

The Elusive Quest for Stability

The United States, the IMF and Economic Transformation in Argentina during the 1970s

The present economic crisis in Argentina and the much-publicized negotiations with the International Monetary Fund have reinvigorated the public discussion about the role of the international financial institutions in the failed economic transformation of Argentina. Scholars of Latin American history have often blamed the IMF for being too harsh on countries in distress and too lenient on authoritarian and repressive regimes.¹ Marxists scholars and some Argentine commentators even blame the Washington-based institution to be co-conspirators of “terrorismo económico,” a deliberate destruction of the economy by devious elements of world financial capital.² In this interpretation, IMF-sponsored adjustment did not fail at all but fully achieved its hidden goals, namely the expropriation and weakening of the working class.³

Conservative economists, by contrast, have often pointed out that IMF agreements with Argentina were a sham and Argentine resistance to the bitter, yet helpful medicine had turned one of the richest countries into the “sick man of Latin America.” In a recently published book, *Argentina and the Fund – From Triumph to Tragedy*, the former IMF chief economist Michael Mussa, argued that one of the IMF’s main failings was that it “fail[ed] to press the Argentine authorities much harder to have a more responsible fiscal policy.”⁴

Critics from both sides of the political spectrum have given the U.S. government disproportionate responsibility for the actions of the IMF. Some have argued that the Fund directly served U.S. interests using a “veil of political neutrality” to conceal the true

¹ See for example: Roberto Frenkel and Jose Maria Fanelli, "Argentina y el FMI en la ultima decada," in *El FMI, el Banco Mundial y la crisis latinoamericana*, ed. Sistema Económico Latinoamericano SELA (México, 1986), Richard Ground, "El sesgo recesivo de las políticas de ajuste del Fondo Monetario Internacional," *Trimestre Economico* LIV (Enero-Marzo, 1987).

² Jaime Fuchs and José Carlos Vélez, *Argentina de rodillas : terrorismo económico de Martínez de Hoz a Cavallo*, 1. ed. (Buenos Aires, 2001). This expression was originally used by Peronists. During early 1976, Isabel Perón claimed made similar accusations to explain the economic breakdown, see "Alza de salarios y ataque al agio," *La Nacion*, 11 de marzo 1976.

³ David F. Ruccio, "When Failure Becomes Success: Class and the Debate over Stabilization and Adjustment," *World Development*. October 19 (1991).

⁴ Michael Mussa, *Argentina and the Fund : from triumph to tragedy* (Washington, DC, 2002).

intentions.⁵ More conservative commentators and politicians followed the recommendations of the Report of the Meltzer Commission castigating the U.S. government and the IMF for bailing out international investment banks with massive injections of money during crises. The consequences were that investors took too much risk in the belief they would get bailed out during the next crisis thus making crises even more likely— so-called moral hazard.⁶

This study sheds new light on the complicated relationship between the United States, international financial institutions and borrowing countries using Argentina in the mid-1970s as a case study. Argentina during this period is a particularly interesting case to study because it features a series of fundamental changes in the political and economic orientations of Argentina as well as sharp ruptures in bilateral relations with the U.S. This period thus serves us to investigate how political uncertainty and diplomatic conflicts influence bilateral and multilateral economic cooperation.

This paper is based on newly opened archives of the IMF, declassified documents from the Presidential Libraries of Gerald Ford and Jimmy Carter, declassified papers from the US State Department and the National Security Council, the David Rockefeller Papers in the archives of JPMorganChase as well as Archives of the Ministerio de Relaciones Exteriores y Culto in Buenos Aires. After a brief introduction into the economic and political situation in the world and Argentina in the mid-1970s, the article will examine three periods in more detail: (1) Clash, Rapprochement and Dissolution: The Peronist Government, the IMF and the Ford Administration; (2) Authoritarian Stabilization: The Military Government and the Ford Administration; (3) Human Rights and Economic Cooperation: The Carter Administration and the Argentine Military. The negotiations between Argentina and the IMF after the coup show more continuity between the Ford and the Carter administrations and therefore cannot be usefully separated into two parts. They are going to be presented after the chapter on the Carter administration.

⁵ Richard Swedberg, “The Doctrine of Economic Neutrality of the IMF and the World Bank”, *Journal of Peace Research*, Vol. 23, No. 4 (Dec., 1986), 377-390.

⁶ Meltzer Report, find exact reference

These documents refute the argument that the United States or the IMF is to blame for the abysmal economic performance of Argentina during the 1970s. The IMF had less influence on Argentine economic policy making than is popularly assumed and the United States was by no means then dominant force behind international financial institutions. Even as diplomatic relations between Buenos Aires and Washington experienced a roller-coaster ride, the IMF continued constructively negotiating with Argentine governments.

The Transformation of the World Economy in the 1970s

The late 1960s and 1970s were a period of momentous change in the world economy. It saw an opening of international capital markets and a rebound of international lending stimulated by the development of the Eurodollar market and it heralded the de-facto collapse of the Bretton Woods System with the closing of the gold window in August 1971 and the adoption of floating exchange rates in 1973. The devaluations of 1971 and then again 1973 were only the beginning of a long period of exchange rate instability and relative weakness of the dollar. The dollar became a symbol for the crisis of confidence of the Western superpower as the dollar lost nearly half of its value against German Mark and Japanese Yen.

The crisis the United States lived through in the early 1970s was not only economic but also had important political, military and moral dimensions. The US withdrawal from Vietnam following the peace talks in Paris in January 1973 showed American military weakness in the face of communist advances. Also on the domestic arena, the United States had seemingly lost the moral high ground. President Nixon's Watergate Scandal, which caused him to resign ignominiously in June of 1974, shattered confidence in the American political class and heightened the sense of moral and political decay.

Problems in the Middle East compounded the sense of insecurity, which characterized the 1970s. The Yom-Kippur War of 1973 between Israel on the one side and Egypt and Syria, aided by other Arab nations on the other showed the fragility of the world political and economic order. Even though the war was won rapidly by Israel, the Arab nations realized after their military defeat that the dependence of the West on their oil exports gave them a potent economic weapon in their hands.

The oil shock started on October 17, 1973 when Saudi Arabia's King Faisal enacted an oil embargo against the United States and the Netherlands as a reprisal of their support for Israel. Subsequently, the OPEC, the Organization of Petroleum Exporting Countries, which had been founded by the governments of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela in Baghdad in 1960, raised prices for crude oil sharply, first to US\$ 5.11 per barrel for Saudi Arabian light crude, just to double the price again to US\$11.65 effective January 1, 1974.⁷ The quadrupling of oil prices sent shock waves around the world. By mid-1974, the world economy was in the throes of virulent inflation, economic growth was decelerating, and a massive disequilibrium emerged in international payments.⁸ In the 1974 Annual Report, the IMF characterized the situation as "perhaps the most complex and serious set of economic problems to confront national governments and the international community since the end of World War II."⁹

The Return of Perón, and the Peronist Response to the Crisis

Like many Latin American countries, Argentina was initially much *less* affected by the direct effects of the oil shock because they had a largely self-sufficient petroleum production and because prices of important commodities were rising at this time as well. Easy access to loans as a consequence of the glut of *petro* dollars further lightened the burden of initial adjustment. With interest rates low and worldwide inflation rising, many loans offered a negative real interest rate giving borrowers the illusion of a painless growth and transformation.

Still, the year of the first oil shock, 1973, was also a pivotal year in Argentine political history since it ended a period of limited democracy and military rule with free elections in March, which led to a victory of a Peronist candidate. In June, after an exile of almost eighteen years, an old and frail Perón was welcomed back to Argentina with wild excitement. The period of Peronist government is generally divided into three distinct phases: (1) During the first phase under Héctor Campora, the government leaned to the left and showed sympathies to revolutionary organizations. Since the Presidency of

⁷ Garritsen de Vries, Margaret, *THE INTERNATIONAL MONETARY FUND 1972-1978 Cooperation on Trial*, 1985, p. 306.

⁸ *ibid*, p. 388.

⁹ IMF Annual Report, 1974, p. 1

Héctor Campora was short-lived and always perceived as transitional, it is going to receive less attention here. (2) During the presidency of Juan D. Perón, the government pursued a traditional populist alliance based on strong support from the unions. (3) The final government under Maria Martinez de Perón leaned to the right and lost much of the support of the unions while thoroughly antagonizing the left wing.¹⁰

The Peronist government initially planned to implement a Three Year Plan of economic reform (*Plan trienal para la reconstrucción y liberación nacional*) and consisted of a two-year stabilization program based on a price-wage freeze (the so-called Social Pact), the program focused on rapid economic expansion and redistribution of income towards the popular sectors. The ultimate goal was to give labor a larger share of the national income.¹¹ The initial results were quite promising. The economy rebounded strongly in 1973 and early 1974 while inflation fell to historic lows. The inflationary performance was surprising because the Peronist government pursued an expansionary monetary policy and ran a large budget deficit, two factors which normally trigger high inflation.¹² The falling inflation was partly due to a negotiated price freeze, which only postponed inflation without solving the underlying problem. More important, however, was a genuine change in expectations of the Argentine public, which believed that Perón could solve the economic problems and therefore started to increase their demand for money.¹³

The implementation of the populist stabilization program largely depended on the public confidence for it to succeed. Once it started falling apart, every actor had strong incentives to cheat on the price or wage controls causing the other side to call for adjustments. This auto-destruction of the Social Plan started in March of 1974, with the consequences of the oil shock on domestic inflation and the subsequent unscheduled wage increase granted under intense pressure from the Peronist unions.¹⁴ The most

¹⁰ Di Tella, Guido, "Argentina's Economy under a Labour-based Government, 1973-76", in Guido di Tella and Rudiger Dornbusch (eds.), *The Political Economy of Argentina 1946-1983*, Oxford, 1989 p. 213.

¹¹ Edward C. Epstein, "Recent Stabilization Programs in Argentina, 1973-86", *World Development*, Vol. 15, No. 8, 1987, p. 993.

¹² Erro, Davide G. *Resolving the Argentine Paradox Politics and Development, 1966-1992*, p. 80

¹³ Di Tella, Guido, "Argentina's Economy under a Labour-based Government, 1973-76", in Guido di Tella and Rudiger Dornbusch (eds.), *The Political Economy of Argentina 1946-1983*, Oxford, 1989 p. 219.

¹⁴ Edward C. Epstein, "Recent Stabilization Programs in Argentina, 1973-86", *World Development*, Vol. 15, No. 8, 1987, p. 994

fundamental destabilizing factor, however, was Juan Perón's unexpected death in July 1974. The perceived inaptitude of Perón's widow further undermined confidence that the new government could manage the situation.¹⁵

Initially, the new government promoted continuity by nominating Alfredo Gómez Morales, a respected Peronist economist and President of the Banco Central during the previous government, as new Minister of Economics.¹⁶ His initial adjustment was relatively successful, however growing wage adjustments and welfare expenditures soon derailed the anti-inflation program. More radical steps were only taken in mid-1975 with the appointment of Celestino Rodrigo. Rodrigo moved aggressively to stabilize the economy by devaluating the peso sharply against the dollar at the same time as attempts were made to reduce real wages, improve agricultural prices and attract foreign investment. This stabilization plan included an attempt to remove the union leadership and thus bring unions under direct government control.¹⁷

The Rodrigo Stabilization plan ended in disaster. Inflation moved from 75 percent over the preceding year to more than 950 percent during the subsequent one while the economy started to sink into a deep recession. Even Rodrigo's resignation did not return social peace and economic stability to embattled Argentina. The subsequent two Ministers of Economics, Pedro Bonanni and Antonio Cafiero, which followed in quick succession, inherited an increasingly difficult situation with precarious external position, spiraling inflation and rising unemployment combining with a disappearing authority of the democratic government to implement economic policy decisions. Also the fiscal situation deteriorated sharply due to lower real tax receipts following a spike of inflation. By the end of 1975 the treasury deficit amounted to about 13 percent of Gross National Product. Stabilization programs were attempted but failed due to resistance from the Peronist party in Congress or the unions on the street.¹⁸

¹⁵ Di Tella, Guido, "Argentina's Economy under a Labour-based Government, 1973-76", in Guido di Tella and Rudiger Dornbusch (eds.), *The Political Economy of Argentina 1946-1983*, Oxford, 1989 p. 221.

¹⁶ Ibid, p. 222.

¹⁷ Ibid, p. 223.

¹⁸ Di Tella, Guido, "Argentina's Economy under a Labour-based Government, 1973-76", in Guido di Tella and Rudiger Dornbusch (eds.), *The Political Economy of Argentina 1946-1983*, Oxford, 1989 p. 227.

The economic problems of late 1975 and early 1976 were thus more of a political than or purely economic nature and were mostly unrelated to the world economic crisis following the oil shock.

Clash, Rapprochement and Disintegration: The Peronist Government, the IMF and the Ford Administration

It is a generally accepted notion that the relationship between Argentina and the United States was a conflictual one during the Peronist government between 1973 March of 1976.¹⁹ This led some observers – including the proper Peronist government – fear that the United States might take measures to destabilize the government in order to retain its economic and political influence.²⁰ The fact that the International Monetary Fund was notoriously unforthcoming with economic aid as the Peronist government unraveled in late 1975 and early 1976 fueled suspicions that U.S. influence was being exerted indirectly through international organizations.

The available documents show a more nuanced picture. Documents for the archives of the Argentine *Ministerio de Relaciones Exteriores y Culto* indicate that the Peronist government misjudged the geopolitical situation believing the United States in secular decline. At the same time, they feared that their diplomacy might provoke the ire of the United States and feared the repercussions. In late 1975, Argentina attempted a rapprochement with the United States repeatedly inviting Henry Kissinger to come and visit Buenos Aires – without success.

Internal documents from the Ford administration show that the U.S. government was indeed concerned about Argentine policy moves, especially the nationalization of U.S. companies and the move towards a “Third World” position. Documentary evidence also indicates that the U.S. government was aware of the military’s preparations for the coup and that Admiral Massera personally spoke with the U.S. Ambassador prior to the military takeover asking him for help “selling” the move abroad. At the same time, there

¹⁹ Andrés Cisneros and Carlos Escudé (eds.), *Historia General de las Relaciones Exteriores de la República Argentina*, Tomo XIV.

²⁰ Subsistema Relaciones Internacionales, “Análisis de la Situación Estratégica Regional y Mundial”. Marzo 1975, Caja: América Central (política), Carpetas Especiales 1975, Organismos Internacionales, Legajo: Carpetas Especiales 1975, Archivos del Ministerio de Relaciones Exteriores y Culto, Buenos Aires, p. 24.

is no sign that the United States intervened directly or encouraged the generals to move against the constitutional government.

The International Monetary Fund pursued negotiations with the Peronist government until a few days prior to the coup but grew increasingly exasperated with the government's inability to fulfill any of its promises or even to specify a coherent stabilization program. The expectations of an imminent coup also reduced the willingness to lend to a government, which was perceived to be doomed to fail instead waiting for a more stable alternative to emerge. Even though there is no indication that the IMF encouraged the military takeover, it did too little too late to strengthen the hand of the civilian government.

Argentine and U.S. interests collided in three distinct yet interrelated areas. For one, Argentina opposed important U.S. proposals in international organizations, such as the Organization of American States (OAS) citing the need of Latin America to recognize that their interests did not coincide with those of the United States. Second, Argentina sought to gain more economic independence, a policy which included nationalization of foreign companies and tough trade negotiations. Third, the Peronist government reestablished trade relations with the Soviet Union and Eastern Europe as well as with Cuba and also favored an elimination of trade sanctions against the Caribbean island.

These conflicts grew out of nationalistic and anti-American ideology trying to position Argentina as a leader of the "Third World." In a strategy paper titled "Análisis de la Situación Estratégica Regional y Mundial", Peronist political strategists outlined the foreign policy strategy for the government of Isabel Martinez de Perón. Analysts concluded that the United States and the Capitalist West was in a profound crisis in the early 1970s. Not only had the old order of the Bretton Woods System disappeared but with it had economic growth and monetary stability and full employment. The political leadership of the United States also was questioned following the ignoble withdrawal from Vietnam, continuing communist influence in Europe and Latin America and the political vacuum left in the White House following the abdication of Richard Nixon. All

these observations led them to believe that the world was approaching a new equilibrium with a stronger Russia and a permanently weakened North America.²¹

This geopolitical situation offered favorable conditions for developing countries, which, like Argentina, wanted to break out of the system of dependency towards the United States and gain “national autonomy” with a development strategy based on active state intervention and redistribution of income towards the needy.²² Apparent long-term trends in the world, such as rapid population growth, further seemed to strengthen the economic outlook for Argentina, which offered plenty of natural resources for a world which was supposed to be literally starving for its products. The greatest risk to Argentina posed the “hegemonic policies of the United States”, which would not tolerate the autonomy movements of Latin American countries. The case of Chile, where the United States had first tried to keep Salvador Allende from power and when these attempts failed helped the military overthrow him showed clearly that the U.S. wanted to defend its hegemony at whatever cost.²³

The United States was intensely preoccupied with the Argentine aspirations. In mid August 1974, an internal memorandum to the Brent Scowcroft developed the most important U.S. interests in Latin America during the upcoming term of office, which collided head-on with Argentine aspirations: (1) The desire to keep Latin America closely affiliated to the United States instead of drifting towards a “Third World” position championed among others by the Egyptian President Gamal Abdel Nasser who stood for a struggle against “Western imperialism” and for “economic modernization;” (2) Protection of “our backyard” from infiltration, this implies a reaction to “the spread of Soviet influence, as in Cuba, and in Chile until Allende's downfall”; (3) Protection of U.S. economic interests in the region which is a mayor supplier of raw materials to the United States.²⁴

²¹ Subsistema Relaciones Internacionales, “Análisis de la Situación Estratégica Regional y Mundial”. Marzo 1975, Caja: América Central (política), Carpetas Especiales 1975, Organismos Internacionales, Legajo: Carpetas Especiales 1975, Archivos del Ministerio de Relaciones Exteriores y Culto, Buenos Aires, p. 4.

²² Ibid. p. 26.

²³ Ibid. p. 24.

²⁴ Memorandum, George S. Springsteen to Brent Scowcroft, “Issues Briefing Paper: U.S. Latin American Relations: The Future of the New Dialogue”, August 19, 1974, National Security Adviser – Presidential

The stage was set for a clash of interests. This fact together with the dramatic end of the Peronist government with the coup on March 24, 1976 provided fertile breeding ground for conspiracy theories. In reality, Argentine – U.S. relations were less conflictual than the programmatic positions might have indicated. Most importantly, the economic and political crisis of 1975, forced the Argentine government to adopt a more conciliatory attitude towards the United States and at the same time to approach the International Monetary Fund in search for emergency financing. In May 1975, a briefing paper for a meeting between Secretary of State Henry Kissinger and his Argentine counterpart Alberto Vignes stressed that Argentina wanted good relations with the United States and it continued, “Over the past 18 months the GOA (government of Argentina) took positive steps to establish good relations with us, to avoid confrontations and to resolve bilateral problems on a pragmatic basis.”²⁵

In early September 1975, an internal memorandum to Arthur Burns, Chairman of the Board of Governors of the Federal Reserve, indicated a steady worsening of the external position of Argentina. It noted that the government of Isabel Perón took ever more desperate steps to secure additional foreign financing from the official sources such as the IMF and the Export-Import Bank as well as from private banks. Foreign lenders, including the major U.S. banks, however, were hesitant to extend new loans because of the political and economic instability.²⁶ Around the same time, Antonio Cafiero, then Minister of Economics, and Guido Di Tella, Secretary of State for Planning and Economic Coordination, traveled to Washington to explain the economic difficulties in Argentina to their U.S. counterparts. They tried to convince them that the problems were largely of a short-term nature and the present team was confident it could stabilize the

Country Files for Latin America, Box 2, Organization of American States – Latin America – General (1), Gerald Ford Presidential Library, Ann Arbor, MI.

²⁵ Briefing, “Bilateral Talks during OAS GA, Argentina – Foreign Minister Vignes,” May 1975, National Security Adviser – Presidential Country Files for Latin America, Box 1, Organization of American States – Bilateral Briefing Book (1), Gerald Ford Library, Ann Arbor, MI

²⁶ Office Correspondence, Charles J. Siegman to Chairman Burns, “Argentina’s Foreign Indebtedness and Recent Efforts to Obtain New Foreign Credits”, September 3, 1975, Arthur F. Burns Papers (Nixon White House; Federal Reserve Board), Box B 63, International Finance General 1975 (1), Gerald Ford Presidential Library, Ann Arbor, MI.

economy in the course of 1976.²⁷ In reaction to their pleadings the U.S. Embassy in Buenos Aires urged the government in Washington to provide economic support for the embattled Peronist government citing that it was in the U.S interest to “encourage moderate solutions.”²⁸

U.S. officials in Washington and IMF staff were not convinced that the Argentine government had a viable plan to stabilize the economy. In an internal memorandum to the Managing Director of the Fund, Jorge del Canto of the IMF Western Hemisphere Department expressed grave reservation concerning the viability of Argentine economic plan. However, he explained hope that the Fund “can find some way to proceed with the purchase [i.e. loan to Argentina] in order to establish some sort of working relationship.”²⁹ However, the lending of Special Drawing Rights (SDR) 110 million (US\$ 129 million) under the Compensatory Financing Facility was repeatedly postponed following non-cooperation of Argentina and the hesitation of the Peronist government to receive an IMF mission in Buenos Aires. In December, Jorge del Canto noted that Argentina was only cooperating with the Fund in the sense of keeping them informed yet failed to follow through on the economic policies.³⁰

In early 1976 the economic situation became even more chaotic and IMF observers in Washington painted an increasingly gloomy picture of the Argentine prospects to bring the situation under control. In a remarkably candid memorandum, Jorge del Canto stated: “From Washington, we are not very impressed with the internal records on fiscal developments and on incomes policy [..]” Del Canto doubted that the “present team” would be able to bring the situation under control. He therefore urged the Managing

²⁷ Memorandum of Conversation, Antonio Cafiero et. al., September 2, 1975, National Security Advisers – NSC Latin American Affairs Staff: Files, BOX 1, Argentina – Economic, Social, Gerald Ford Presidential Library, Ann Arbor, MI.

²⁸ Telegram, American Embassy in Buenos Aires to Secretary of State, “Embassy Views on USG Support for Argentine Financial Requests,” September 1975, National Security Adviser – Presidential Country Files for Latin America, Box 2, Organization of American States – Latin America – Argentina – State Department Telegrams to SECSTATE – EXDIS, Gerald Ford Library, Ann Arbor, MI.

²⁹ Memorandum, Jorge del Canto to the Managing Director, “Argentina - Negotiations on Use of the Oil Facility”, October 3, 1975, IMF Archives, Washington, D.C.

³⁰ Memorandum, Jorge del Canto to the Managing Director, “Argentina” December 17, 1975, IMF Archives, Washington, D.C.

Director to “use the Fund’s resources prudently, since even if the present team changes, Argentina’s problems will be still with us.”³¹

The frustration of the Fund with the Argentine partners grew during the course of February. The Fund staff perceived as “playing tricks” the increasingly desperate efforts of the Argentine government to draw on Fund resources without prior approval from Washington.³² In early February, Mr. Zalduendo, then Vice President of the Argentine Central Bank, traveled to Washington with two letters signed by Isabel Peron and the Minister of Economics, Cafiero, pleading the IMF to send a mission to Argentina immediately and to grant the use of the first credit tranche. However, by the time Mr. Zalduendo handed over the letters, Cafiero had resigned as Minister and his government urged the IMF not to officially record the letters.³³

On February 22, an IMF mission arrived in Buenos Aires to review recent developments and to discuss conditions under which Argentina could draw the portion of the Compensatory Financing Facility above fifty percent and the final tranche of the Oil Facility. In the briefing, members of the IMF mission received before departure from Washington, they were reminded of previous failings of Argentina to live up to their promises and urged them to “emphasize that any new program would need to have an increased measure of domestic political support in order to be credible to the Fund Executive Board and to foreign commercial banks [...]”³⁴ Domestic political support for a stringent austerity program remained elusive. After a week of intense negotiations in Buenos Aires, the IMF mission led by Jack Guenther returned to Washington. He described the situation as tragic: even though the Minister of Economy Mondelli and the President of the Central Bank Zalduendo fully cooperated with the Fund and diagnosed the economic problems almost exactly as they did, they had little or no political support. Key elements of the proposed agreement were blocked in the cabinet and Mondelli openly threatened to resign if his stabilization plan was not put into place. Jack Guenther

³¹ Memorandum, Jorge del Canto to the Managing Director, “Argentina – Recent Contacts” February 3, 1976, Source: IMF Archives, Washington, D.C.

³² Office Memorandum Jorge del Canto to Managing Director, Acting Managing Director, February 10, 1976, Source: IMF Archives, Washington, D.C.

³³ Office Memorandum Jorge del Canto to Managing Director, Acting Managing Director, February 3, 1976, Source: IMF Archives, Washington, D.C.

³⁴ Briefing for IMF Mission to Argentina, February 13, 1976, Source: IMF Archives, Washington, D.C.

saw little prospect for a settlement with the Peronist government because, as he argued “Mrs. Peron, when forced to choose, will side with labor.”³⁵ At the same time, he suspected that the military “are permitting the situation to continue to deteriorate although there are daily rumors that they will act soon.”³⁶

Yet, the democratically elected government tried until the very end to come to an agreement with the Washington-based institution. On March 11, Mondelli announced a new shock program to bring the economy back from the brink. It was widely perceived as a last-ditch effort to placate the IMF mission in Argentina so that they would help the embattled government with a badly needed loan. While the President of the Argentine Central Bank, Zaldueño, tried to convince the IMF in Washington that the new program was sustainable and deserved international support, Mr. Mondelli pleaded for support of his strategy at home. He acknowledged that the strategy might be tough on “the working man, but he should know that if it is not put into effect by his government it will be imposed by others, and not precisely with his welfare in mind.”³⁷ The IMF staff was less than impressed. Jorge del Canto explained that “performance under the original program has been extremely disappointing and that the new program does not go far in the fiscal area [...]”³⁸ On March 11, 1976, Jorge del Canto concluded that the Fund could not proceed with the request of Argentina for the final tranche of the oil facility nor the first drawing under the Compensatory Financing Facility because Argentina had failed to implement the previous program. The concerns by President of the Argentine Central Bank, Zaldueño, that the negation of a credit would mean the inevitable default of Argentina on its foreign obligations were brushed aside by del Canto arguing that Argentina needed to discuss with international banks “in an honest and frank way its critical position” and ask them to roll-over the existing loans.³⁹ The door seemed to be slammed closed for any deal with the Peronist government.

³⁵ Office Memorandum Jack Guenther to Managing Director, Acting Managing Director, March 1, 1976, Source: IMF Archives, Washington, D.C.

³⁶ *ibid.*

³⁷ “Argentina plays it again: the IMF calls the tune,” *Latin America Economic Report*, March 12 1976.

³⁸ Office Memorandum Jorge del Canto to Managing Director, Acting Managing Director, March 10, 1976, Source: IMF Archives, Washington, D.C.

³⁹ Memorandum, Jorge del Canto to the Acting Managing Director, “Argentina – Use of the Final Tranche Under the Oil Facility Decision for 1975,” March 11, 1976, Source: IMF Archives, Washington, D.C.

Yet, in a surprising turnaround, the IMF agreed to last-minute compromise formula to save Argentina from the verge of default: On March 18, 1976, the IMF staff recommended the Executive Board to approve the release SDR 110 million under the Compensatory Financing Facility but not the additional SDR 40 million under the Oil Facility.⁴⁰ However, the Executive Board never had a chance to debate the loan before the coup ousted Isabel Perón on March 24, 1976.

The U.S. government never offered last-minute assistance to the embattled Peronist government even though it saw the coup coming. In February and March of 1976, the U.S. government grew increasingly concerned over the apparent disintegration of the constitutional government. In February 1976, the CIA wrote in a secret report that the Peronist government would fall soon. It described the situation in Argentina as a “familiar political cycle” in Argentina where the authority of an elected civilian government disappears in the face of its inability to solve the country’s problems, which are both of its own making and a legacy of forty years of failed policies. It stands to be toppled by a “divided and reluctant armed forces,” which is going to hand back the political power to a civilian government when they see that they cannot solve the country’s problems themselves either.⁴¹ There was a distinct possibility, however, that this time the military government would take a more radical stance and try to effect a fundamental change of the political system including a complete break with previous economic strategies since many officers feel that the guerrilla threat cannot be eradicated without first eliminating the social and economic conditions that spawn them.⁴²

The U.S. government made an effort to remain neutral and not to be seen as encouraging the military to lash out against the constitutional government. On February 18, the U.S. Embassy reported that even Argentine critics of previous American involvement in internal affairs of other Latin American countries, such as UCR leader

⁴⁰ Argentina – Use of Fund Resources – Compensatory Financing 1976, March 18, 1976, Source: IMF Archives, Washington, D.C.

⁴¹ Central Intelligence Agency, Directorate of Intelligence, Office of Political Research, “Whither Argentina: New Political System or More of the Same?” February 1976, p. 4, Source: Declassified Documents of the National Security Council (DCNSC)

⁴² *ibid*, p. 7, Source: DCNSC

and future President Raúl Alfonsín, had expressed gratitude for U.S. neutrality.⁴³ Still, the military sought to court the U.S. authorities before the military takeover. On March 16, just over a week prior to the actual military takeover, Admiral Massera spoke privately with US Ambassador Robert Hill explaining the American representative in Buenos Aires “that it was no secret that military might have to step into political vacuum very soon, they did not want to do so but at this point choices seem to be between military intervention and total chaos [..]” Massera also expressed his concern about public reactions in the United States to the military coup and inquired whether the ambassador could help the new junta find “one or two reputable public relations firms in the US which might handle the problem for a future military government.”⁴⁴

Robert Hill went to great length explaining to Massera that the U.S. government did not want to get involved in internal Argentine affairs. In a telegram to the State Department, Hill also stressed that it might be a good sign for him to be out of the country when the coup happened to dispel any notion that he might be pulling the strings behind the scenes.⁴⁵ At the same time, Washington was already getting ready for the new post-coup environment in Argentina. In an internal memorandum to Secretary of State Henry Kissinger, William Rogers noted in mid-February that the new government would most likely be friendly towards the United States and would probably move fast to “restore Argentina’s standing with the international financial community, including the resolution of the investment cases involving U.S. firms.” Consequently, he continued, “recognition of the new regime would not present a problem.”⁴⁶

The relations between the U.S. government, the International Monetary Fund and the Argentine authorities under Peronist leadership show clearly that no international conspiracy was involved in the coup against the constitutional government. The U.S.

⁴³ Telegram, American Embassy Buenos Aires to Secretary of State, “Government Moves to Silence Critics, Worsens Crisis,” February 19, 1976, Declassified Documents of the US State Department.

⁴⁴ TELEGRAM # 1751, BUENOS AIRES To STATE, “AMBASSADOR’S CONVERSATION WITH ADMIRAL MASSERA”, 03-16-1976, Declassified Documents of the US State Department 1976

⁴⁵ TELEGRAM # 1751, BUENOS AIRES To STATE, “AMBASSADOR’S CONVERSATION WITH ADMIRAL MASSERA”, 03-16-1976, Declassified Documents of the US State Department 1976

⁴⁶ Memorandum, ARA, William D. Rogers to the Secretary, “Possible Coup in Argentina”, February 13, 1976, Declassified Documents of the US State Department

government tried hard to avoid openly taking sides while the Fund even offered some last-minute emergency aid in a futile effort to stabilize the economy. However, the political disintegration of Isabel Perón's government made international cooperation increasingly difficult towards the end of 1975 and in early 1976.

Both the IMF and the U.S. were disappointed with the Peronist government, which they blamed for the economic and political turmoil the New York Times called "Isabelita's terrible legacy."⁴⁷ At the same time they accepted a military coup as an inevitable matter of fact, which would come sooner or later. The quiet acceptance of the eventual coming of the coup indirectly aided the military legitimize their action. Especially the Fund's hesitancy to lend to a government, which was perceived to have no future, fueled the notion that only a strong military government could gain the confidence of international financial institutions and bankers and thus restore economic stability and growth. José A. Martínez de Hoz with his extensive contacts to the international financial and business community certainly represented an attractive choice for military planners to overcome the deadlock and restore confidence in Argentine economic policy.

Authoritarian Stabilization: The Military Government and the Ford Administration

The military coup, which unseated Isabel Perón on March 24, 1976 was a clear turning point in economic and political relations to the United States as well as in the negotiations between Argentina and international financial institutions. Observers agreed that the Videla administration should have been very much to the American liking. It was staunchly anti-Communist and pro-American and at the same time promised economic opening and more rights for international investors in Argentina. To the IMF a strong military government with a desire to bring the economy on a sound footing should have also been the much hoped-for negotiating partner after years of turmoil and constantly changing ministers of economics.

This paper shows that the U.S. government initially feared that the new Argentine authorities might not have enough resolve to tackle the economic problems. However, during the latter parts of 1976 as Argentina successfully pulled back from the brink of

⁴⁷ Juan de Onis, "Isabelita's terrible Legacy," *New York Times Magazine*, March 21 1976.

default and attracted foreign capital investment, the government in Washington grew confident that the de-facto government could succeed. While the U.S. government was never seriously preoccupied by human rights abuses in Argentina and even tacitly encouraged the government, it voiced concern that violence might create negative publicity, which might hurt Argentina's interests.

From the very beginning, the de-facto government of General Videla sought to align itself with the United States. This had ideological as well as pragmatic reasons. The political aims in the international arena of the government were outlined in an internal report titled "proposición de políticas para el área," which was published in May 1976. It described the new Argentine strategy towards the United States, which contrasted sharply with the confrontational attitude of the Peronist government.

The United States is the first power in the Western and Christian world to which we belong by origin, tradition and cultural and spiritual formation. [...] The recent change in government in our country together with the new beginning in its foreign policy make sure that U.S.-Argentine relations find themselves at a new beginning from which they can progress towards a mutually beneficial association under the sign of maturity and respect.⁴⁸

At the same time, the Argentine government was in desperate need of U.S. support to stabilize their economy. This required less direct U.S. aid but rather a favorable clima of confidence in the government's ability to turn Argentina from a hotbed of terrorism and economic and political anarchy into an investors' paradise. Not surprisingly, the first points on the list of actions to be taken to improve U.S. – Argentine relations were economic in nature: (1) Solution of conflicts over expropriations of U.S. companies in Argentina and (2) Reform of the foreign investment law.

However, the U.S. government initially doubted that the new rulers would be able to restore order in a country at the brink of civil war and economic disintegration.

⁴⁸ Memorandum, Dirección General de Política Exterior por Departamento América del Norte, "Proposición de Políticas Para el Área," 24 de mayo 1976, Caja: Archivo Organ. Del Estado Año 1976, Legajo: América de Norte, Archivos del Ministerio de Relaciones Exteriores y Culto, Buenos Aires

Especially the economic problems were seen as “enormous” while the technical ability of the military to deal with them was even more doubtful than in the military field.⁴⁹

The new Minister of Economy, José Martínez de Hoz played a pivotal role in creating confidence in the economic competence of the new authorities. In the circles of international institutions and financial markets he skillfully portrayed himself as a technician who shared the same fundamental assumptions about the working of the economy as leading bankers and policy-makers in Western capitals. Together with his image as successful businessman, his political stance gave the new minister of economy far more political clout in Washington than his Peronist predecessors and made him appear a champion of the free market.⁵⁰

Martinez de Hoz had the additional advantage of having strong formal and informal ties to the American business and financial community. In the 1960s, Martinez de Hoz had been chairman of the Argentine American Chamber of Commerce and later was invited by David Rockefeller to join the prestigious International Advisory Committee of The Chase Manhattan Bank.⁵¹ After his appointment as Minister of Economics in late March, 1976, he could count on the direct support of his friend at the Chase Manhattan Bank to provide him with a large syndicated loan to stabilize Argentina fragile external position.⁵²

David Rockefeller also helped Martinez de Hoz reach out to business leaders and bankers through a series of small dinners which he organized for the Argentine Minister of Economics. These contacts helped him “sell” the Argentine policy abroad and fend off some of the criticism directed against the Argentine government in the field of Human

⁴⁹ TELEGRAM # 82838, STATE To ALL AMERICAN REPUBLIC DIPLOMATIC POST, “ARGENTINA: JUNTA ATTACKS TERRORISM AND ECONOMIC PROBLEMS”, 04-06- 1976, Declassified Documents of the US State Department 1976

⁵⁰ "Argentina gets the IMF approval," *Latin American Economic Report*, July 23 1976, Juan de Onis, "Argentina Plans Freer Economy," *New York Times*, April 6 1976.

⁵¹ Letter, David Rockefeller to Jose A. Martinez de Hoz, "International Advisory Council", August 6, 1969, Letter, Jose A. Martinez de Hoz to David Rockefeller, "International Advisory Committee", August 18, 1969, IAC Mtgs - NYC 9/21 -23 69, JPMorgan Chase Archives, David Rockefeller Collection.

⁵² Telex, David Rockefeller to Jose Martinez de Hoz, June 3, 1976, DINNER I/H/O Minister of Finance - ARGENTINA JOSE MARTINEZ DE HOZ 6/18/76, JPMorgan Chase Archives, David Rockefeller Collection; Memorandum, Jose R. Leon to David Rockefeller, "Argentine Loan Consortium", June 18, 1976, DINNER I/H/O Minister of Finance - ARGENTINA JOSE MARTINEZ DE HOZ 6/18/76, JPMorgan Chase Archives, David Rockefeller Collection

Rights policy. His frequent travels abroad and contact with governments and international commercial groups turned him into the powerful unofficial “secretary of foreign affairs.”

The records indicate that David Rockefeller did not just selflessly help out his old friend and colleague from the International Advisory Council but also that Chase Manhattan had some powerful interests in Argentina to defend as well. On Friday, June 18 1976, Martinez de Hoz addressed the select audience in the River Club in New York City. On the same day Jose R. Leon, Vice President of Chase Manhattan, reported in an internal memorandum to David Rockefeller that the Argentine loan consortium was going ahead as planned and that Argentina would soon receive up to US\$ 950 million in loans to cover its balance of payments deficit.⁵³ Shortly thereafter, in second memorandum to David Rockefeller he reported that a request to return control of the Banco Argentino de Comercio, a Chase Manhattan subsidiary nationalized during the Peronist government, to the U.S. parent company had been granted by Argentine authorities.⁵⁴

Martinez de Hoz’ help in restoring control over the Banco Argentino de Comercio was highly appreciated in the New York headquarters of Chase Manhattan. In May 1977, Gerald Van Dorn reminded Joseph Reed in an internal memorandum of the importance of the contact with the Argentine minister of economics: “My recollection is that this Argentine official is a personal friend of DR [David Rockefeller] and, to a considerable extent, he has been helpful – and is continuing to be helpful – in connection with the “take-back operation” of the Banco Argentino de Comercio”.⁵⁵

During late 1976 also the U.S. government grew increasingly appreciative of the economic and political track record of the Videla administration. In late September, six months after the coup, the State Department’s Bureau of Intelligence and Research

⁵³ Memorandum, Jose R. Leon to David Rockefeller, "Argentine Loan Consortium", June 18, 1976, DINNER I/H/O Minister of Finance - ARGENTINA JOSE MARTINEZ DE HOZ 6/18/76, JPMorgan Chase Archives, David Rockefeller Collection.

⁵⁴ Memorandum, Jose R. Leon to David Rockefeller, "Banco Argentino de Comercio", June 18, 1976, DINNER I/H/O Minister of Finance - ARGENTINA JOSE MARTINEZ DE HOZ 6/18/76, JPMorgan Chase Archives, David Rockefeller Collection

⁵⁵ Memorandum, Gerald J. Van Dorn to Joseph V. Reed, May 12, 1977, LUNCHEON WITH MIN. OF FINANCE MARTINEZ DE HOZ ARGENTINA, 6/2/77, JPMorgan Chase Archives, David Rockefeller Collection

reported in a secret intelligence report that Argentina's military junta had achieved “significant successes in reviving the economy and curbing political violence.” In the field of economics, inflation rate had been reduced, massive unemployment avoided, and an external payments crisis alleviated. The intelligence report also had praise for Martinez de Hoz and his new economic ideology. It noted that “Martinez de Hoz has sought development of a more free-enterprise, market-oriented economy.” Emphasis was being placed on an export-oriented growth strategy keyed to the rapid expansion of agricultural exports. Other key objectives included the reduction of the fiscal deficit, rationalization of public sector activities, and expansion of domestic and foreign private investment.⁵⁶

The violation of Human Rights in Argentina was not high on the agenda of the Ford Administration. In a memorandum to Vice President Nelson Rockefeller, his staff faults President Videla for not effectively controlling his security forces in a country “torn by political violence.” The real problem, however, is seen as a domestic one where human rights groups “are becoming more and more exercised about the situation in Argentina” and “liberal congressmen are examining US-Argentine relations ever more closely.”⁵⁷

Indeed, it was the democratic-controlled Congress, which forced Human Rights upon the U.S. agenda. Congress started to enact human rights legislation in 1973 through an amendment to the Foreign Assistance Act. The Section 502B, stated that U.S. security assistance should not be extended to “gross violators” of human rights. Under the leadership of Henry Kissinger, however the Nixon and Ford administration openly disregarded its implications. Initially, the legislation had only advisory character and the Nixon and Ford administrations did not face any sanctions from Congress for their failure to comply with their requirements.⁵⁸ Henry Kissinger and Presidents Nixon and Ford gave national security consideration priority over human rights issues arguing that

⁵⁶ INTELLIGENCE # 603, INR, “ARGENTINA: SIX MONTHS OF MILITARY GOVERNMENT”, 09-30-1976, Declassified State Department

⁵⁷ Memorandum Jeanne W. Davis to Jon Howe, “Vice President’s Meeting with Argentine Foreign Minister Guzzetti”, October 5, 1976, White House Central Files, Subject Files, BOX 7, CO 9 Argentine Republic 10/1/76 – 1/20/77, Gerald Ford Presidential Library, Ann Arbor, MI

⁵⁸ Stephen B. Cohen, “Conditioning U.S. Security Assistance on Human Rights Practices”, *The American Journal of International Law*, Vol. 76, No. 2 (Apr., 1982), 250

Communism and the Soviet Union were the largest threat and human rights could only prosper as a consequence of external security and not vice-versa.⁵⁹

Recently released documents from the State Department even indicate that the Ford administration tacitly encouraged the military government in its harsh treatment of suspected terrorists. In early June 1976, Henry Kissinger and his Argentine colleague César Augusto Guzzetti met during the General Assembly of the Organization of American States in Santiago, Chile. Here, Henry Kissinger expressed the U.S. government's concern that the human rights issue might become a serious problem if the Argentine government did not "get the terrorist problem under control as soon as possible."⁶⁰ During Guzzetti's visit to the United States in October, various members of the Ford administration reiterated their support for the Argentine government. Upon Guzzetti's return to Buenos Aires, U.S. Ambassador Robert Hill reported that Guzzetti had been euphoric over his visit to the United States and that he "emphasized how well the U.S. government understood the Argentine problem."⁶¹ Deputy Secretary Robinson, and Vice-President Nelson Rockefeller reportedly told him to "finish the terrorist problem quickly" because the U.S. government wanted a strong Argentina and friendly cooperation between the two countries.⁶²

In the first Human Rights Report to Congress about the situation in Argentina, the government acknowledges serious abuses in Argentina but defended its continued support for the Argentine military:

In order to preserve a professional relationship with the Argentine Armed Forces and demonstrate our interest in constructive overall relations with Argentina, thereby promoting the U.S. policy objectives outlined above, the Department of States of the opinion at this time that it is in the national interest of the United States to provide continued security assistance to Argentina.⁶³

⁵⁹ Michael Stohl, David Carleton and Steven E. Johnson, "Human Rights and U.S. Foreign Assistance from Nixon to Carter", *Journal of Peace Research*, Vol. 21, No. 3 (sep., 1984), 216.

⁶⁰ Telegram, American Embassy Buenos Aires to Secretary of State, "Other Aspects of September 17 Conversation with Foreign Minister Ref: Buenos Aires 6100", September 20, 1976.

⁶¹ Telegram, American Embassy Buenos Aires to Secretary of State, "Foreign Minister Guzzetti Euphoric over Visit to United States", October 19, 1976.

⁶² Telegram, American Embassy Buenos Aires to Secretary of State, "Foreign Minister Guzzetti Euphoric over Visit to United States", October 19, 1976.

⁶³ Memorandum, Jeanne W. Davis to C. Arthur Borg, "Human Rights Statements on Argentina, Haiti, and Peru", October 20, 1976, National Security Advisers – NSC Latin American Affairs Staff: Files, BOX 10, Human Rights (1), Gerald Ford Presidential Library, Ann Arbor, MI.

In January 1977, just weeks before the transfer of power to the Carter administration, the outgoing administration spelled out its human rights strategy with respect to Argentina. It stressed that the “The United States wishes to support Argentine economic recovery and the pro-Western regime, while at the same time encouraging political liberties.” The U.S. administration showed understanding for Videla’s dilemma dealing with the “extreme terrorism” they had inherited and – implicitly criticizing the incoming Carter administration – pointed out any U.S. government should be careful not to provoke “the kind of nationalistic backlash we have produced by past, public actions.”⁶⁴

The first year of military rule in Argentina was a honeymoon for U.S.-Argentine relations. José A. Martínez de Hoz was received like the captain of an economic dream team and could count on important private as well as institutional support. The Ford administration showed great understanding for the internal security problems and downplayed the human rights abuses. However, the honeymoon was short-lived as Congress became increasingly agitated about frequent reports of torture, murder and disappearances in the Latin American country and the governor of Georgia, James Earl Carter, made the protection of human rights a major campaign issue.

Human Rights and Economic Cooperation: The Carter Administration and the Argentine Military

With the inauguration of Jimmy Carter as 39th President of the United States the diplomatic climate between the United States and Argentina took a sharp turn for the worse since violations of human rights became the most important issue to be discussed between the two countries. Initially the policy was as much driven by the President’s idealistic desire to stand up against injustice as by Congress trying to push legislation tying performance in the protection of human rights to bilateral economic and military aid as well as to assistance from international financial institutions. However, over time forces within the administration, especially in the State Department and the Treasury became wary of Congress’ attempts to restrict the administration’s room to maneuver.

⁶⁴ Memorandum, Jeanne W. Davis to Jon Howe, “Vice President’s Meeting with Argentine Ambassador”, January 17, 1977, White House Central Files, Subject Files, BOX 7, CO 9 Argentine Republic 10/1/76 – 1/20/77, Gerald Ford Presidential Library, Ann Arbor, MI.

They argued that automatic economic sanctions were ineffective as they reduced U.S. bargaining power. The historical record shows that the critics were correct. Although the Carter administration took a relatively principled stance against Argentina by eliminating military aid and voting “no” on loans to Argentina in multinational development banks, the impact on the human rights situation or even the approval of the loans was negligible.

Shortly after Jimmy Carter was inaugurated as President of the United States, a Policy Review Committee on U.S. Policy towards Latin America outlined the new direction the U.S. would take during the subsequent four years. They argued that U.S.-Latin American relations had changed to such a degree over the course of the previous decade that a “special relationship” was no longer appropriate and instead the United States should attempt to deal with individual Latin American countries on a bilateral basis. They favored to tailor relations according to the type of government each country had: “warm relations with civilian and democratic governments, normal relations with nonrepressive military regimes, and cool but correct relations with repressive governments.”⁶⁵ Human Rights issues were to become one of the central features of bilateral policy but the Policy Review Committee stressed that it was important to find “a more affirmative manner” to stress the Human Rights issue. Large discretionary power of the Executive in dealing with gross violators appeared to be a more promising strategy than fixed rules as determined under the Harkin amendment, which denied U.S. support to loans from the Inter-American Development Bank Act to countries deemed to abuse Human Rights.⁶⁶

Congress also continued to act in the human rights field passing Section 701 of the International Financial Institutions (IFI) Act, which required the introduction of human rights considerations into IFI transactions. This happened against the explicit wishes of the Carter team, especially Secretary of the Treasury Michael Blumenthal, who feared the politicization of economic assistance and a reduction of the bargaining room of the

⁶⁵ Memorandum, Zbigniew Brzezinski to Jimmy Carter, 03/31/77 , Meetings – PRC 14: 4/21/77, Box 24, Zbigniew Brzezinski Collection, Jimmy Carter Library.

⁶⁶ Memorandum, Robert A. Pastor to Zbigniew Brzezinski, 03/14/77 , Meetings – PRC 14: 4/21/77, Box 24, Zbigniew Brzezinski Collection, Jimmy Carter Library.

administration.⁶⁷ At the same time, Section 502B of the Foreign Assistance Act, was made legally clear and binding further reducing the executive's flexibility in diplomacy.⁶⁸

The implications of Section 701 of the International Financial Institutions Act and the Section 502B of the Foreign Assistance Act were actually quite different. Until the mid-1970s, Congress had rarely acted with regards to multilateral development banks' lending to developing countries. One of the reasons was that it seemed of subordinate importance in comparison with bilateral aid programs.⁶⁹ Another important reason was that multilateral banks were banned from accepting funds that were earmarked for a specific purpose or excluded from use for a certain group of countries because this would have interfered with the technical and apolitical character that these banks publicly upheld. In its Articles of Agreement, the World Bank, for example, explicitly rejects all interference in internal political affairs

The Association and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in this Agreement.⁷⁰

The only possibility to influence lending behavior of the banks was thus through the executive director, which had voting power dependent on the U.S. share of capital in the bank. Congress therefore passed a number of specific restrictions on the U.S. representative in banks.⁷¹ Although the U.S. had the largest voting block in all the development banks was not enough to veto a loan proposal if the rest of the directors of the bank supported it. This issue became acute during the Carter administration's attempts to block loans to countries with a negative record on human rights.

During its four years in office, the Carter administration had voted "no" or abstained on 112 loan proposals for human rights violations. Of these the majority was against

⁶⁷ Memorandum, Michael Blumenthal to Jimmy Carter, "The IFI Authorization Bill," July 21, 1977, Banking, International [O/A 626], Staff Offices Domestic Policy Staff (Stuart Eizenstat), Jimmy Carter Library.

⁶⁸ David P. Forsythe, "Human Rights in U.S. Foreign Policy: Retrospect and Prospect", *Political Science Quarterly*, Vol. 105, No. 3 (Autumn, 1990), 448.

⁶⁹ Lars Schoultz, "Politics, Economics, and U.S. Participation in Multilateral Development Banks", *International Organizations*, Vol. 36, No. 3 (Summer, 1982), 545.

⁷⁰ World Bank, *Articles of Agreement*, Article V, Section 6

⁷¹ Lars Schoultz, "Politics, Economics, and U.S. Participation in Multilateral Development Banks", *International Organizations*, Vol. 36, No. 3 (Summer, 1982), 546.

Latin American countries especially Argentina, Chile, El Salvador, Guatemala, Paraguay, and Uruguay. Argentina was the most frequent target of U.S. disapproval. U.S. directors in multinational development banks voted against 28 out of 31 loan Argentina proposals. Two reasons can be cited for the particularly harsh treatment of Argentina. For one, the administration of General Videla was seen as extraordinarily repressive, but even more important, Argentina could not make use of the most important loophole of the U.S. human rights legislation – the “needy people” exemption – because it was a relatively wealthy country.⁷²

However, the “no”-votes of the U.S. directors remained entirely meaningless. They produced ire of the other members of the banks who perceived the U.S. position on human rights as an attempt to politicize the apolitical banks. As a consequence, not a single of the 112 loans rejected by the U.S. was actually denied by the development bank.⁷³

Action on Section 502B of the Foreign Assistance Act was hampered more by internal disagreements in the administration and bureaucratic obstruction from the career Foreign Service. In the view of Stephen B. Cohen who served as Deputy Assistant Secretary of State for Human Rights and Security Assistance during the late Carter Administration, it was not for lack of political will of the President or the administration that much of the human rights legislation enacted by Congress remained a dead letter. Rather, entrenched bureaucratic interests posed a significant obstacle to full implementation. The implementation of section 502B offers the liveliest example of a clash between Department of State Bureau of Human Rights, which was largely staffed by outsiders, and the career Foreign Service with its entrenched interests in maintaining friendly relations with U.S. client governments who resisted the implementation of sanctions against countries violating human rights.⁷⁴

⁷² Lars Schoultz, “Politics, Economics, and U.S. Participation in Multilateral Development Banks”, *International Organizations*, Vol. 36, No. 3 (Summer, 1982), 564

⁷³ Lars Schoultz, “Politics, Economics, and U.S. Participation in Multilateral Development Banks”, *International Organizations*, Vol. 36, No. 3 (Summer, 1982), 565.

⁷⁴ Stephen B. Cohen, “Conditioning U.S. Security Assistance on Human Rights Practices”, *The American Journal of International Law*, Vol. 76, No. 2 (Apr., 1982), 248

The U.S. Ambassador to Argentina, Robert Hill, became one of the sharpest critics of the Carter policy from within the bureaucracy. In early 1977 he outlined his views on US-Argentine relations in a long memorandum to the State Department. He observed that the Argentine military government clearly tried to have a close and supportive relationship with the US as could be seen from the fact that it had done everything to resolve all the outstanding investment disputes between the two countries. He continued

What is in question is not Argentina's desire to be our friend; rather it is (a) whether or not Argentina can overcome its internal problems so as to maximize its value as a partner, and (b) whether or not there will be lasting damage to our relationship as a result of the human rights problem.⁷⁵

Dealing with the human rights problem he urged the incoming administration to "avoid measures which would appear to be paternalistic or to smack of intervention in Argentina's internal affairs." And he warned that open confrontation might produce the opposite of the desired result by exciting "nationalist sentiment and strengthen[ing] the hand of the hardliners and of irresponsible elements who are ready to take advantage of tensions between their government and our own."⁷⁶ After Robert Hill resigned as ambassador he publicly vented his anger at the Carter administration in an interview with the Argentine magazine *Gente* on July 7, 1977. He said he had resigned because he could not carry out an American policy on human rights which he considered "erroneous and full of lack of knowledge of Argentine reality."⁷⁷

Even within the Carter administration, there were doubts about the appropriate strategy to pursue with regards to tying economic aid and loans to Human Rights criteria. In April 1977, several bills were pending in Congress imposing an automatic "no"-vote for loans to countries with substantial human rights violations. Zbigniew Brzezinski, Jimmy Carter's National Security Advisor voiced strong opposition to any amendment

⁷⁵ Subject: Argentine Overview, Date: 01-28-1977 To: state From: buenos aires Document Type: TELEGRAM Length: 7 pp. Message# 696 Collection: State Argentina Declassification Project (1975-1984)

⁷⁶ Subject: Argentine Overview, Date: 01-28-1977 To: state From: buenos aires Document Type: TELEGRAM Length: 7 pp. Message# 696 Collection: State Argentina Declassification Project (1975-1984)

⁷⁷ Subject: THE IMPORTANCE OF US-ARGENTINE RELATIONS Date: 08-01-1977 To: TODMAN From: FILES Document Type: MISCELLANEOUS Length: 3 pp. Collection: State Argentina Declassification Project (1975-1984)

that would limit the administration's discretion in dealing with countries violating human rights. He argued that "automatic "no" votes -destroy any negotiating flexibility on our part" because "neither donor nor recipient countries have any incentive to work with us on improving the human rights situation." In addition, the United States would not be able to block loans even if they did vote against them because "virtually all loans would go ahead over our objections, thereby revealing the ineffectiveness of such an automatic approach for all to see."⁷⁸

Another internal State Department memorandum warned that the current confrontation jeopardized the US "ability to maintain military relationship with Argentina," which could have long-lasting negative effects.⁷⁹ In August 1977, the US administration sent Assistant Secretary for Inter-American Affairs Todman to Buenos Aires to help improve US-Argentine bilateral relations as well as push the human rights agenda. Todman's briefing papers contained a detailed analysis of the tensions between the governments in Washington and Buenos Aires explaining that the Argentine government was questioning the United States interest in Argentina because of our readiness to sanction them and the delay in naming a new ambassador. "The government is galled particularly by our readiness to provide military assistance where our national security is at stake irrespective of human rights considerations but not to Argentina which is, therefore, unimportant to us. The Argentine government feels particularly offended, because they feel their security is at stake."⁸⁰

Towards the end of the Carter administration, even staunch supporters of the President' human rights policy towards Argentina recognized that it had failed to achieve its stated goals. Even though the human rights situation in Argentina had improved by 1980, this was largely unrelated to U.S. pressure and more to be attributed to the successful elimination of "subversives." In mid-1980, the Carter administration started

⁷⁸ Memorandum, Zbigniew Brzezinski to Jimmy Carter, April 13, 1977, "Proposed Administration Position on Human Rights Amendments to International Financial Institution Legislation", Human Rights (Re International Financial Institutions Legislation), 4-8/77, Box 19, Staff Offices Counsel Lipshutz, Jimmy Carter Library.

⁷⁹ Subject: U.S. - ARGENTINA MILITARY RELATIONS JEOPARDIZED Date: 05-04-1977 Document Type: MISCELLANEOUS Length: 3 pp. Collection: State Argentina Declassification Project (1975-1984)

⁸⁰ Subject: SPECIFIC OBJECTIVES OF ASSISTANT SECRETARY TODMAN'S TRIP Date: 08-01-1977 To: TODMAN From: FILES Document Type: MISCELLANEOUS Length: 1 pg. Collection: State Argentina Declassification Project (1975-1984)

debating how to improve political and economic relations with Buenos Aires.⁸¹ However, at this point mistrust between the governments of President Carter and General Videla ran so deep and went beyond the human rights issue alone that it could not be easily overcome. Thomas Thornton, an influential adviser recommended not even to try to improve relations with the outgoing Videla administration because “Argentina [had] behaved very poorly towards us,” by undermining the U.S.-led grain embargo against the Soviet Union following the invasion of Afghanistan and supporting the military coup in Bolivia.⁸² He continued that the “the Argentines are unlikely even to respond to feelers from this Administration, preferring to wait for the Republicans.” He therefore urged the Carter administration not to approach the Argentine government. “To the extent that we have cards to play, let's leave them for the next administration, who might get something in return for them. The Carter Administration certainly won't.”⁸³

The four years of the Carter administration showed the limits of a principled human rights policy. Even though Congress and the President had the firm intention to pressure Argentina to improve their human rights record, they failed to achieve their goals. For one, the U.S. government misjudged the Argentine situation believing that political and economic pressure might soften the military government's attitude while in fact leading to a nationalistic and anti-American backlash and thus hardening it. At the same time, the U.S. government overestimated its political and economic power. “No” votes by U.S. managing directors in international development banks failed to exert significant pressure on Argentina because other member countries failed to follow the U.S. example. Consequently, all multilateral loans to Argentina, which came up for a vote were approved over U.S. objections. The elimination of Ex-Im loans and military aid also had more the effect of alienating the Argentine government than hurting their interests since

⁸¹ Memorandum, Thomas Thornton to Zbigniew Brzezinski, 10/28/80 , Meetings – Muskie/Brown/Brzezinski 10/80 – 1/81, Box 24, Zbigniew Brzezinski Collection, Jimmy Carter Library; Memorandum, W. Graham Claytor, Jr. to Jimmy Carter, 10/27/80 , Meetings – Muskie/Brown/Brzezinski 10/80 – 1/81, Box 24, Zbigniew Brzezinski Collection, Jimmy Carter Library; Memorandum, Edmund S. Muskie, Jr. to Jimmy Carter, 10/18/80 , Meetings – Muskie/Brown/Brzezinski 10/80 – 1/81, Box 24, Zbigniew Brzezinski Collection, Jimmy Carter Library.

⁸² Memorandum, Thomas Thornton to Zbigniew Brzezinski, 11/18/80 , Meetings – Muskie/Brown/Brzezinski 10/80 – 1/81, Box 24, Zbigniew Brzezinski Collection, Jimmy Carter Library.

⁸³ Ibid.

military hardware and high tech imports were readily available from Japan and Western Europe.

The Military Government and the International Monetary Fund between Ford and Carter

The military administration under General Jorge Rafael Videla assigned highest priority to economic efforts to stabilize the economy and reach agreements with the International Monetary Fund and international banks. In order to reach this goal, creating confidence in the resolve of the economic team and commitment to follow through with tough measures was of utmost importance. Negotiations during this period displayed a large degree of continuity despite the changes of diplomatic climate between Buenos Aires and Washington. This was largely the case because despite efforts from Congress to add a human rights agenda to U.S. votes in the board of executive directors, they never achieved that goal.

Traditionally, the military dictatorship and the IMF have been perceived to have worked hand in glove in stabilizing the economy and effecting a fundamental transformation of the Argentine productive structure during the years following the coup. Available documents from the IMF archives show that the Fund was indeed initially relieved to be working with a strong government able to implement tough economic policy decisions. Equally, the Fund appreciated the new government's economic ideology. However, during the course of 1978-79, the IMF became more critical of Argentine economic policies. However, by that time, the Fund had lost most of its leverage because massive inflows of private capital had allowed the Argentine authorities to repay their outstanding loans ahead of schedule and did not return to ask for help until 1982.

Traditionally, scholars divided Martinez de Hoz' term in office into three distinct sub-periods with their differences in economic policy: (1) the "traditional orthodox phase", (2) the "orthodox phase of the open economy" and (3) the "adjustment phase."⁸⁴ They

⁸⁴ FRENKEL, ROBERTO AND JOSE MARIA FANELLI, "ARGENTINA Y EL FMI EN LA ÚLTIMA DÉCADA", in Sela, El FMI, el Banco Mundial y la crisis latinoamericana, 1986, p. 106

argued that Martínez de Hoz was able to implement, unfettered by public opinion and outside interference, something akin to traditional economic orthodoxy.⁸⁵ According to this interpretation, the first phase came to an end during the year 1978 when orthodox methods proved impotent in fighting stubbornly high inflation and restoring a sustainable economic growth. As a response to the lessons learnt from the first adjustment efforts, the economic team around Martínez de Hoz adopted an open economy orthodoxy, which relied more heavily on the exchange rate mechanism to bring inflation under control. The second phase only ended after a series of shocks: the banking crises in 1980, popular unrest and a changing of the guard in the Argentine government, which also led to the ouster of the long-serving minister of economy.

At a closer look, the traditional orthodox phase did not follow textbook economics as much as commonly presumed and its aims were often contradictory. Martínez de Hoz claimed to champion the free market but continued to interfere with the price mechanism and the exchange rate. The military government tried to break labor unions and increase unemployment in order to reduce wage pressure. At the same time, it was afraid that radical measures might lead to high unemployment and labor unrest and thus undermine the struggle against so-called “subversives”.⁸⁶ Martínez de Hoz demanded fiscal austerity yet public spending for state-owned industries as well as for military expenditures kept rising and the budget deficit was never brought under control during the *Proceso*. The Central Bank preached monetary stringency but the money supply kept growing and inflation remained well above one-hundred percent per year.

Also the reception of Argentine economic policy in Washington was more ambiguous than critics of the IMF have assumed. The Fund did not react enthusiastically towards the economic policies of the military administration and initially expressed considerable reservations. The briefing for the mission to Argentina in late May 1976 commended that Martínez de Hoz and Central Bank President Adolfo Diz “espoused an economic philosophy radically different from that of the previous government,” but

⁸⁵ Frenkel and Fanelli, "Argentina y el FMI en la última década."

⁸⁶ Davide G. Erro, *Resolving the Argentine Paradox: Politics and Development, 1966-1992* (Boulder & London).

cautioned that the new economic team did not show enough resolve because it was afraid of causing a major recession. It argued:

The Fund staff has considerable doubts that this cautious approach is the best way to proceed and is inclined to believe that a relatively quick adjustment process would have less social and economic costs than a gradual process of scaling down inflation and changing the exchange rate system over several years.⁸⁷

It was in the Board of Executive Directors, which convened in August 1976, that Martínez de Hoz scored major points with what they perceived to be “comprehensive and consistent measures [..].” During the discussion, most directors called Argentina’s progress “impressive” in liberalizing the economy, removing foreign exchange restrictions, lowering inflation, cutting government expenditure and turning around the balance of payments, especially when seen in the light of recent economic turmoil.⁸⁸

Already in 1977, IMF staffers’ judgment on Argentine economic policies became more cautious. They still lauded the Argentine economic team for avoiding a default on its external public debt in 1976. However, now they wanted to see the Argentine government to go further and bring the budget under control, which remained stubbornly in deficit “of such a magnitude [that was] definitely unacceptable.”⁸⁹ The second major concern was the persistence of inflation well above the agreed-upon limits. The IMF commended the Argentine efforts to bring inflation under control by removing price ceilings and holding nominal wages down, thus lowering the purchasing power of employees.⁹⁰ Additionally, it was hoped that reform of the financial sector as well as an opening to international competition could dispel the remaining inflationary pressure.⁹¹ In early 1978, Marcello Caiola still reported optimistically to the Acting Managing Director after his return from Argentina that inflation could be extinguished and moderate economic growth maintained during the year 1978.⁹²

⁸⁷ Briefing for IMF Mission to Argentina, May 20, 1976, Source: IMF Archives, Washington, D.C.

⁸⁸ Executive Board Meeting EBM 76/124-8/7/76, August 7, 1976, Source: IMF Archives, Washington, D.C.

⁸⁹ Staff Report for the 1977 Article VIII Consultation, Source: IMF Archives, Washington, D.C.

⁹⁰ Staff Report for the 1977 Article VIII Consultation, Source: IMF Archives, Washington, D.C.

⁹¹ Executive Board Meeting EBM 77/138 9/16/77, September 16, 1977, Source: IMF Archives, Washington, D.C.

⁹² Office Memorandum Marcello Caiola to Managing Director, Deputy Managing Director, March 15, 1978, Source: IMF Archives, Washington, D.C.

Hopes to bring inflation under control and return to sustainable economic growth were soon dampened. 1978 brought a deepening economic recession, higher than expected public deficits and stubbornly high inflation. This spelt the end to the brief honeymoon between the IMF and the new Argentine authorities. In the briefing for the mission to Argentina in March 1979, IMF staff complained about the “generally poor performance under the 1978 stand-by arrangement,” which they claimed was mainly attributable to “an apparent lack of definition of priorities and to political constraints.”⁹³ IMF staff were also highly critical of the new strategy of bringing inflation down with the help of an overvalued exchange rate. Marcello Caiola argued in April 1978 that “the program [of exchange rate based stabilization] can be successful only if external and domestic policies are consistent. Unfortunately, the latter policies are vague and rather weak.”⁹⁴

However, as the immediate crisis waned, the influence of the IMF over Argentine economic policy declined as well. Capital inflows into Argentina were such that all the obligations to the IMF had been repaid by the end of 1978. Consequently, the Argentine authorities stood under no obligation to heed to warning voices from Washington. Rising investors’ confidence in the Argentine authorities and their resolve to stabilize and open the economy coincided with growing enthusiasm on the part of international banks to lend to developing countries. The Argentine government, like many other governments in developing countries at this time, preferred private loans to official ones because the former came without political or economic conditions and allowed for example for undisclosed imports of arms at a time of military tensions with Chile and the United Kingdom.

The IMF’s stance on the sustainability of foreign indebtedness remained muddy until the outbreak of the debt crisis in 1982/83. In the Staff Report for the 1977 Article VIII Consultation, the Fund stressed the threat posed by external indebtedness and criticized the profligate borrowing of public sector enterprises many of which were owned or

⁹³ Briefing to Mission in Argentina, March 7, 1979, Source: IMF Archives, Washington, D.C.

⁹⁴ Office Memorandum Marcello Caiola to Managing Director, Deputy Managing Director, April 9, 1979, Source: IMF Archives, Washington, D.C.

controlled by the military.⁹⁵ Managing Director H. Johannes Witteveen also warned of the risks of unsustainable external borrowing as early as October 1977.⁹⁶ However, attempts by the IMF to include a target on foreign borrowing in the Letter of Intent drew strong opposition from Argentine negotiators who felt discriminated against because industrial countries faced no comparable constraints.⁹⁷ The Fund gave in to Argentine demands citing that “Argentina’s external debt [was] not particularly high when compared with most other developing countries.”⁹⁸

The transition of power from republican President Ford to democratic President Carter left hardly a mark in negotiations between Argentina and the Fund. This was despite the fact that the IMF came under increasing pressure in the House of Representatives especially on the occasion of establishment of the Supplementary Financing Facility in early 1978. Liberal Democrats objected to the fact that the IMF lent indiscriminately even to countries with massive human rights violations.⁹⁹ The Carter administration made great efforts to convince members of its own party to support IMF financing and to water down eventual Human Rights amendments as much as possible.¹⁰⁰ Especially Secretary of the Treasury W. Michael Blumenthal proved to be effective defenders of Fund. Blumenthal argued in October 1977 that “Application of human rights considerations to IMF transactions would represent an effort to deny a country rights in the IMF to which it is legally entitled so long as it meets its IMF obligations.” This would threaten the very fabric of international cooperation on which the IMF relies to function. He continued, “The non-political character of the IMF has been uniformly respected by its members and is a major source of strength for the institution and the international monetary system.” If the United States unilaterally started to introduce human rights considerations this would break the non-political character of the IMF and

⁹⁵ *ibid.*

⁹⁶ James M. Boughton, *Silent revolution : the International Monetary Fund, 1979-1989* (Washington, DC, 2001).

⁹⁷ Office Memorandum Marcello Caiola to Managing Director, Deputy Managing Director, March 29, 1977, Source: IMF Archives, Washington, D.C.

⁹⁸ Briefing for IMF Mission to Argentina, June 7, 1977 Source: IMF Archives, Washington, D.C.

⁹⁹ Memorandum, Gene E. Godley to Ann Dye, “Weekly Congressional Activity Report from Treasury,” February 9, 1978, IT 44 1/20/77 – 1/20/81, WHCF Subject File, Box IT-4, Jimmy Carter Library.

¹⁰⁰ Memorandum, Bill Heckman to Zbigniew Brzezinski, “Witteveen Facility,” February 9, 1978, IT 44 1/20/77 – 1/20/81, WHCF Subject File, Box IT-4, Jimmy Carter Library.

would open the door for the introduction of political considerations by other countries.¹⁰¹ Blumenthal's intervention proved decisive and the U.S. managing directors at the IMF never became obliged to vote against loans to countries which violated human rights.

Argentine economic policy after the military coup on March 24, 1976, showed the limitations of IMF influence in the absence of an acute financial crisis. Early adjustment efforts after the coup in March 1976 largely coincided with IMF recommendations. However, as soon as the initial crisis had passed and the military government had established credibility in international financial markets, IMF advice more often than not remained unheeded. The military government under President Gen. Jorge Rafael Videla was not the champion of free-market orthodoxy and Martínez de Hoz did not slavishly follow through with IMF recommendations. The public finances remained in deficit and public enterprises were not brought under tight supervision at the same time as mounting foreign external debt gave Argentineans a short-lived illusion of growing prosperity. The Argentine authorities also failed in their struggle for monetary stability. Except for 1980, where inflation fell to an annual rate of 83 percent, inflation stubbornly remained above 100 percent per year during the whole period of the military dictatorship. The legacy of high inflation and massive foreign debt became the most important economic liabilities of subsequent democratically elected governments' political room for maneuver.¹⁰²

Conclusion

The preceding pages have investigated the complicated relationship between Argentina, the United States and international financial institutions (especially the IMF) during the turbulent decade of the 1970s.

The documentary evidence rebukes any notion of an international conspiracy against the constitutional government of Isabel Perón. Especially there is no indication of any U.S. intervention against IMF lending to Argentina. The Fund negotiated with successive Argentine ministers of economics until shortly before the coup. However, the

¹⁰¹ Memorandum, Anthony Solomon to W. Michael Blumenthal, "Talking Points IMF", undated, 10/17//77 – 10/30/77, Box 2, Anthony M. Solomon Collection, Jimmy Carter Library.

¹⁰² Jorge Schvarzer, *Un Modelo Sin Retorno: Dificultades y Perspectivas de la Economía Argentina* (Buenos Aires, 1990).

political instability in Argentina was a grave concern for IMF negotiators, not only because this meant that they had to deal with a new economic team without clear political support every couple of months but also because expectations of an imminent regime change in Buenos Aires made IMF staff hesitant to lend funds waiting instead for more stability.

After the military coup, negotiations between the Fund and the Argentine authorities became smoother since Fund officials felt they were dealing with a more predictable partner who implemented a consistent stabilization program. However, IMF staff was more critical of Martinez de Hoz' economic program than many critics have assumed. They specifically criticized it for failing to bring the budget deficit under control and for adopting an inconsistent monetary and exchange rate policy. The study thus shows that the influence of the IMF on Argentine economic policy was weaker than previously thought since the Fund could only make recommendations or attach conditions to loans. If governments were unable or unwilling to deal with these conditions (such as in late 1975 and early 1976) or if they had no need for IMF aid (such as after 1978), the Fund became a powerless bystander whose advice remained unheeded.

This study showed sharp turns in diplomatic relations between Argentina and the United States under the Ford and then the Carter administration. It argued that the Ford administration supported the Videla government politically and economically. The diplomatic conflict between the U.S. and Argentina during the Carter administration over the issue of human rights was real and left a lasting mark. However, the economic impact of the U.S. position was weak and failed to exert sufficient pressure on the military authorities in Buenos Aires. International economic cooperation continued largely unchanged. Despite the fact that U.S. executive directors voted against a large number of multilateral loans to Argentina, all the loans were eventually approved over U.S. objections. Also the International Monetary Fund kept cooperating with Argentina without regards to the human rights concerns of the Carter administration. This suggests that the IMF acted more independently from the US government than has often been assumed.