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Artículos

# International finance between two ages: The experience of Peronist Argentina, 1973-1976

## Finanzas internacionales entre dos eras: la experiencia del peronismo en Argentina, 1973-1976

Raúl García-Heras<sup>1,2</sup> \*  0000-0003-0756-5904<sup>1</sup> Instituto Interdisciplinario de Economía Política de Buenos Aires, Buenos Aires, Argentina.<sup>2</sup> Instituto Torcuato Di Tella, Buenos Aires, Argentina.

\* Correspondence: manchaitus@hotmail.com

**Abstract.** This article examines international financial relations of a key Latin American nation in the early 1970s. The focus is on the World Bank and the International Monetary Fund. This period was a turning point between the collapsing Bretton Woods regime of multilateral and bilateral external financing, and unregulated banking intermediation that prevailed as a source of foreign exchange until the Latin American debt crises of the 1980s. It pursues and refines earlier scholarly analyses which argue that this interlude was a frustrated effort to adapt to the international finance scenario of the 1970s and break with earlier dependency towards multilateral lending institutions dating to the late 1950s. But it also maintains that such failure included a belated and hitherto unknown drive to tap the burgeoning Euromarkets, and set the stage for the full restoration of international financial relations during the early years of the military dictatorship of 1976-1983.

Key words: bank intermediation; external debt; international financing; bilateral and multilateral; military dictatorship.

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Resumen. Este artículo analiza las relaciones financieras internacionales de un país clave en América latina a comienzos de la década de 1970. Este periodo fue un punto de inflexión entre el final del régimen de financiamiento bilateral y multilateral de Bretton Woods y la intermediación bancaria desregulada que prevaleció como fuente de financiamiento internacional hasta las crisis de la deuda externa en la década de 1980. Profundiza los argumentos de estudios académicos previos según los cuales este interludio fue un frustrado esfuerzo de adaptación al escenario financiero internacional de esa década y romper con la dependencia de los organismos multilaterales de crédito que se remontaba a la década de 1950. También sostiene que dicho fracaso incluyó un tardío y desconocido esfuerzo por obtener financiamiento de los pujantes Euromercados, y que sentó las bases para la plena restauración de relaciones financieras internacionales durante los primeros años de la dictadura militar de 1976-1983.

Palabras clave: intermediación bancaria; deuda externa; financiamiento internacional; bilateral y multilateral; dictadura militar.

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## INTRODUCTION

The record of the Peronist government which came to power in May 1973 and was deposed by a military coup in March 1976 in Argentina continues to be studied in detail. Sidicaro (2010), for example, interpreted it as an “unfeasible” experience engulfed in the social and political conflicts of the time. This interregnum has also been viewed as a turning point in Argentina's search for economic development and stability since the end of the World War II (Smith, 1991; Gerchunoff & Llach, 1998; Chudnovsky & López, 2007). For Ferrer (1977) and Kiguel (2015) it was one of the recurrent economic crisis which impeded successful long term economic strategies, mostly due to an irretrievable dichotomy between liberalism and state interventionism. In the early 1990s, Sturzenegger (1991) discussed Peronism's policies during this period, its motivations and implications, and tested whether this case fitted well into the Dornbusch-Edwards (1990) model of Latin American populism. Since a notorious South American military dictatorship followed this interlude, starting with classical studies in the early 1980s, scholars have also examined it as the tragic failure of a “national project” that elicited widespread popular support and expectations about its future policies (De Riz, 1981; Di Tella, 1983; Leyba, 2003; Rougier & Fiszbein, 2006).

Most publications have noted that this government redirected its policies in an effort to address growing economic problems with international assistance which turned out indispensable for their political survival, to meet foreign financing needs, and avoid a looming foreign debt default. But, this turnabout has not received the detailed attention it merits in view of the complex international scenario which surrounded it, its legacy *vis á vis* the policies of the military dictatorship which followed it, and the comprehensive analysis that is now feasible on the basis of a wide range of relevant sources.

Eleven years ago a patchy though path-breaking study (Veigel, 2009) reviewed this period mainly as turning point in Argentina's effort to adapt to the dawning globalization of international finance of the early 1970s. More recently Claudia Kedar (2013) briefly discussed it as a thwarted drive against a pattern of asymmetrical lender-borrower relations between the International Monetary Fund (henceforth also IMF or Fund) and members that she labelled a "routine of dependency". Moreover, Kedar (2019) published a provocative article which underestimates significant constraints on Argentine relations with the World Bank (henceforth also Bank or IBRD) posed by Peronism's disagreements with the organization's insistence on the need to fight inflation, reduce budget deficits, respect private property rights, and liberalize foreign trade. Finally, two recent articles review the mistaken Peronist policies of the 1970s as the springboard for the neoliberal international financial strategy of minister of Economy José Alfredo Martínez de Hoz between 1976 and 1981 (García Heras, 2018a, 2018b). In both cases they catch up the Argentine case with pioneer studies on the rise of neoliberalism and international financial intermediation that culminated with the foreign debt crises of the 1980s in Latin America. Hence, as of this writing there is no substantial explanation of why in late September 1977 the editorial of a leading business weekly of Buenos Aires praised the early policies of the military regime, and argued that the military had restored close relations with Western powers and the international financial community; offset the bleak prospects of a foreign payments default; and increased the exchange reserves of the central bank.<sup>1</sup>

This article traces the history of relations of a key Latin American nation with the IMF and the World Bank during the turning point between the demise of the Bretton Woods regime which was dominated by bilateral and multilateral external financing that ended in the early 1970s; the international monetary, financial and oil crises of 1971-1974, and their early consequences; and the era of unregulated banking finance of the Euromarkets that prevailed in later years. To avoid duplicating earlier comprehensive work, the analysis includes just minimal discussions of key macroeconomic indicators.<sup>2</sup> Throughout these years Argentina experienced high macroeconomic and political instability that impeded technical and financial programming demanded by bilateral and multilateral lending agencies. Hence the government could not eventually negotiate short-term stabilization support, and longer-term development aid. This short period is also important on two additional counts. Rising Latin American nationalism, vocal Third World challenges against US Cold War politics, and demands for more equity in the wake of the oil crisis of 1973-1974 and its aftermath rocked the international economic order. Thus, the IMF and the World Bank carried out policy-making and institutional changes to meet these challenges and remain as key players in development and stabilization finance. In sum, drawing for the first time on a wider range of national and foreign primary and secondary sources than before, this analysis considers the impact of local politics and unprecedented global events on a sovereign borrower's statecraft in its relations with international lenders.<sup>3</sup>

<sup>1</sup> "La historia de cómo las actuales autoridades económicas lograron revertir una situación heredada de virtual cesación de pagos, reacomodar los vencimientos de la deuda externa y, al mismo tiempo, acrecentar de manera espectacular las reservas de divisas constituye, sin duda, uno de los principales logros del presente proceso". *Al Lector* (September 22, 1977, p. 9).

<sup>2</sup> We have drawn on Rougier & Fiszbein (2006, statistical appendix); Sturzenegger (1991); Kiguel (2015); BCRA (1976); IMF (1975a).

<sup>3</sup> This setting draws on Brands (2007; 2008); Sharma (2013).

To understand later developments, the article begins with a stylized review of Argentine international financial relations immediately before Peronism's rise to power. Due to length limitations, this prelude excludes social, political and political developments examined in earlier studies.<sup>4</sup> Then it discusses Peronist policies from its inauguration in May 1973 until the turning point of the outbreak and impact of the oil crisis of 1973-1974. A fourth section concentrates on the combination of earlier mistakes and the international shocks of 1973-1974 that forced a gradual backtracking and a search for closer relations with bankers, the United States, and multilateral lending agencies. Finally, frantic efforts during Peronism's its last year in office to fully dismantle their initial program and avoid an international payments default are examined. On the whole this review underlines how and why the early program of minister Gelbard responded to strong domestic imperatives and echoed a radicalized scenario in the developing world that later on officials had to abandon. The conclusions sum up our findings with a provocative proposition. They mainly suggest that mistakes, inexperience, lack of relevant expertise, and failure to adapt to the collapse of the Bretton Woods system and the crossroads between two distinct ages in the history of international finance, help to explain the onset of the strategy that minister of Economy Martínez de Hoz adopted as from 1976.

#### FAREWELL TO CLOSE RELATIONS WITH INTERNATIONAL FINANCIERS, 1970-1973

By mid-1969 the World Bank, the IMF and bankers finally built up good relations with Argentina, which was ruled by a military regime until mid-1973. The country showed good macroeconomic indicators. Moreover, Argentina had emerged as a noteworthy success story of "good" policies applied since early 1967 without foreign prodding by minister of Economy Adalberto Krieger Vasena, a moderate liberal who later became an influential spokesman of the local establishment. His IMF-supported stabilization program, and World Bank loans for basic infrastructure works, highlighted the achievements of conditional aid from the Bretton Woods institutions and private bankers' supplementary financing.<sup>5</sup>

However, after Krieger Vasena's resignation, in May 1969, the military authorities were confronted with rising inflation, higher fiscal deficits, and a gradual deterioration of the balance of payments. Relations with the Fund, the IBRD, the US EXIMBANK and bankers soured. As a reflection of political radicalization in Latin America during an age of widespread challenges to world powers (Brands, 2008), a wide spectrum of local public opinion questioned economic liberalism, relations with the United States and the IMF, and eventually advocated nationalist or more radical alternatives.

Fund management and staff began to follow up the prospects of bilateral relations; of the recent external convertibility of the *peso* for current account operations; and inflation, the fiscal deficit, public utility tariffs, central bank reserves, and exchange rates. Later on they focused on the return of the *stop and go* economic cycles that had impeded sustained growth and stability since the late 1940s; on the impact of grain harvests' losses provoked by climatic disasters on exports

<sup>4</sup> Interested readers may consult classical studies such as O'Donnell (1982); Smith (1991); Gerchunoff & Llach (1998); Chudnovsky & López (2007).

<sup>5</sup> One of the achievements praised by the international financial community was the adoption in mid-1968 of a free external convertibility of the *peso* with a fixed exchange rate for current account operations, which was one of the IMF's recipes.

and foreign exchange earnings; and a cyclical downturn in beef exports which as from the last quarter of 1971 culminated with balance of payment problems and a reversal of earlier “sound” policies (IMF, 1973).

At first World Bank officials were worried about Argentina’s economic prospects and credit standing; the Bank’s role as a source of development finance and policy-making influence; and how to ensure a steady flow of future loans for sound basic infrastructure projects which were the hub of their lending policies and relations with member nations.<sup>6</sup> These concerns reflected an institutional need to preserve its status in leading Latin American nation, and a high credit standing in capital markets where the Bank raised indispensable extra funding.<sup>7</sup> Later on, as the military regime came to an end, an additional issue for their attention were policy disagreements that hinged upon fiscal, exchange rate, and anti-inflationary policies. A second point of dispute was key state enterprises which had long been largely responsible for high fiscal deficits, and in 1971 had received investment and rehabilitation loans on condition that officials would adopt prompt corrective measures such as charging realistic rates.<sup>8</sup> In brief, by the early 1970s Argentina’s reportedly golden age of international financial relations was gone. Basic infrastructure investments for which multilateral lending was essential were at stake. The country suffered again immersed changeable, destabilizing and detrimental *stop and go* cycles that carried increasing attention of local analysts and multilateral financial institutions.<sup>9</sup>

Pressed by growing balance of payment problems since the second semester of 1971, in early 1972 the military government finally started to negotiate a traditional *stand by* agreement with the Fund.<sup>10</sup> This was done to obtain emergency IMF aid available to member nations according to their capital subscription, and in installments known as credit tranches subject to increasing conditionality.<sup>11</sup> Officials also tapped collateral financing linked to a Fund program with the US government (henceforth also mentioned as Washington), bankers, and the low-conditionality Fund-financed Compensatory Financing Facility (henceforth also CFF) available for members suffering falls in ex-

<sup>6</sup> Avramovic, D. (September 28, 1970). Meeting of Mr. McNamara with Minister of Argentina Mr. Carlos M. Moyano Llerena in Copenhagen on September 24, 1970 [Memorandum for Record], Records of the Office of the President, Argentina, Contacts with member countries: Argentina-Correspondence 1, Folder 1770940, WB IBRD/IDA 03 EXC-10-4549S, World Bank Group Archives, Washington (hereafter cited as WBGA).

<sup>7</sup> In a follow-up of policies of the early years of the institution, in August 1971 president McNamara underlined to potential underwriters of its securities that the Bank was a profit making *development investment institution* with a lending policy targeted for sound applications of creditworthy nations. Remarks to Representatives of Underwriters, New York (August 4, 1971), Records of the Office of the President, Remarks to Institutional Investors and Underwriters, correspondence 1, folder 1199582, WBGA.

<sup>8</sup> Argentina: Power and Railways Rates, Office memorandum from Gunter Wiese to Burke Knapp, Washington (December 3, 1971), Argentina 1969-1971-General Negotiations vol. xi, folder 1514760 WBGA.

<sup>9</sup> Braun & Joy (1968) and Diamand (1972) offered earlier classical analyses of this dynamics.

<sup>10</sup> *Stand by* agreements gave nations financial support from the IMF for economic stabilization. They were subject to compliance with macroeconomic targets both parties discussed and laid out in a memorandum of understanding attached to formal requests for support. The agreements normally lasted for a year and were an indispensable seal of quality of emergency economic adjustment policies to obtain additional collateral financing that was usually necessary from the US Treasury, American and West European banks.

<sup>11</sup> The first installment was a gold tranche of automatic access, but the others were subject to growing conditionality. To qualify for the first authorities had to demonstrate reasonable efforts to solve balance of payment problems and submit a program outline to redress them. The second tranche required a formal *stand by* agreement and was disbursed if quarterly fiscal, monetary and fiscal targets agreed with the Fund were met. A third and fourth tranches were upper-tranches subject to more severe quantitative targets.

port earnings due to circumstances beyond their responsibility. Meanwhile, to resume the flow of project loans, they tried to patch up relations with the IBRD that had deteriorated due to the problems discussed above.

Argentina submitted a strong application for CFF aid and in March 1972 obtained U\$S 64 million from the IMF (1972). But negotiations for a *stand by* and collateral banking and US Treasury financing failed because, according to the Argentine desk officer of the Fund, as of July 1971 expediency and wishful thinking still featured Argentina's easy way-out policies.<sup>12</sup> A strong backlash against the prospects of a return of earlier IMF-supported policies and its regressive consequences was a serious constraint. Moreover, Argentina was going through a conflictive transition to restore democracy with widespread political radicalization that turned stabilization policies unthinkable.<sup>13</sup>

In May 1972 the personal involvement and recommendation of managing director Pierre-Paul Schweitzer, who was not as orthodox as Per Jacobsson, his predecessor, enabled a special agreement that released U\$S 220 million of the gold and first aid tranches. Although Fund staff and officials thought otherwise, the institution decided to avoid a breach with Argentina and approved a second best alternative to a *stand by* with less strict inflationary, fiscal and monetary targets.<sup>14</sup> But, there were more clashes with the Bank over Argentina's economic situation, the government's program, and the situation of state enterprises which had received recent loans. Finally the executive board stopped reviewing submitted applications for new loans, and disbursements of earlier ones for the railways and Servicios Eléctricos del Gran Buenos Aires (hereafter SEGBA), the state electric power company which served most of Buenos Aires and its suburbs.<sup>15</sup>

A breakthrough with the IMF was the gateway for five-year term bankers' loans in the last quarter of 1972. The military government avoided a foreign payments default until in early 1973 timely earnings accruing from the first wheat and corn exports of the November 1972-March 1973 harvest started flowing into Argentina. The Fund reluctantly accepted earlier trade and payments restrictions as emergency measures and hence Argentine officials expected no foreign exchange losses like those of 1971-1972 and stable exchange rates in the local market.<sup>16</sup>

However, in the short run annual foreign debt repayments were high. At the end of 1972 a leading business weekly estimated that almost 50% of Argentina's debt was to be repaid in 1973 and 1974.<sup>17</sup> Maturities of banking loans stretched out only until January 1977. Drawings against them were conditioned to meeting quarterly targets of the Fund agreement. The central bank had to maintain high foreign exchange reserves to ensure its financial position, debt repayments,

<sup>12</sup> Argentina-Recent Developments, Office Memorandum from E. Hardy to Jack Guenther, Washington, DC (July 6, 1971). Central Files Collection, Country Files: Argentina, c/Argentina/320 Economic Conditions 1946-2002, International Monetary Fund Archives (hereafter cited as IMFA).

<sup>13</sup> Smith (1991, pp. 199-205), and Argentina-Meetings with Visiting Delegation, Office Memorandum from Jack Guenther to Jorge Del Canto Washington, DC (May 29, 1972). Argentina, c/Argentina 820-Member Missions to Washington 1970-1972, IMFA.

<sup>14</sup> See *La alegría de los dólares...* (June 22, 1972, p. 10).

<sup>15</sup> Mission to Argentina-Back-to-Office Report, Office memorandum from Gunter Wiese to Gerald Alter Washington (February 3, 1972); Meeting of Mr. McNamara with Dr. Carlos Brignone, President of the Central Bank of Argentina, Memorandum for Record by Gerald Alter (March 14, 1972), Contacts with member countries: Argentina, Correspondence 2, Folder 1770941, WB IBRD/IDA 03 EXC-10-4549S, Records of President Robert S. McNamara, WBGA.

<sup>16</sup> *Los buenos deseos* (December 7, 1972, p. 26); *La tregua del sector externo* (February 15, 1973, pp. 13-14).

<sup>17</sup> The estimate was that total debt stood at U\$S 6 220 million and maturities totaling U\$S 3 086.2 million should be met in 1973-1974. This amount was equivalent to almost three years' exports and the annual gross domestic product. See *La deuda externa* (1972).



and a stable foreign exchange market. For the same reasons another controversial clause prohibited paying maturities with gold holdings of the central bank's international reserves and pledging them to obtain more loans.<sup>18</sup> IMF loans had to be repaid when exports and the balance of payments situation showed a sound improvement. All told, as Argentina headed for a general election and a new democratic government, a true economic stabilization, future relations with international financial institutions, and compliance with targets bankers and the IMF had imposed to a needy military administration during its last year in office, were uncertain.

#### EARLY OPTIMISM AND CONTESTATION, 1973-1974

Peronism won the general elections of March 1973 by a landslide and assumed office three months later. Its early economic policy unfolded under a plan of minister José Ber Gelbard, a powerful self-made businessman associated with Peronism since the late 1940s who advocated a strong state intervention in the economy, income redistribution, and opposed foreign capital penetration in Argentina. This program sought to overturn a denationalization of the economy ascribed to Krieger Vasena's policies, and the routine of dependency towards international bankers and multilateral agencies that permeated earlier policies in Argentina (Kedar, 2013, p. 122; Rougier & Fiszbein, 2006, pp. 44-69). For various reasons Peronist politicians and the new government intended to detach themselves from the World Bank, the Fund, and abandon earlier economic stabilization and development policies. They voiced deeply embedded recriminations against the IMF and the IBRD for their record in Argentina, ideological discrepancies and distrust against both agencies.<sup>19</sup> The financial position of the central bank, as measured by its international reserves position, and the recent evolution of other key macroeconomic indicators suggested that the national economy had finally recovered from the 1971-1972 crisis.<sup>20</sup> The apparent prospects of a more independent course that also permeated policies in other Latin American nations, also stimulated this optimistic challenge.<sup>21</sup> The Gelbard team either ignored or downplayed the importance of the heavy short term borrowing contracted to resolve the recent crisis; and the need for a longer-term and more feasible settlement of the foreign debt. Finally, the Peronist government decided to join the rising tide of Third World nations which in the early 1970s demanded a more equitable international economic order, and a deep overhaul in the IMF and the Bank.

The Third World had long-standing objections against the basic premises and functioning of the Bretton Woods system, as well as their limited decision-making influence and voting power in its main institutions. Criticism was exacerbated because the course and results of international

<sup>18</sup> Acta de la reunión de directorio del Banco Central de la República Argentina (hereafter cited as Acta-ABCRA) (October 2, 1972, pp. 1-2), and Anexo I. Compromiso sobre metas en materia de activos netos externos establecido en los convenios de crédito con bancos del exterior, Memorandum del Banco Central para el Ministro de Economía de la Nación, Buenos Aires (April 21, 1975), Archivo Privado de Eduardo Zalduendo (hereafter cited as Archivo Zalduendo), carpeta 6-7: Cafiero, 1975-1976. Zalduendo, a prestigious economist with a strong sense of public service, was vicepresident and president of the central bank between 1974 and 1976.

<sup>19</sup> For a sample of the complaints see Editorial. Argentina ante el FMI (August 7, 1973, p. 10).

<sup>20</sup> As of June 1973 Argentina accumulated a 73.2% annual inflation rate and the public sector deficit was high. But gross domestic product growth was robust, the central bank had US\$ 893 million in international reserves, export prices and terms of trade were improving, and therefore both the current account and the overall balance of payments showed surpluses, Kiguel (2015, p. 95); IMF (1975a, pp. 4-5).

<sup>21</sup> Brands (2008). For a more critical orthodox assessment of Argentina's situation see La situación económica (September 18, 1973, pp. 1-4).

monetary reform discussions held as of the annual meeting of the IMF and the IBRD at Nairobi in September 1973 did not meet earlier expectations. The last straw was the impact of the monetary and oil crises of 1971-1974 on their economies and a subsequent decision to shelve monetary reform plans and emphasize unsatisfactory new priorities in economic thinking and policy-making that did not match with their needs. The pace and course of these turbulent events dictated the timing and relative importance of a wide range of specific technical, political and ideological differences of opinion with industrial countries. For the purposes of this article these allegations may be broadly summarized as follows: *a)* membership of the IMF and the IBRD did not allow independent policies, especially during crises; *b)* neither institution met financing needs of developing nations and until the late 1960s the IMF had been notoriously lenient with borrowing requests from needy industrial countries such as Great Britain; *c)* the solvency of a country should not be assessed according to the level of its foreign exchange reserves only; *d)* successive devaluations of the US dollar during the 1971-1973 years had reduced the real value of their foreign exchange reserves; *e)* IMF financing for economic stabilization purposes should either be granted in more concessional terms or subject to less conditionality rules; and *f)* instability in capital markets and the crisis of the Bretton Woods system were beyond their responsibility, justified exchange controls, multiple exchange rates, and restrictions to capital account operations. Sharp criticism also primarily targeted the fundamentals of bilateral and multilateral aid, and the distribution of voting power in the Fund and the Bank, but did not grasp the intricacies and increasing importance of the emerging Eurodollar market and commercial bank finance.<sup>22</sup>

Because it stood between capital markets and rich member nations that provided its funding, and major borrowers from the developing world that in some cases were most vocal advocates of radical reform, above all the IBRD wanted to tide over conflicts over the international order without alienating the latter.<sup>23</sup> Shortly after the general elections president Robert McNamara also wanted to know Peronism's plans and with some qualifications hoped that the institution would remain as a key source of development aid and thinking.<sup>24</sup>

The Bank no longer followed the rigid and conservative approaches to development financing management of earlier presidents, but it did not advocate state interventionist and income redistribution policies either (Konkel, 2014, pp. 290-292). As of early 1973 McNamara and his staff were determined to preserve its sound financial management and loans portfolio in order to guarantee two sources of funds and expand lending: governments of rich member nations who contributed the bulk of Bank capital increases; and potential private underwriters of bond issues regularly floated since the late 1940s who were quite selective in their investment decisions.<sup>25</sup> The IMF held similar views. Staff and management were aware of the need for a cautious approach in order to maintain established relations, and institutional and policy-making influence (Kedar, 2013, pp. 123-124).

<sup>22</sup> La posición argentina en el FMI (October 4, 1973, pp. 20-24); Criterios de la Argentina en materia de reforma monetaria internacional (October 2, 1973, pp. 11-13).

<sup>23</sup> Sharma (2015) updated discussions of IBRD policies and responses to demands of developing nations.

<sup>24</sup> Memorandum for the Record by Hendrik van der Heijden, Division Chief, LAC II, Washington (March 27, 1973), Records of the Office of the President, Argentina, Correspondence II, Folder 1770941, WBGA.

<sup>25</sup> Briefing notes for Mr. McNamara's discussions with Prime Minister Heath (February 9, 1973), Records of the Office of the President, Travel Briefs: London February-March 1973, Folder 1772674, WBGA. Bank staff prepared this report on the eve of a fund raising tour in Europe.



In view of their early adversarial relations approach, the Peronist government rejected IMF advice and discontinued full annual reviews of the economy known as Article IV Consultations Missions that member nations had to comply with.<sup>26</sup> In their view these missions intruded upon internal affairs and produced detrimental derogatory reports. In lieu officials suggested periodic and less publicized exchanges of statistical information in Washington and Buenos Aires.<sup>27</sup> Poverty alleviation was a new central target of Bank policies prompted by an awareness that economic growth in the developing world should be matched with a more equitable distribution of national income. This goal, however, did not fully match with Peronist welfare and social equity concerns because the institution retained a strong imprint of macroeconomic orthodoxy. Peronism distrusted the institution and objected its earlier involvement in the country. Gelbard's Plan lacked a well-articulated basic infrastructure program that would qualify for support, and did not consider Bank development financing essential. In brief, ideological and bureaucratic discrepancies thwarted IBRD efforts to resume bilateral negotiations and fix a new agenda. Also, if government policies did not change, without new Bank loans there would be no collateral banking finance that usually rounded off foreign funding for projects.<sup>28</sup>

Meanwhile foreign private investors began to suffer increasing political violence and a nationalist backlash. Banks that were subsidiaries of Citibank and Chase Manhattan Bank were nationalized arguing that Argentina had to recover financial independence. Siemens, Standard Electric and International Telephone and Telegraph, who were suppliers and contractors of the state telephone company, were also nationalized and reportedly abusive contracts of the earlier military government were abrogated. Car manufacturers were subject to price and exchange controls, restricted access to local banking credit and rising labour costs. As discussed below, this trend deteriorated relations with the United States and clouded later prospects of improving links with foreign bankers and multilateral lending agencies that were concerned about respect for property rights in developing nations.<sup>29</sup>

In Argentina, world trade prospects which were now favourable until early 1974 also sustained Peronism's frontal attack against the Bretton Woods order. Bumper wheat harvests, rising beef exports and higher terms of trade yielded more foreign exchange earnings and industrial exports were likely to continue growing as in the last decade. The IMF and the IBRD had some caveats about the high fiscal deficit, the expansive monetary policies of the central bank, and the strict state controls of a multiple exchange rates system that helped to sustain the balance of payments'

<sup>26</sup> The characterization of Peronism's early relations with the Fund is borrowed from Polak (1991, p. 18).

<sup>27</sup> Secretary of State to the American embassy in Argentina, Washington (August 6, 1973); American embassy to the Secretary of State, Buenos Aires (September 5, 1973), The National Archives, Washington, Record Group 59: General Records of the US Department of State: Argentina (hereafter cited as USNA, RG 59: Argentina). These records were consulted through internet access to the archival database: <https://www.archives.gov/>

<sup>28</sup> American embassy to the Secretary of State, Confidential, Buenos Aires (November 16, 1973, USNA, RG 59: Argentina; Office Memorandum from Gerald Alter to Robert McNamara, Washington, DC (January 15, 1974), Records of the Office of the President, Argentina: Correspondence II, Folder 1770941, WBGA.

<sup>29</sup> *La Opinión* (August 3, 1973, p. 13; October 18, 1974, p. 15); Argentina: Impact of Peronist Policies on US Investors (June, 1975), Central Intelligence Agency Confidential Memorandum ER IM 75-11, consulted from the Freedom of Information Act Electronic Reading Room of the CIA (<https://www.cia.gov/readingroom/document/cia-rdp86t00608r000500180011-7>)

surplus.<sup>30</sup> But, their early assessments of the Gelbard Plan conceded that anti-inflationary and income distribution policies appeared to be successful, and that gross domestic product growth was robust.<sup>31</sup> As of June 1974 the central bank foreign exchange reserves stood at U\$S 1 960.3 million, the highest level of the last decades. In April and August, the bank met a first U\$S 110 million installment of the IMF gold and first tranche, and the first maturity of the banking loans of 1972. However, although the balance of payments had improved, the 1972 CFF loan was not repaid.

By then there were simmering disputes and disagreements between central bank president Gómez Morales, a respectable old guard Peronist economist who favoured restrictive anti-inflationary monetary and fiscal policies, and Gelbard, who underestimated inflationary concerns and demanded more monetary expansion. The government ignored Gómez Morales' early call for a careful foreign exchange management strategy in order to ensure appropriations for substantial debt repayments in 1974 and 1975.<sup>32</sup> For minister Gelbard and his team, Argentina needed neither rigid orthodox schemes nor foreign aid.<sup>33</sup> They also established closer relations with the Soviet Union, Arab and Latin American countries because they believed they would be more beneficial than the multilateral system of trade and payments. A central bank warning of late December 1973 that more restrictive monetary and credit policies were necessary to curb inflationary expectations for the current program was dismissed as well.<sup>34</sup> Also no decisions were taken to revise multiple rates and an overvalued official exchange rate, two traits of Gelbard's program that caused problematic macroeconomic distortions objected by international financiers and would have strong bearing on the balance of payments and relations with the IMF.<sup>35</sup>

#### THE GATHERING STORM, 1974-1975

As of mid-1974 a crisis was building up. The inconsistencies of Gelbard's policies, and particularly its inflationary, fiscal, monetary and exchange difficulties, as well as the government's inability to sustain them were evident. Higher world oil prices hit oil-importing nations and caused them

<sup>30</sup> According to Sturzenegger (1991, p. 90), between June 1973 and March 1974 the public sector deficit climbed from 5.01 to 6.54 % of the gross national product. Kiguel (2015, p. 95) estimates that during this period annual monetary issue rates rose from 86.6 to 141.5 %. Rising earnings accruing from traditional exports and positive net capital movements contributed to an overall surplus in the balance of payments (IMF, 1975a, pp. 4-5).

<sup>31</sup> Argentina-Background for Lunch, Office Memorandum from Jorge Del Canto to the managing director and the deputy managing director, Washington (February 5, 1974), Argentina, c/Argentina 820-Member Missions to Washington 1970-1992, IMFA.

<sup>32</sup> Gómez Morales to Gelbard, Reservado (November 30, 1973), carpeta 1: notas Gómez Morales, Archivo Zaldueño.

<sup>33</sup> See D'Adamo (February 4, 1974, p. 17).

<sup>34</sup> Gómez Morales to Gelbard, Buenos Aires (December 26, 1973); Cursos de Acción Monetaria y Crediticia en el Año 1974, undated confidential memorandum, carpeta 1: notas Gómez Morales, Archivo Zaldueño.

<sup>35</sup> Argentina had a multiple fixed exchange rates system since September 1971. Despite continuing inflation the government maintained fixed rates because they feared traditional inflationary consequences of devaluations and wanted to promote the financing of indispensable imports for the industrial sector. Although this system stimulated capital flight and miscellaneous black market operations, all rates remained constant until the belated devaluations of March and June 1975.

balance of payment problems aggravated by lower prices for their commodities.<sup>36</sup> Export taxes, regulated prices targeted to give priority to internal consumption, credit restrictions at the main state banks, and an overvalued U\$S=peso exchange rate also discouraged key pastoral production and exports. The European Economic Community imposed a sanitary embargo to beef exports arguing that Argentina did not comply with sanitary policies against foot and mouth disease. Imports of essential supplies, capital and intermediate goods skyrocketed because industrialists had begun to stockpile them to anticipate higher costs as a result of currency devaluations.

Nationalist and state-interventionist policies cut into the profitability of foreign private investors and impaired their future business. A continuous drain in international reserves that began in July 1974 would accelerate during the second semester of the year.<sup>37</sup> Thus the central bank had to reconsider the commitment to repay the CFF loan of 1972 which anyway had been delayed.<sup>38</sup> Relations with the Eximbank, an important government agency that promoted and helped finance US exports, were frozen since 1973.<sup>39</sup> There were no full IMF annual Article IV missions, Argentina was not abiding by standard obligations, and neither bilateral nor multilateral aid agencies had credible reports on local economic conditions and prospects.<sup>40</sup> Due to continuing problems regarding unfulfilled requirements discussed above, in April 1974 the World Bank cancelled a loan granted in 1971 to rehabilitate the railways. Bankers therefore concluded that relations with the Bretton Woods institutions were not in good standing and refused to increase their exposure in the country. Finally, president Perón's death in July 1974 was an untimely heavy blow when strong leadership to meet these difficulties and related political problems was needed.

Perón's death also left minister Gelbard without political support. In September 1974 central bank president Gómez Morales resigned as a result of long standing reservations against current policies, and clashes over income and monetary issues with Peronist trade unionists and the Banco de la Nación Argentina, the main state commercial bank.<sup>41</sup> Foreign diplomats viewed the resignation of "a political heavyweight" who was concerned about the need for overdue fiscal and monetary restraint as "a significant setback to future Argentine government economic progress and

<sup>36</sup> Compared to other Latin American and East Asian countries, because of its energy balance and stable export earnings, until the end of 1974 Argentina was relatively unaffected by the crisis. However, the country was heavily dependent on oil imports for fuel consumption and had to meet rising costs of essential foreign inputs. Also the impact of the crisis on world trade changed balance of payments projections for 1975 and forced international financial policies that are discussed below. IMF (1975a); Fishlow (1986, pp. 54-84).

<sup>37</sup> Between June and December 1974 international reserves fell from its record level of U\$S 1 960.3 million to U\$S 1 340.8 million.

<sup>38</sup> Central bank president Ricardo Cairolí to acting managing director William Dale, Buenos Aires (December 2, 1974), c/Argentina/310 Monetary Reserves 1965-1977, IMFA.

<sup>39</sup> Eximbank loans financed a high percentage of total US costs of these exports, and provided collateral repayment guarantees for private banks' additional financing. Bilateral disagreements had finally been settled during the last months of the earlier military government. But apparently problems reemerged due to the Peronist government's reluctance to comply with some standard procedures, and to Washington's reservations against Argentina's exchange control policies.

<sup>40</sup> In the memorandum Argentina-Background for Lunch quoted in footnote 31 the director of the Western Hemisphere Department of the IMF underlined that the last full annual consultations were held in June 1972. He also discussed IBRD, Fund, and Inter-American Development Bank problems and difficult relations with the government.

<sup>41</sup> Acta-ABCRA (January 31, 1974, pp. 239-41); Los tradicionales puntos de vista... (September 1, 1974, p. 28).

stability” that further weakened minister Gelbard and his plan.<sup>42</sup> A month later, however, Gelbard resigned and his replacement by Gómez Morales suggested that finally the government was determined to broach his well-known concerns.

Despite his objections against the current international order, Gómez Morales was pragmatic, fully aware of the need to overhaul the Gelbard plan, and an opening to the US government and international financiers. Hence, a few months after assuming office he began a search for *a*) a rescheduling of foreign debt payments which in 1975 amounted to U\$S 816.5 million; *b*) new markets for traditional exports subject to lower prices, entry barriers, and a lower demand; *c*) financing to stabilize the balance of payments and meet basic infrastructure bottlenecks in the electric power industry and railway transportation; *d*) better relations with the United States, and multilateral institutions, and *e*) eventually an opening to capital markets that were recycling increasing Arab oil revenues.

Rescheduling Argentina’s foreign debt required credible presentations before the US Treasury and foreign creditors about Argentina’s macroeconomic situation and prospects, and how Gelbard’s policies would be reversed. All of them expected Argentina to abide by mainstream rules of international finance and have normal relations with multilateral lending institutions. Above all, full annual consultations with the Fund should be resumed. An economic stabilization agreement with the IMF was a must for its disbursements, and as a seal of quality of the emergency program to raise supplementary financing from the US Treasury and foreign banks. Sensitive fiscal, income distribution, anti-inflationary, monetary, trade and exchange rate policies which were at odds with international financiers’ prescriptions were bound to dominate these talks.

Disbursals of earlier IBRD loans and approval of new ones were subject to strict conditions. Applications should be sound. The government had to overhaul current policies and streamline the management, rates and policies of state enterprises. Foreign investors’ claims must be solved or there should be meaningful talks for an equitable settlement. Borrowers should respect property rights and avoid reportedly detrimental policies for their credit worthiness because the institution needed to safeguard its credit and professional standing before financial and government circles.<sup>43</sup> Washington, was keen on a rapprochement and supported talks of the Gómez Morales team with international financiers. But political and macroeconomic stability, and solving disputes with foreign private investors were indispensable prerequisites.

With US embassy help, in January 1975 Gómez Morales made a publicized trip to *a*) resume close contacts with Washington and international financial institutions; *b*) reassure private investors and improve Argentina’s image and credit rating; and *c*) break the stalemate on earlier IBRD loans and accelerate approval of new operations. At the Bank the minister sought a new loan for SEGBA, prompt discussions on future lending, and anticipated the submission of a loan application to finance indispensable grain silos to expand storage facilities and agricultural exports.

<sup>42</sup> Overseas Office memorandum, London (September 20, 1974), Representative Country Files-Argentina OV102/106, Bank of England Archive (hereafter cited as BEA); American embassy to the Secretary of State, Confidential, Buenos Aires (September 3, 1974), USNA, RG 59: Argentina.

<sup>43</sup> Investment Disputes, World Bank memorandum (April 19, 1971), Records of the Office of the President, Travel Briefs: London April-May 1971, Folder 1772759, WBGA.

Vice-president Burke Knapp, a most influential official, told him that they were considering re-directing project loans from middle income countries such as Argentina to poorer nations, and from infrastructure projects towards agriculture and rural development.<sup>44</sup>

Gómez Morales also broached Argentina's low credit rating in public presentations before US investors, and in private talks with bankers, secretary of the Treasury William Simon, and Federal Reserve chairman Arthur Burns. He argued that strong national macroeconomic fundamentals warranted an upward revision by credit rating agencies and a more balanced press coverage. Additionally, he insisted that press reports about escalating political violence and terrorism against US businessmen and diplomats in the country were exaggerated and biased.<sup>45</sup> Talks with Fund officials and staff resumed personal bilateral contacts during a meeting convened to discuss international monetary reform issues, the recycling of petrodollars, and member nations' drawing rights in Washington.<sup>46</sup>

Gómez Morales's trip coincided with an exploratory mission of central bank president Ricardo Cairoli to the main financial centers in Europe. Cairoli intended to improve Argentina's image abroad, explain current policies to bankers and government officials, and pave the way for balance of payments support in the Eurodollar market.<sup>47</sup> But, if Argentina's situation was quite difficult, the international scenario was not propitious for these efforts either. Since the outbreak of a banking crisis that swept across Europe and the United States in mid-1974, there was a significant credit contraction and tightening in capital markets because bankers were reviewing more cautiously the creditworthiness of their prospective borrowers and their country exposure limits.<sup>48</sup> Neither multilateral lending agencies nor industrial countries were prepared to accommodate to developing country expectations about an easier access to economic aid and a more equitable world order (Brands, 2008).<sup>49</sup> Johannes Witteveen, a Dutch economist with strong orthodox views in trade, exchange, monetary and fiscal affairs was the new managing director in the Fund since September 1973. Moreover, the complex challenges of troubled world economic conditions carried his attention and hence he preferred not to be dragged into negotiations with problematic member nations unless it was really necessary (De Vries, 1986, pp. 111, 136-39; IMF, 1978, p. 6). In Washington Secretary of the Treasury Simon and Federal Reserve Chairman Burns were adopting less sympathetic attitudes towards "deficit countries" and their reportedly "profligate" populist

<sup>44</sup> Middle income countries with stronger institutional capabilities and better fund raising possibilities in capital markets would no longer be eligible for project lending. Also the Bank had already made poverty alleviation a new central target of its policies. See Call on Mr. McNamara by Argentine Minister of Finance on 23 Jan. 1975, Office Memorandum for the Record by Gunter K. Wiese, Washington, DC (January 23, 1975), Records of the Office of the President, Argentina: Correspondence II, Folder 1770941, WBGA.

<sup>45</sup> American embassy to the Secretary of State, Buenos Aires (January 29, 1975; February 4, 1975), USNA, RG 59: Argentina. U.S. Central Intelligence Agency, presidential and State Department records declassified during the Clinton and Obama administrations, and British Foreign Office records, have a large body of information on these issues that disavows Gomez Morales' arguments.

<sup>46</sup> Ambassador Hill to the Secretary of State, Buenos Aires (January 22, 1975), USNA, RG 59: Argentina.

<sup>47</sup> British embassy to the Foreign Office, Buenos Aires (January 15, 1975); Minutes written by James Mac Gillivray (January 28; June 2, 1975), Representative Country Files-Arentina OV102/106, BEA; American embassy to the Secretary of State, Bern, 4 March 1975, USNA, RG 59: Argentina.

<sup>48</sup> Ultimately total banking losses were relatively small, systemic effects were limited and the credit crunch was short-lived. In the meantime, however, new lending commitments had higher spreads and lower maturity periods. See Schenk (2014, p. 1130); IMF (1980, pp. 2, 11, 30).

<sup>49</sup> The author also suggests that industrial economies and its governments proved stronger than expected to withstand Third World challenges and diplomatic pressures.



governments (Harmon, 1997, pp. 8-11). Finally, by the mid-1970s the World Bank was reconsidering the merits of its project lending policy. Moreover, the institution was under closer congressional and Treasury scrutiny and questioning about its allegedly low accountability to the US government, purposes, and the targets and efficacy of its loans (Babb, 2009, pp. 46-69; Sharma, 2013).

The only result of these missions was that in February and April the US Eximbank finally approved two minor loans for Agua y Energía Eléctrica and Gas del Estado.<sup>50</sup> Turbulence still prevailed in capital markets. Washington's officials, the Fund, the IBRD, and observers in Buenos Aires viewed both drives as an uphill and unconvincing road-show of a respectable old guard Peronist team who were trying to recapitalize the economy and avoid a dreaded *stand by*. They also realized that minister Gómez Morales lacked social and political support and therefore had poor chances of success.<sup>51</sup> In the midst of growing criticism against policies that anyway fell short of local and foreign expectations and demands, his resignation in May 1975 signaled the road to the collapse discussed in the next section of this article.<sup>52</sup>

#### THE LAST SCRAMBLE, 1975-1976

After Gomez Morales's resignation, Argentina went through more chaos and cabinet changes that reflected growing political and economic instability, and modest turns to the economic policies demanded by international financiers. By then the government was aware of the failure and heavy price of their earlier confrontational stance and demands for a more equitable world economic order. In the wake of unfavourable international economic conditions for most Latin American countries, they had also realized that the IMF would not discontinue loan conditionality, and that restraint and a more cooperative relationship with the United States were needed.<sup>53</sup> All ministers of economy were aware that an economic retrenchment and agonizing decisions were in order.<sup>54</sup> They therefore tried to settle disputes with private investors, improve links with the United States, and relations with the international financial community to facilitate technical assistance and loan negotiations. In the short run, this turnabout sought to replenish central bank reserves, that between July 1974 and the end of May 1975 had fallen from US\$ 1 946.6 to 694.7 million, and meet debt maturities due in 1975-1976.<sup>55</sup>

<sup>50</sup> Total amount of both loans was US\$ 25.2 million. They financed between 40 and 45 % of purchases of US equipment and technical support services for key infrastructure investments of two major state enterprises.

<sup>51</sup> Memoria y balance de una gira (January 23, 1975, pp. 8-10); American embassy to the Secretary of State, Confidential, Buenos Aires (January 31, 1975), USNA, RG 59: Argentina; La situación y el informe Gómez Morales (March 29, 1975, pp. 1, 11).

<sup>52</sup> See La CGE critica severamente la política económica actual (April 12, 1975, p. 12). The Confederación General Económica (CGE) was a business association that supported Gelbard and opposed stabilisation programs.

<sup>53</sup> Brands (2008, p. 107); Descripción de los mecanismos financieros de última instancia para atender desequilibrios del balance de pagos. Memorandum Reservado del Banco Central para el Ministro de Economía Pedro Bonanni, Buenos Aires (August, 1, 1975, p. 11), carpeta Apuntes sobre posibles cursos de acción en relación con el sector externo, Archivo Zaldueño; Ambassador Hill to Assistant Secretary of State William Rogers, Confidential (March 19, 1975), USNA, RG 59: Argentina.

<sup>54</sup> For this assertion we have drawn on Clift & Tomlinson (2008); Harmon (1997).

<sup>55</sup> Cómo tener dólares sin un stand by (July 25, 1975, pp. 14-15).



Although the balance of payments situation was turning more precarious,<sup>56</sup> in June 1975 the central bank finished repaying the gold tranche loan of 1972 with its reserves. Later on another maturity of the 1972 banking loans was met. Thereafter, to shore up the balance of payments officials sought IMF aid without a *stand by* agreement and postponed repayment of the 1972 CFF. To offset the impact of the international crises, they also tapped the CFF again, and the Oil Facility, a new IMF program launched in 1973 for member nations seriously affected by rising oil prices. Finally, with greater determination, but groping to tap alternative sources, officials pursued the central bank road-show of early 1975 and explored chances to float bonds, obtain collateral aid linked to a Fund program, or direct banking loans in thriving capital markets where Arab oil revenues were being recycled. In so doing, for example, they sought syndicated loans, a new option whereby international banks associated to raise larger amounts of foreign exchange funding for needy countries with lower administrative costs and default risks

Late in June 1975 the new minister of Economy, Celestino Rodrigo, sent a secret mission to Washington to brief the IMF about a stabilization plan he had just launched, set the groundwork to renew relationships, and discuss drawings of the 1975 Oil Facility and the first tranche of Argentina's drawing rights.<sup>57</sup> His purpose was to convince management, staff and officials of the government's determination to take early adjustment measures before receiving Fund support.<sup>58</sup> Like the Labour government in Britain in early 1974, the overall strategy was to steer through a serious economic crisis signaled by high inflation, a poor economic performance, and balance of payments problems avoiding high conditionality requirements.<sup>59</sup> Delegates feared that public disclosure of this initiative in Buenos Aires would trigger allegations that the IMF was imposing another recessionary program to Argentina. Thus they expected the Fund to sympathize with their concern and keep talks confidential. Meanwhile, the central bank secretly negotiated loans with Swiss, German and US banks to increase reserves and meet working capital shortfalls of the National Grain Board, a state body which monopolized wheat exports. Leading state corporations were asked to defer imports payments to reduce currency demands that would put further pressure on exchange rates and the balance of payments.<sup>60</sup> Identical goals guided an agreement with the main foreign automotive companies which the government heralded as the successful starting point of a new economic policy.<sup>61</sup>

After discussions with this mission Fund staff concluded that a more detailed evaluation of minister Rodrigo's program was necessary. Moreover, in mid-July a general strike, social protests against the regressive inflationary consequences of this plan, and the lack of strong congressional and presidential support forced Rodrigo to resign.<sup>62</sup> His stillborn attempt and increasing political

<sup>56</sup> See the disaggregated data for 1973-1975 by semesters in IMF (1975a, p. 5).

<sup>57</sup> Argentina, Office Memorandum by Jorge del Canto to the acting managing director, Washington (June 23, 1975); and an attached memorandum titled Meeting with Argentine Officials, Argentina: c/Argentina 820-Member Missions to Washington, 1970-1992, IMFA.

<sup>58</sup> In the early 1990s this move was defined as prior actions that the Fund interpreted as strong indications of a borrowing member's intention to carry out a consistent program. See Polak (1991, p. 25).

<sup>59</sup> For this comparison we draw on Clift & Tomlinson (2008, pp. 560-562).

<sup>60</sup> Acta-ABCRA (May 7, 1975, pp. 14-15). According to this Acta there were talks with the Swiss Banking Corporation and Deutsche Bank for US\$ 150 million loans. US diplomatic records and other Actas mention loan offers of First National City Bank, Manufacturers Hannover, and Credit Suisse.

<sup>61</sup> Acta-ABCRA (June 18, 1975, pp. 3-4); American embassy to the Secretary of State, Buenos Aires (June 19, 1975, USNA, RG 59: Argentina).

<sup>62</sup> See central bank president Cairoli's complaints in the Acta-ABCRA (July 10, 1975, pp. 1-4).

and economic instability doomed talks with the IMF, prospects of renewed IBRD lending, and of bankers' term and project co-financing loans.<sup>63</sup> SEGBA did not meet IBRD requirements for another loan and the board interrupted talks for a grain storage loan that Gómez Morales initiated after his trip to the US.<sup>64</sup> Lloyds Bank and the Bank of London and South America failed to form a consortium for a US\$ 50 million syndicated loan for basic investments of *Agua y Energía Eléctrica*, the main hydroelectric and waterworks company.<sup>65</sup>

Antonio Cafiero, another old guard Peronist, succeeded Rodrigo as minister of Economy and made stronger efforts to overturn the crisis; release IBRD loans; and avoid a foreign payments default. At the annual meeting of the Bank and the IMF of early September 1975 in Washington he held top-level discussions to find a compromise solution for the pending annual consultations, and obtain emergency aid without a *stand by* agreement. At the Treasury he called for a short-term US\$ 250 million loan from Washington's Exchange Equalization Fund (EEF) while other funding sources were explored. Secretary Simon, however, flatly rejected the request on the grounds that the EEF was targeted for broader international monetary problems. Cafiero also asked for support to obtain financing from US banks and assured that he was prepared to negotiate with the IMF. But, he added that for political reasons "it was essential that Fund personnel stay out of Argentina". In reply Simon just agreed to relay the request to bypass standard procedures of the consultations missions to the managing director of the IMF and urged Cafiero to turn to the Fund.<sup>66</sup>

Results of negotiations with the IMF fell short of Argentina's needs. At a final meeting the managing director informed Cafiero that CFF support would be granted only when statistical data on the fiscal year ending in October 1975 were available. He dropped an early demand that before negotiations of an Oil Facility loan a fact-finding mission should go to Buenos Aires and agreed to hold talks with an Argentine delegation in Washington in the last week of September. Yet he did not understand the need for negotiations in Washington only, and warned Cafiero that "he could not guarantee that these negotiations would be successfully concluded and reserved the right to recommend a mission if that seemed necessary after completing the talks in Washington". Finally, the managing director refused to submit to the board a request for a first tranche drawing because there had been no proper annual consultations on macroeconomic conditions for three years.<sup>67</sup> To help match the continuing fall in central bank reserves, in mid-September the Fund board just approved a request to reschedule until the end of 1976 the repayment of the last maturity in the CFF loan granted in 1972.<sup>68</sup>

Washington perfunctorily informed private US bankers about Argentina's critical balance of payments position and political constraints. Yet, at best some banks agreed to additional short-term operations which in some cases were regularly rolled over to avoid a foreign debt default because

<sup>63</sup> American embassy to the Secretary of State, Confidential Telegram, Buenos Aires (July 18, 1975), USNA, RG 59: Argentina; the statement of president Cairoli in Acta-ABCRA (July 16, 1975, pp. 1-2).

<sup>64</sup> Acta-ABCRA (August 21, 1975); *El Cronista Comercial* (March 3, 1975, p. 8).

<sup>65</sup> The Argentine central bank discussed the reasons for this failure during an executive board meeting in mid-July 1975. Acta-ABCRA (July 16, 1975).

<sup>66</sup> Secretary of State to the American embassy in Buenos Aires, Confidential, Washington (September 2, 11, 1975), USNA, RG 59: Argentina.

<sup>67</sup> Minutes of Meeting with the Argentine Delegation at the Sheraton Park Hotel (September 5, 1975), Argentina: c/Argentina/820-Member Missions to Washington 1970-1992, IMFA.

<sup>68</sup> International Monetary Fund to Banco Central de la República Argentina, Telegram, Washington, DC (September 23, 1975), Argentina: c/Argentina/1750 Repurchase Obligations 1975-1978, IMFA.

in their view the government was just beginning to regularize relations with the IMF.<sup>69</sup> The Bank of International Settlements did not renew a swap due on September 30. The terms of the collateral stand by agreements of late 1972 (see pp. 6-7) did not allow the central bank to dispose freely of its gold holdings.<sup>70</sup> The World Bank did not accelerate processing loan applications because staff and officials knew that the board would reject them, and project lending aid was not a priority for Argentina.<sup>71</sup> On his return to Buenos Aires minister Cafiero had to make do with the rescheduling of the repayment of the 1972 CFF and the start of negotiations for the 1975 Oil Facility and CFF in Washington.

At the end of October 1975 the IMF granted Argentina a US\$ 76 million Oil Facility loan subject to three conditions: *a*) disbursement was broken down in two tranches; *b*) by the end of the year there should be stronger fiscal and income policies and no emergency restrictions to foreign trade and payments; and *c*) before disbursing the second tranche, by mid-April 1976 a full consultations mission should update the Fund on Argentine policies and prospects, confirm that a “corrective program” was well under way, and that there were no trade and payments restrictions (IMF, 1975a, 12-13). Compensatory financing facility negotiations were less demanding. Fund staff and management had reservations about Peronist agricultural policies. Yet they concluded that after the peak exports earnings for the year ending on October 31, 1974, shortfalls were attributable to short-term swings largely beyond Argentina’s control and the closure of European markets to beef exports.<sup>72</sup> In mid-December therefore the IMF granted a US\$ 176 million CFF loan without strings attached to it, but also disbursable in two tranches (IMF, 1975b).

In late January 1976 minister Cafiero received a confidential central bank memorandum which updated an earlier assessment on the bleak prospects of the balance of payments and urged the government to start negotiations with the IMF.<sup>73</sup> Argentina’s policies and macroeconomic performance were well below IMF performance criteria demands. Yet he immediately sent central bank vice-president Eduardo Zalduendo to Washington to deliver a formal request for a full IMF consultations mission; accelerate disbursements of the Oil Facility and the CFF loans granted in 1975; and begin talks for the “first tranche” of Argentina’s drawing rights.<sup>74</sup> Meanwhile, to avoid a further

<sup>69</sup> Morgan Guaranty Trust Co. of New York, for example, granted the central bank a US\$ 10 million emergency loan for thirty days as an advance against the request of a Compensatory Financing Facility loan that the IMF granted in mid-December 1975. Banco Central de la República Argentina to the International Monetary Fund, Buenos Aires (November 3, 75), Exchange and Trade Relations Department, Immediate Office Sous-fonds, Box 4: Argentina, Correspondence and Memos 1966/68 to 1975, IMFA.

<sup>70</sup> BCRA, Memorando. Ref.: Operaciones transitorias para incremento de disponibilidades de divisas (October 6, 1975), Carpeta 6-7: Cafiero, 1975-1976, Archivo Zalduendo.

<sup>71</sup> Assistant Secretary of State Rogers to ambassador Hill, Confidential, Washington, DC (September 13, 1975), USNA, RG 59: Argentina.

<sup>72</sup> According to the *Memoria Anual* of the BCRA (1976), between 1973 and 1975 total Argentine exports amounted to US\$ 3 226; US\$ 3 931, and US\$ 3 000 million.

<sup>73</sup> Memorando: Balanza de pagos 1976, Confidencial, Buenos Aires (January 30, 1976), Carpeta Mondelli, Archivo Zalduendo.

<sup>74</sup> Cafiero to managing director Johannes Witteveen, Buenos Aires (January 30, 1976), Carpeta Mondelli, Archivo Zalduendo.

drain of reserves and a default, the government relied on debatable trade and payments restrictions that the Fund traditionally viewed as unacceptable beggar-thy-neighbour policies, and on more short term borrowing from foreign bankers.<sup>75</sup>

Fund staff, officials and management had already lost their patience about Argentina's political and economic instability. A record of failures to comply with membership obligations, earlier commitments, and hard-to-reconcile disagreements that turned current negotiations quite difficult also exasperated them. Ultimately they wondered whether a country that had perpetual difficulties qualified for support or should be disciplined to set an example about the obligation to take cooperation with the Fund seriously and avoid restrictive policies.<sup>76</sup> Hence, they had laid out a more intransigent line that stepped up the demands of September 1975.<sup>77</sup> With the news that economic uncertainty and lack of support had forced minister Cafiero and his team to resign, and that only Zaldueño remained in office, they just scheduled talks in two stages. At the end of February Jack Guenther, an experienced IMF staff member with first-hand knowledge about Argentina's poor record since the 1960s, would lead a one-week mission to discuss the final disbursement of the Oil Facility and the CFF loans in Buenos Aires. Then, eventually in May a follow-up mission would hold full annual consultations and preliminary negotiations for the first tranche drawing.<sup>78</sup>

During discussions with the Guenther mission, Cafiero's successor, Emilio Mondelli, and Zaldueño made a final effort to release the Oil Facility and CFF disbursements and the first tranche drawing. They had "no inhibitions about working with the Fund" and coincided with most of their diagnosis. Yet as of December 1975 escalating inflation rates had reached an 11 % per month, and the central bank financed 76.1 % of a high fiscal deficit equivalent to 15 % of gross domestic product. Furthermore, in their preliminary back-to-office report the mission candidly reported that the crisis was worse than anticipated and the economic team did not have enough clout to apply all the corrective measures that the IMF required.<sup>79</sup> Management therefore reviewed the situation and in early March 1976 concluded that *a*) the last drawing of the compensatory financing facility could be authorized only as a gesture of "our good will toward Argentina"; *b*) they would not recommend disbursement of the final tranche of the Oil Facility to the board because Cafiero's program was extremely disappointing and its fiscal and incomes policies were quite weak; and *c*) the annual consultations mission of May 1976 would discuss the first tranche drawing provided Argentina had "a viable program with a more substantial fiscal component".<sup>80</sup>

<sup>75</sup> The minutes of central bank executive board meetings for January 1976 briefly record that the president accepted loan offers from Lloyds Bank International, Wells Fargo Bank, the Bank of Montreal, Credit Lyonnais, and the Banco Di Roma. Acta-ABCRA (January 7, p.19; January 14, pp. 14-15; and January 28, p.19)

<sup>76</sup> The IMF advocated that they would provide economic stabilisation financing to member countries that complied with annual consultations missions and adopted the necessary measures to solve balance of payment problems and qualify for support.

<sup>77</sup> Argentina-consultations before we proceed with the final tranches of the CFF and the oil facility, Office Memorandum from Jorge Del Canto to the managing director and the deputy managing director, Washington (January 28, 1976), Argentina: c/Argentina/810 Mission-Guenther and Staff, IMFA.

<sup>78</sup> Argentina Mission, Office Memorandum from Jorge Del Canto to the managing director and the deputy managing director, Washington (February 4, 1976), Argentina: c/Argentina/810 Mission-Guenther and Staff, IMFA.

<sup>79</sup> Office memorandum from Jack Guenther to the managing director and the deputy managing director (March 1, 1976); c/Argentina/810 Mission-Guenther and Staff, February, 1976, IMFA.

<sup>80</sup> See the office memoranda submitted by Western Hemisphere Department director Jorge Del Canto to the acting managing director (March 10, 1976); reply in c/Argentina/810 Mission-Guenther and Staff, February, 1976, IMFA.

On March 11, 1976 the Western Hemisphere Department director communicated these decisions to another mission led by Zalduendo which had just arrived in Washington. Delegates intended to brief the Fund on the latest developments in Buenos Aires and demonstrate that Argentina had “a workable economic program”. They hoped that a breakthrough in these talks would allow negotiations for term loans with US and West European bankers afterwards. Del Canto, however, added that frank discussions to roll over banking debts was the best course to avoid a suspension of payments or a moratorium. Zalduendo needed better news for bankers that had recently refused term loans and eventually agreed to short-term operations that were rolled over, but did not dissipate the threat of an external debt moratorium.<sup>81</sup> He pleaded for an earlier dispatch of the consultations mission, but Del Canto replied that it was indispensable to see the results of a program minister Mondelli had just implemented. Otherwise, he concluded, a premature Fund mission would serve no purpose.<sup>82</sup> The only good news was that on March 19 the board authorized the disbursement of the last tranche of the CFF loan granted in December 1975 (IMF, 1976).

Like in February, the Zalduendo mission failed. In the US embassy’s view, the net foreign exchange reserves of the central bank were almost depleted and an external debt moratorium was a real possibility because heavy maturities were due in March and April.<sup>83</sup> Payment of indispensable imports for industry was in doubt. In their scramble for bank financing, by late March 1976 the government had accumulated additional short term debts for US\$ 1 260 million. Monetary illiquidity as a result of high inflation had forced the central bank to increase rediscounts that traditionally provided working capital to the state and the private sector.<sup>84</sup> Given a concomitant power vacuum, a coup was under way and on March 24, 1976 overthrew the government. A dictatorship would start addressing these issues, resume collaborative relations with bankers and multilateral lending agencies, and avoid a default that seemed imminent at the beginning of the year through what later on World Bank president McNamara eloquently praised as “a mammoth funding operation”.<sup>85</sup>

<sup>81</sup> As of late February Chase Manhattan Bank, First National Citibank, Morgan Guaranty Trust, Lloyds Bank International, and the Bank of Montreal followed this policy. Office Memorandum from David Greene to Gunther Wiese (January 28, 1976), Argentina 1975-1977, General Correspondence, vol. I, Folder 1592307, WBG; Acta-ABCRA (February 18, 1976, p. 10; February 25, 1976, p. 15).

<sup>82</sup> Argentina-use of the final tranche under the oil facility decision for 1975, Confidential Office Memorandum from Jorge Del Canto to the acting managing director, Washington (March 11, 1976), in same archival location as in footnote 67.

<sup>83</sup> American embassy to the Secretary of State, Confidential, Buenos Aires (March 8, 1976), USNA, RG 59: Argentina. The brief reference to the international reserves position of this dispatch suggests that freely available holdings were insufficient to meet standard demands, a run against the peso, and sustain exchange rates. See also Muchnick (1976, p. 12).

<sup>84</sup> On March 19, 1976, additional funds were provided to state commercial banks of several provinces to finance the 1975-1976 cotton harvest. See also the case of the Banco de la Provincia del Chaco as from mid-1975 in Carlino (2008, pp. 118-120).

<sup>85</sup> McNamara praised the operation when Bank loans to Argentina were finally resumed. See Report and recommendation of the president of the International Bank of Reconstruction and Development to the executive directors on a proposed loan to Servicios Eléctricos del Gran Buenos Aires, S. A., Washington (September 8, 1976), Report P-1911-AR, p. 5, WBG, <http://documents1.worldbank.org/curated/en/371551468221411345/pdf/multi0page.pdf>



## CONCLUSIONS

Between 1973 and 1976 Peronism's international financial relations followed a winding course of misguided optimism, a growing though rather reluctant awareness of the need to change the early economic program, and finally a frantic search for foreign financing. These efforts were conducted on a gradual learning-by-doing basis during a period dominated by unexpected crises and the dawning of a challenging new age in international finance about which policymakers knew very little. In Argentina, underlying structural problems that Peronism did not solve led to another episode in the succession of balance of payments constraints that the country experienced since the late 1940s.

For strategic and political conveniences, to a certain extent the IMF and the World Bank were prepared to wade through local politics and have a working relationship with the incoming Peronist government. Yet for several reasons relations got off to an irretrievable bad start and both institutions ended up looking forward to a new and more forthcoming government. The refusal to comply with member nations' obligations such as the completion of unrestricted annual consultations with the IMF reflected a deep distrust towards the Bretton Woods institutions, objections against their public policy recipes, and self-imposed political constraints of a radical public discourse in the tumultuous political environment of the early 1970s. Ultimately, such dogmatism, a belated awareness about the consequences of earlier confrontational decisions, and the new dominant tendencies in international finance, blocked Argentina's access to private and multilateral sources in times of increasing duress.

An almost identical situation impeded World Bank renewed lending for economic development infrastructure just before the institution began to redirect its lending policies. For all their reportedly strong interest in additional loans and belated appeals for them, the Peronist government never took meaningful steps to qualify for them and ensure a steady flow of new operations. Foreign investment disputes that the IBRD could not ignore were not settled. Rates of utility services provided by state companies remained notoriously low and continued having strong bearing on the fiscal deficit. Eventually both issues reinforced the impression that underlying public policies were not sound and Argentina was not a creditworthy nation.

Foreign bankers also had to adapt to a new political scenario. Argentina, however, never appeared as a trustworthy creditor and hence no longer qualified for the standard borrowing operations of the Bretton Woods era. As the recycling of oil revenues turned them into dominant protagonists of international finance, and regular business with other key Latin American nations such as Brazil and Mexico yielded handsome profits, they simply kept a foothold in the local market with modest short term loans which substituted for operations with earlier administrations that adhered to mainstream rules of international finance.

These eventful years were a dramatic and frustrated drive for financial independence during a transition period between the collapse of the Bretton Woods order and the rise of globalization and unregulated banking finance in the early 1970s. Since Argentina failed to build up alternative options to finance indispensable basic infrastructure projects and tide over balance of payment constraints, this interlude was important on an additional and hitherto ignored count. Namely, Peronism's record of failures and mistakes as of March 1976 set the stage for later developments in the controversial restoration of Argentina's international credit flows and standing that minister of Economy Martínez de Hoz masterminded and achieved during the early years of the military dictatorship.



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- Archivo Privado de Eduardo Zaldueño, Buenos Aires, Argentina.
- BEA Bank of England Archive, London, United Kingdom.
- IMFA International Monetary Fund Archives, Washington, DC, United States.
- USNA The National Archives, Washington, DC, United States.
- WBGU World Bank Group Archives, Washington, DC, United States.