. President Kirchner announced central bank reforms in a speech following her 2011 electoral victory. De-delegation swiftly passed through Congress, while Kirchner continued to nominally support central bank independence. Similarly, the 2001 and 2009 reforms in Venezuela were not preceded

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by intense politicization. In 2001, central bank reforms were passed by the National Assembly dominated by the supporters of President Chavez. While the reforms added a focus on economic development to the tasks of the central bank, the government touted the legislation as a "blueprint for a modern, autonomous monetary institution."[30] Similarly, in 2009, President Chavez easily passed legislation through the National Assembly where he had a majority control. The legislative change eased lending from the central bank to the government and businesses, which worked in Chavez's favor in the 2010 legislative elections. Both in 2001 and 2009, there was opposition to central bank de-delegation. However, the principal's control of the legislative branch made politicization unnecessary.

4 | CONCLUSION

The process of delegation of monetary policy in the region is comparable to the case of most NMIs discussed in this volume: In consonance with a global wave of delegation, most Latin American countries granted independence to their central banks in the 1990s. In general, more CBI delivered price stability, and were perceived as signals of good governance by international markets and financial institutions.

As we have shown, in contrast with other cases analyzed in this special issue (Pollack, 2022; Quaglia, 2022; Stone Sweet & Sandholdz, 2022), in Latin America, reversals of legal, formal delegation of monetary policy have been rare. That broad reluctance to back-track on politically costly constraints is linked, we suggest, to the costs of deviating from the broad consensus elevating CBI to the status of best practice. We further argue that, in the shadow of those persistently high costs, the instances and magnitude of challenges to delegation can be explained by looking at increased preference distance between the principal and the agent, and the procedural hurdles to alter the status quo delegation—which could explain the rarity of de-delegation in multilevel governance contexts (Pollack, 2022; Quaglia, 2022; Rangoni & Thatcher, 2022). A review of the instances of irregular replacement of central banks governors, politicization, and de-delegation of different magnitude in Latin America support the plausibility of our argument.

As CBI reversals are starting to be the subject of systematic research (Kern and Seddon 2021), our account of the fate of delegation of monetary policy is noteworthy because of its focus on institutional design and varying degrees of political pressure, and the cross-country comparative empirical evidence. Future research can look in more depth at the factors that drive increased preference distance between agents and principals. In theory, this distance could be operationalized in different ways—from analyzing the speeches of the central bank board and government officials (Baerg, 2020; Baerg et al., 2020), to the number and kinds of "attacks" on the central bank (Binder, 2021, 2021, 2021). Research can also examine whether procedural hurdles built-in other delegation contracts have similar policy-locking effect when reputational costs are less constraining for the principals, and explore the conditions under which principals are willing to absorb reputational and procedural costs and override delegation.

DATA AVAILABILITY STATEMENT

The data and code to replicate the figures are available at the corresponding author's Harvard dataverse (https://dataverse.harvard.edu/dataset.xhtml?persistentId=doi:10.7910/DVN/5KCCQF) and personal website (https://sites.google.com/site/carogarriga/publications).

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ENDNOTES

[1] Exceptions are Kern and Seddon (2021) and Masciandaro and Romelli (2019).

[2] For example, Janet Yellen, the former chair of the US Federal Reserve noted that "history shows, not only in the United States but around the world, that central bank independence promotes better economic performance". http://thehill.com/policy/finance/227474-yellen-i-would-forcefully-oppose-audit-the-fed-efforts; 12/17/2014.

[3] Delegation brought demands for accountability, usually addressed with mandated hearings and reports—a weak form of accountability. Central banks' internal response has been to voluntarily publish macroeconomic forecasts, votes and the deliberations around such decisions (Baerg, 2020; Dincer & Eichengreen, 2014).

[4] For example, Argentina's Organic Law states that central bank board members "may be removed [...] by the Executive Power, for breach of the provisions contained in this Organic Charter" (Art. 9).

[5] The first central banks in the region were in Peru (1922), Colombia (1923), Chile and Mexico (1925), Guatemala (1926), Ecuador (1927), and Bolivia (1929).

[6] EL Salvador (1934), Argentina (1935), Venezuela (1939).

[7] Our sample includes Argentina, Bolivia, Belize, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Suriname, Uruguay, and Venezuela.

[8] This reform significantly increased the scope of delegation, resulting in an overall increase of the CBI index.

[9] EL Salvador is not included here, in Table 2 and Figure 6 because the entirety of central bank legislation texts is unavailable.

[10] In few cases, central bank independence implied constitutional changes (Chile 1980, Ecuador 2008, Mexico 1993).

[11] Even cases of divided government do not seem to affect economic policy reform (Biglaiser & Brown, 2003; Negretto, 2006).

[12] For example, between 1990 and 2018, the regional average fiscal deficit was 6% of the countries' GDP; and the average external debt stocks to gross national income ratio was 34.6%.

[13] During the sample, the region experienced 30 coups d'état, 64 major constitutional changes, and 450 major cabinet changes (Banks, 2020). Cukierman et al. (1992) suggest that in Latin America major cabinet changes implied central bank removals.

[14] https://www.centralbanking.com/central-banks/governance/7722451/bank-of-mexico-sounds-alarm-over-draft-law.

[15] http://news.bbc.co.uk/1/hi/world/americas/8449701.stm.

[16] https://www.ft.com/content/866ceca0-88b4-11dc-84c9-0000779fd2ac.

[17] Partisanship is an aggregated indicator of *preference distance* between governments and central bank, which can be conceptualized as a continuous variable. However, assuming that (more) left-leaning principals have preferences that are further away from inflation control seems reasonable.

[18] https://www.ft.com/content/a7fe40d8-09d8-11df-8b23-00144feabdc0.

[19] https://www.ft.com/content/91e7bf84-0d40-11df-af79-00144feabdc0.

[20] Uruguay (1997) is the only reversal between 1982 and 2001 in the region.

[21] Appendix 3 shows the changes in scores for reforms increasing CBI, for comparison purposes.

[22] The two reforms that did not affect the fiscal component of the independence, altered central bank goals (Argentina 2012 and Venezuela 2001).

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[23] Appendix 2 shows the list of reforms reducing CBI by the index's components. Similarly, Appendix 3 shows the list of reforms increasing CBI.

[24] Reuters "Ecuador candidate eyes more control over oil, debt", 8 September 2006.

[25] Dow Jones Newswire "Ecuador's Pres Hopeful Correa Sees Debt Renegotiation", 11 September 2006.

[26] Dow Jones Newswire "Ecuador Congress To Start Final Debate On Banking Bill", 13 June 2007.

[27] Dow Jones Newswire "Ecuador Central Bank Chief Defends Bank's Role In Economy", 26 January 2007. Dow Jones Newswire "Ecuador Ctrl Bank Managers Resign As Govt Tension Boils Over".

[28] Reuters "Ecuador's Correa scolds central bank, reviews indicators", 2 June 2008.

[29] Financial Times "Ecuador's assembly approves draft constitution", 25 July 2008. Dow Jones Newswire "Ecuador's New Ctrl Bk Pres Says Bank To Remain Autonomous", 23 July 2008.

[30] Reuters "Venezuela Central Bank law triggers autonomy debate", 22 August 2001.

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