MULTILATERAL LOANS, BANKING FINANCE, AND THE MARTÍNEZ DE HOZ PLAN IN ARGENTINA, 1976-1981

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ABSTRACT

This article examines Argentine relations with multilateral agencies and bankers during the first years of the last military dictatorship. It begins with an overview of relations and the external situation before the rise of the military and why a new economic team sought and restored Argentine credit standing. There follows a review of how links with the U.S. Treasury and international institutions lost significance and how cross-country financial intermediation, carried out mainly by leading state banks, gave foreign bankers a key role in the financing of Argentina's foreign exchange needs. It also emphasises explicit and underlying motivations in the behaviour and policies of all actors involved and offers an evaluation of former Minister Martínez de Hoz's efforts to justify these policies in the early 1980s.

Keywords: World Bank, Latin America, neoliberalism, International Monetary Fund, Euromarkets — Latin American debt

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RESUMEN

Este artículo examina las relaciones de la Argentina con los organismos multilaterales de crédito y la banca internacional durante los primeros años de la última dictadura militar. Primero resume la situación del sector externo a comienzos de 1976 y las causas por las cuales el equipo económico restauró el crédito internacional del país según criterios aplicados en anteriores crisis. Luego examina la menor importancia de los vínculos con el tesoro norteamericano y los organismos internacionales, y cómo la intermediación financiera, sobre todo de la banca estatal, dio a los bancos extranjeros un rol fundamental en el financiamiento externo de la Argentina. También se enfatizan las motivaciones de la conducta y las políticas de todos los actores y se evalúan los esfuerzos del ex Ministro Martínez de Hoz para justificarlas desde comienzos de los años 80.

Palabras clave: Banco Mundial, América Latina, Neoliberalismo, Fondo Monetario Internacional, Euromercados

1. INTRODUCTION

The economic programme of Minister José Alfredo Martínez de Hoz during Argentina's military dictatorship of 1976-1983 still draws attention as a notorious case of economic liberalisation in Latin America during an era signalled by the collapse of the Bretton Woods monetary order, the acceleration of financial globalisation, and the rise of neoliberalism. His policies left a deep imprint because he was the first and most influential minister of economy of this regime. Their impact was noticeable since well before the outbreak of the Latin American foreign debt crisis of late 1982. Major topics of early criticism have been Argentine financial relations, the responsibility of multilateral institutions and foreign banks in their consequences and constraints on an incoming democratic government in December 1983. Continued interest in these issues led scholars, politicians and journalists supporting the recent Kirchner administrations, which overturned the neoliberal economic reforms of the 1990s, to resume criticism with a broader and more radical outlook. In their view international bankers, multilateral financial institutions, and key Argentine state and business institutions were staunch allies and accomplices of the military dictatorship, of the policies that crushed Peronism, state intervention in the economy, and caused devastating changes for Argentina (Minsburg 2002; Galasso 2003; Basualdo 2010; Verbitsky and Bohoslavsky 2013; Basualdo *et al*. 2016).

Debates, however, have ignored substantial relevant inroads of historians, economists, sociologists, and political scientists in the history of international

banking, capital markets, institutional and policy changes of multilateral lending agencies, and the internal dynamics and power struggles of the military dictatorship, international financiers, and the U.S. government (Battilossi 2000; Novaro and Palermo 2003; Canelo 2004, 2008; Heredia 2004; Babb 2009; Cassis 2010; Chwieroth 2010; Altamura 2015; Avenburg 2015; Sharma 2017). They have also lagged behind recent pioneer studies by historians, sociologists, and economists on the rise of neoliberalism, International Monetary Fund (IMF) and World Bank (International Bank for Reconstruction and Development, IBRD) policies, Washington's regional concerns, and Latin American cross-border financial intermediation leading to the foreign debt collapses of the late 1970s and the early 1980s in Mexico and Chile (Babb 2001, 2009; Alvarez 2015, 2017; Kedar 2015, 2017a,b; Kershaw 2017). Their input, the opening of Argentine and foreign archives, and a closer look at unused sources, allow an update of previous debates in more sophisticated terms.

This article therefore examines the overseas financial strategy of Martínez de Hoz's team, with a focus on its development in two consecutive and closely interrelated stages that call for differentiated emphases on financial, diplomatic, and banking history issues. A first period covers the 1976-1978 years, when Argentina resorted to mainstream procedures of the Bretton Woods era to avoid an international payments default and restore foreign credit standing and finance flows, first for economic stabilisation and then for basic investment purposes. The second runs from 1979 to 1981 and witnessed the rise and prevalence of central bank (Banco Central de la República Argentina, BCRA) orthodox monetarism and larger-scale foreign indebtedness which had irreversibly damaging effects[1]. In light of this turn the discussion also accounts for the policies of an uneasy alliance of «old guard» liberals and younger technocrats which first gave priority to relations with bankers and international institutions that had deteriorated during a previous government; later these links were matched with a controversial opening to banking finance and the recycling of oil revenues in the 1970s.

To address these topics, this study also draws for the first time on the archives of the IMF, the World Bank, Argentina's central bank, *Banco Nación* and the military Junta, former central bank Vice-president Eduardo Zalduendo, the National Archives in Britain and the United States, the Bank of England in London, and declassified Central Intelligence Agency and U.S. presidential papers. A first section briefly focusses on Argentina's hitherto understudied financial relations as of early 1976, and on the difficult circumstances under which the military regime restored relations with bankers and multilateral organisations in line with the criteria of previous

[1] Orthodox monetarism gained prominence with the failures of Keynesianism and the collapse of the Bretton Woods system in the early 1970s. Basically it advocated less state intervention in the economy and that governments (and central banks in particular) should give priority to fiscal, monetary and credit policies to control inflation in order to achieve sustained and balanced development without macroeconomic distortions.

economic stabilisation and development programmes. The next section is closer in contents and analytical approach to recent studies of Mexico's debt-financed economic development (Alvarez 2015, 2017). It considers in more detail how new anti-inflationary policies led to closer links and more transactions with foreign bankers that funded the international financial intermediation drive of the main Argentine commercial state banks. It also looks at why the U.S. Treasury and multilateral agencies had a marginal financing role and limited decision-making influence in Argentina, but nonetheless were important as a «seal of quality» for the programme. After a careful review of two clearly differentiated policy stages with opposite records, and different sources of financing and leading protagonists in Argentina and abroad, the conclusions account for their behaviour, their decisions and discuss their influence on the record of Martinez de Hoz's strategy.

2. THE ONSET OF ARGENTINA'S FULL RETURN TO MULTILATERALISM IN THE LATE 1970S

On 24 March 1976, a military coup overthrew a Peronist populist government which had been in power for almost 3 years as part of a Latin American wave of political radicalisation that included Chile and Peru. The country had serious macroeconomic, institutional and political problems (De Riz 1981; Smith 1991; Rougier and Fiszbein 2006; Veigel 2009; Kedar 2013). Foreign private investors suffered widespread political violence, nationalist and state-interventionist policies which restricted daily business and undercut their prospects and profitability. Relations with the IMF and the World Bank (IBRD) were in a stalemate. The Bank wanted to resume lending which had been interrupted in 1971 due to Argentina's non-compliance with the terms of previous loans to state enterprises and economic policy disagreements. But Peronist officials' lack of expertise in international finance, political and macroeconomic instability, the nationalist drive against foreign investors, and poor public policies further stalled this normalisation[2]. Unlike other member nations, due to ideological discrepancies the government no longer allowed Fund missions to conduct full annual reviews of the economy known as Article IV Consultations[3]. Later, relative price distortions, rising

[2] *La Opinión* (Buenos Aires) 18 January 1975, p. 12; and Office Memorandum from Gerald Alter to Robert McNamara, Washington, DC, 15 January 1975, in World Bank Group Archives (WBGA), Washington, DC, Records of President Robert S. McNamara, Argentina-Correspondence 2, Folder 1770941.

[3] See Kedar (2013, pp. 121-134); Secretary of State to the American embassy in Argentina, Washington, DC, 6 August 1973; and American embassy to the Secretary of State, Buenos Aires, 5 September 1973, in The National Archives, Washington, DC, Record Group 59: General Records of the U.S. Department of State: Argentina (USNA, RG59). The documents were consulted through internet access to the Archival Database.

inflation and fiscal deficits, and the deterioration in the balance of payments forced negotiations with the IMF to tide over the crisis through a «*stand by*» agreement. However, these talks failed and collateral financing from the U.S. Treasury and international bankers that usually further propped up the foreign exchange reserves of the BCRA was unavailable[4]. At the end of 1975 the government only obtained modest Oil Financing Facility and the Compensatory Financing Facility (CFF) aid available for member countries affected by the higher cost of oil imports and a deterioration of their terms of trade.

Consequently, basic infrastructure projects previously carried out with multilateral agencies' support stalled. Bankers only granted short-term loans which were periodically rolled over[5]. Argentina also had problems repaying these loans and meeting other foreign debt payments. Moreover, in March 1976 there was skyrocketing inflation, an unprecedented fiscal deficit equivalent to 15 per cent of GDP, an unsustainable multiple exchange rates system, and serious balance of payments problems. Due to the maturity structure of its external debt the country was also heading for an international default because export earnings were insufficient, foreign exchange reserves of the central bank (BCRA) were severely depleted, and the country was virtually isolated[6].

The military inaugurated a strong anti-Communist regime that shared Washington's Cold War concerns. They appointed Martínez de Hoz, from a traditional cattle-ranching family, as minister of economy with a mandate to restore macroeconomic order and break international isolation. He belonged to the generation of «old guard» liberals who opposed Peronism and state intervention in the economy arguing that they suffocated the private sector. Given his social and professional background, as well as local and international establishment respect for him, they also thought he would provide the new regime with a prestigious civilian image abroad (Veigel 2009, pp. 51-53; Yofre 2010, pp. 375-376). Adolfo Diz, a graduate from the University of Chicago with experience in international finance, became the new president of the BCRA. For the first time, an economic team gathered «old guard»

[4] «*Stand by*» agreements provided member nations of multilateral lending organisations financial support from the IMF for economic stabilisation. They were subject to conditions discussed with Fund staff and officials. Such agreements lasted for a year and were a «seal of quality» of economic adjustment policies that paved the way for additional financing which was usually necessary from the U.S. Treasury, American and West European banks.

[5] See, for example, a U$S 30 million loan with an 8.75 per cent annual interest rate granted by the Chase Manhattan Bank of New York in the *Acta de la reunión de directorio del Banco Central del 3 de marzo de 1976*, pág. 2. Due to delays in negotiations and the disbursement of the CFF funds, more similar loans were contracted with U.S., British and West European banks.

[6] American embassy to the Secretary of State, CONFIDENTIAL, Buenos Aires, 8 March 1976 (USNA, RG59); central bank President Mondelli to Minister of Economy Cafiero, CONFIDENTIAL, Buenos Aires, 30 January 1976, in *Archivo Privado de Eduardo Zalduendo*, *Buenos Aires, Carpeta Mondelli*; and «*Coyuntura: La Crisis Económica*», *Mercado (Buenos Aires)*, 4 March 1976, pp. 15-20.

liberals and younger «technocratic monetarists» based mainly at the central bank, which was responsible for monetary and credit policies. They were nicknamed «Chicago Boys» for their ideology, qualifications and public policy initiatives rooted in neoliberal ideas of the Department of Economics of the University of Chicago[7].

The early international finance concerns of the new economic team focussed on improving relations with the IMF, problems affecting foreign investors, the looming foreign debt default, and a credible and coherent economic programme. With no alternative options, the new policies combined orthodox central bank monetarist concerns and standard international finance procedures acceptable for bankers and multilateral lending agencies. A Fund mission resumed the standard Article IV Consultations and normalised relations with the IMF. Foreign investors were reassured by the forceful end of personal insecurity, a free market economic policy, a review of previous nationalisations and controls on foreign exchange remittances, the end of restrictions on banks' operations, and a new foreign investments law. An international default was avoided through (a) U$S 300 million emergency loans with U.S. and West European bankers which replaced previous 30-day operations; and (b) a 6-month waiting period with other state creditors[8]. Finally, on 2 April 1976, a moderate-free market economic policy was announced.

The plan mainly sought to reduce inflation drastically, improve government finances and the balance of payments, recover Argentina's exports and markets, rebuild and modernise basic infrastructure and services, and eliminate macroeconomic distortions. It was neither suggested nor imposed by the IMF or the other foreign creditors. A Fund offer of technical assistance to prepare an emergency plan was rejected. The team also declined suggestions of an abrupt liberalisation of the foreign exchange market and a strong devaluation to dismantle earlier controls, end the overvaluation of local currency, and fix a real exchange rate. They feared that, as on identical previous occasions, they would provoke an inflationary flare-up. The IMF was informed that, after the Article IV consultations, when the emergency loans were credited at the BCRA, and the new programme was under way and showed positive results, they would seek support from all foreign creditors to restructure the debt and consolidate economic stabilisation (See Martinez de Hoz 2014, pp. 30-32).

[7] «Old guard» liberals also included Finance Secretary Juan Alemann, National Development Bank President Conrado Helbling, and central bank Executive Director Santiago Soldatti. Central bank President and Vice-president Adolfo Diz and Christian Zimmerman, Ricardo Arriazu, their chief advisor, and Secretary of Economic Coordination and Programming Guillermo Walter Klein Jr. stood on the orthodox «technocratic» and «monetarist» side. Novaro and Palermo (2003, pp. 37-40), Heredia (2004, pp. 314-316) and (2013, pp. 49-99), Veigel (2009, pp. 49-53).

[8] See American embassy to the Secretary of State, CONFIDENTIAL TELEGRAM, Buenos Aires, 3 May 1976; and TELEGRAM, Buenos Aires, 14 May 1976 (USNA RG 59); and *Acta de la reunión de directorio del Banco Central del 27 de mayo de 1976*.

From advance warnings and an ideological imprint of the military discussed below, a severe adjustment which provoked further social strains or unrest and undercut the prestige of the armed forces and their anti-subversive campaign was clearly unthinkable (Heredia 2004; Kedar 2013, pp. 137; Pryluka 2016, pp. 212-220). Also, IMF staff soon realised that the views and power of the BCRA monetarists who advocated strong measures such as deep cuts in monetary expansion and government expenditures were counterbalanced by the «old guard» who opposed them and accepted military impositions[9]. The whole team, however, agreed that the new policy should end chaos, a poor macroeconomic record ascribed to state-interventionist recipes applied since the 1940s, and institutionalise as far as possible a market economy, a new era in international relations, and a better foreign investments climate. They also agreed that earlier expansive monetary and credit policies were responsible for rising inflation rates and the collapse of the BCRA[10]. For technical and ideological considerations, the bank's charter was reformed. Previous policies were then overturned to gradually impose monetary and financial market conditions, and anticipated the financial reform of mid-1977 to be discussed later.

A balance of payments crisis was avoided. Argentina, however, needed U$S 1,200 million to consolidate its foreign debt with better repayment terms. Foreign technical and financial support for basic infrastructure, and high-priority state and private sector industrial projects were also necessary[11]. During the annual meeting of the Inter-American Development Bank (IDB) of May 1976 Martínez de Hoz had decisive meetings with Jorge Del Canto, director of the IMF Western Hemisphere Department, US Secretary of the Treasury William Simon, and IDB President Antonio Ortiz Mena[12]. After resuming contacts with foreign creditors, the minister and central bank President Diz negotiated a larger economic stabilisation aid package, World Bank, IDB and private bankers' loans. The first breakthroughs were a «*stand by*» with the IMF

[9] In December 1976 an IMF mission in Buenos Aires reported strong disagreements that revealed «an obvious split in the economic team» and that they had had better and more open discussions with central bank President Diz and his staff. See «Argentina: Stand by Review Mission», Office Memorandum from Marcello Caiola to the managing director and the deputy managing director, CONFIDENTIAL, Washington, 22 December 1976, in IMFA, Western Hemisphere Department Files, Box 11: Argentina 1976-1981, Folder Argentina July-December 1976.

[10] The central bank had a lender of last resort role that deteriorated its balance sheets. This forced the national government to consolidate treasury debts, though through long-term bonds carrying negative interest rates. See «Continúa la farándula de la consolidación de deudas», Economic Survey (Buenos Aires) 8 May 1973, pp. 1-2.

[11] American embassy to the Secretary of State, Buenos Aires, 14 May 1976 (USNA RG 59).

[12] Martinez de Hoz (2014, pp. 105-109); American embassy to the Secretary of State, Buenos Aires, 7 May 1976 (USNA RG 59); and Office memorandum from Jorge Del Canto to the managing director and the deputy managing director, CONFIDENTIAL, 7 June 1976, in IMF Archive (IMFA), Washington, DC, Exchange and Trade Relations Department, Immediate Office Sous-fonds, Box 5: Argentina-Correspondence and Memos 1975-1983.

in August, and the usual supplementary loans[13]. In September the World Bank granted a U$S 115 million loan to modernise and expand services of the state-owned *Servicios Eléctricos del Gran Buenos Aires, S.A.* (SEGBA), the main power company in Buenos Aires and its suburbs. The decision followed positive reviews of the programme, its plans to streamline the public administration, state-owned public utilities, and therefore improve efficiency and reduce the fiscal deficit[14]. Since 1971 the Bank had wanted to resume lending to recover past institutional and policy-making influence, and the military government met the established «conditionality» criteria for loans[15]. Fund officials and staff preferred stronger economic adjustments[16]. However, they commended the break with earlier state-interventionist policies. Only some cuts recommended as the best means to streamline government finances were adopted. Yet they welcomed the news that between March and December 1976 the fiscal deficit fell from 15 per cent to 9.4 per cent of GDP[17]. They also accepted the delay of a full reform of the foreign exchange market until November 1976, when the local currency was devalued and a free unified rate was fixed. Moreover, they noted the liberalisation of current account operations, and the gradual lifting of controls on capital mobility in the capital account that would later become a recipe of mainstream economic thinking (Chwieroth 2010).

By the last quarter of 1976 the economic team had avoided default and secured economic stabilisation aid supported by a «*stand by*» agreement with the Fund. Relations with foreign bankers had also been rebuilt thanks to the new climate for foreign business and the help of leading personalities with whom Martínez de Hoz had close relationships[18]. They tapped the rising capital market of Tokyo for the first time, and reinstated technical-assistance relations with the Fund[19]. Washington was considering the U.S. EXIMBANK loans carrying a repayment guarantee for collateral financing. The IBRD had

[13] See the details in Martinez de Hoz (2014, pp. 30-32, 105-118); and «El alivio del sector externo», *Mercado* 7 October 1976, pp. 16-22.

[14] Chargé d'Affairs Chaplin to the Secretary of State, Buenos Aires, 13 August 1976 (USNA RG 59); and International Bank for Reconstruction and Development, Report and Recommendation of the president on a proposed loan to *Servicios Eléctricos del Gran Buenos Aires*, S.A. Washington, DC, 8 September 1976. Report No P-1911-AR.

[15] Argentina: Visit of Minister of Economy Mr José Martínez de Hoz, Memorandum for the Records by Gunter Wiese, Washington, DC, 18 June 1976, WBGA, Records of President Robert S. McNamara, Argentina-Correspondence 2, Folder 1770941.

[16] IMF staff and officials advocated «shock treatment» policies arguing that «gradualism» was ineffectual and public opposition against it relaxed borrowing country committals.

[17] See the table of fiscal aggregates attached to the Office Memorandum from John Sundgren to Vito Tanzi, Washington, 29 December 1981, in IMFA, Western Hemisphere Department Files, Argentina-Correspondence-Christian Brachet1981-Box 11.

[18] David Rockefeller (CEO of the Chase Manhattan Bank) facilitated contacts in the United States. During negotiations with German bankers, Hermann Abs and Wilfried Guth (from the Deutsche Bank) helped to break the ice and dispel suspicions due to the nationalisation of Siemens of October 1974. Later they visited Buenos Aires and openly supported the minister and his programme.

[19] In October 1976 Japanese banks granted a U$S 75 million loan to repay earlier short-term loans. See Martinez de Hoz (2014, pp. 33). In December 1976 Claudio Loser, an economist of the

granted its first loan of the Martínez de Hoz interlude and the IDB was speedily processing loan applications. In sum, multilateral agencies, foreign bankers and financial officials praised Argentina's return to international financial orthodoxy and the rules of the game for three reasons. Economic policies had the «seal of quality» of a «*stand by*» with the Fund. The central bank had recovered its institutional and policy-making independence to apply «sound» policies. Finally, balance of payment problems would no longer be tackled through multiple currency policies, exchange controls or restrictions on transactions in the current and capital account.

As of late 1976 the economic team also overcame three emerging challenges. The first was the early impact of policies which elicited a first wave of scholarly criticism by the early 1980s (Canitrot 1980, 1981; Palacio Deheza 1981; Ferrer 1982; Schvarzer 1983; Sourrouille 1983). U.S. Congress and the press demanded economic sanctions against Argentina to halt human rights violations during the repression against the guerrilla and their alleged sympathisers. Yet, for the Ford administration then in power, human rights were not a key foreign policy issue and Secretary of the Treasury Simon openly praised Martínez de Hoz and his programme. This administration also supported dictatorships on political and ideological grounds reflecting strong Cold War national security concerns. Washington also realised that such a boycott was bound to fail because the military had alternative financing, and multilateral lending organisations would approve loan applications due to the merits of the Martínez de Hoz programme and the projects submitted for review[20]. Within the military there was powerful and influential nationalist, developmentalist and statist opposition to the economic team. Objections to the opening and liberalisation of the economy and efforts to streamline the military industrial complex, led the Junta to begin to cross-examine the minister and his programme[21]. For the time being, however, neither this opposition nor the «social cost» of current policies matched overseas confidence in their achievements[22].

The Argentine government did not comply with all targets of the 1976 «stand by» (Manzetti 1991, pp. 114-118). Yet, the Fund wanted to keep its influence, and Argentina still needed their «seal of approval» to obtain additional financing abroad for her foreign exchange gap. In mid-1977 a controversial financial reform («Reforma Financiera») deregulated banking

(*footnote continued*)
Exchange and Trade Relations Department of the IMF, completed a 3-month assignment in Buenos Aires to advise the central bank on the foreign debt management. See Kedar (2013, pp. 141).

[20] «Argentina: Six Months of Military Government», Department of State, Bureau of Intelligence and Research. Report No 603 dated, 30 September 1976 by J. Buchanan, National Security Archive, George Washington University, Washington, DC; and Keys (2010).

[21] *Acta Secreta No 18, Reunión de la Junta Militar del 31 de marzo de 1977*. This minute briefly records that Martínez de Hoz was summoned to answer unspecified objections of the Junta.

[22] Ensor (1976); American embassy to the Secretary of State, CONFIDENTIAL, Buenos Aires, 22 November, 1976. Novaro and Palermo (2002, pp. 37-43), Veigel (2009, 58-62), Canelo (2008) and Heredia (2004) offer detailed discussions of the balance of power.

and financial markets and ended subsidised active interest rates. This reform rounded off the central bank reforms discussed above and ended what bankers and economists with a strong intellectual influence on BCRA officials labelled as a detrimental «financial repression» for developing country economies[23]. It also forced the state and the private sector to turn to market financing at real rates that were higher than inflation and occasionally reached record levels[24]. Moreover, in June 1977 IMF staff had reported that Martínez de Hoz had reservations about further «stand by»-supported policies which only the central bank was prepared to apply[25]. But Argentina finally accepted an established «routine of dependency» (Kedar 2013, p. 144) and in September signed another «stand by» and the usual supplementary financing agreements.

In the United States the incoming Carter administration introduced more foreign aid restrictions to curb human rights violations and demanded the same policy from multilateral development banks. However, Washington had very limited voting power in these institutions (Babb 2009, p. 40). The World Bank needed to maintain its position as a significant source of development aid (Sharma 2013a, 2013b) and refused to base lending policies on political considerations. Argentine creditworthiness and prospects for sustained progress also looked excellent. Hence, in 1977 Argentina obtained more loans for basic infrastructure, exports promotion and state projects[26]. The IDB also had key loans ready and granted the first, for a natural gas pipeline in Southern Argentina, in August 1976. Like the IBRD, it stood firm despite cuts Congress imposed on U.S. government appropriations to its budget with the argument that both institutions were supporting a notorious human rights violator in the Southern Cone (Sharma 2013a, pp. 595-596).

At the end of the 1977, the «stand by» economic programme was at a crossroads. Fund staff and officials suggested another agreement to address unsolved fiscal and inflationary problems but the government decided otherwise. The OF and CFF loans of 1975 and the 1976 debts with bankers

[23] Stanford University economists Edward Shaw and Ronald McKinnon introduced the concept of «financial repression» in seminal work of the early 1970s. They argued that high bank reserve requirements, targeted credit programmes for specific industries, interest rate controls, restrictions for new banks to begin operations or to existing institutions to open more branches, and regulations of capital movements known as capital account controls impaired developing country economies. In their view, eliminating inefficient or corrupt credit-allocation practices and policies would increase savings and investment rates.

[24] Calvo (1983, pp. 204-205) made monthly estimates until 1981 and noted that in December 1977 the real lending rate interest reached a record annual level of 194 per cent.

[25] «Forthcoming mission to Argentina»; office memorandum from Lanyi to Sturc , Washington, 3 June 1977 in IMFA, Exchange and Trade Relations Department Files, Box 5, Argentina: Correspondence and Memorandums, 1976-1983, Folder Argentina Correspondence and Memos 1977.

[26] In March and June 1977 the Bank granted a U$S 115 million loan for electric power supply (SEGBA IV), U$S 77 million for road-building (Highways IV), and U$S 100 million for industrial development (Industrial Credit Project). Loans for grain storage facilities, the railways and coal mining development would follow.

and the IMF were repaid with central bank reserves in September 1978, well before they were due. The IMF lost all influence on Argentine policies and access to alternative foreign financing. Annual review missions and reports, however, became routine tasks. Most restrictions on international capital mobility had been lifted. Since the BCRA remained independent and applied «sound» policies, both parties remained on very good terms[27].

The government justified both decisions, pointing out that 1977s «stand by» resources had not been used thanks to the improvement of the balance of payments, the strong foreign reserves position of the central bank, and higher total exports. Yet a complex scenario of failures, successes and political constraints in Argentina and abroad also influenced them.

As of late 1978, U.S. government opposition to IDB and IBRD loans and bilateral aid cuts had not disciplined the military regime. The Carter administration refused to restrict American private sector deals with Argentina. Secretary of the Treasury Blumenthal endorsed the economic programme and perfunctorily conveyed the humanitarian foreign policy views of his administration to Martínez de Hoz. With the fall of the Somoza dynasty in Nicaragua and the Soviet invasion of Afghanistan, the revival of Cold War concerns turned human rights into a low priority for U.S. policy, and strategic needs called for more moderation towards dictatorships[28]. Moreover, for various reasons Argentina had access to alternative financing.

Minister Martínez de Hoz's prestige abroad offset this boycott[29]. West European allies and Canada did not endorse the Carter administration's human rights crusade because they wanted to reassert their political and diplomatic independence. They also supported their businessmen to take opportunities in arms sales, nuclear cooperation, contracts for public works and trade which Americans could not meet for lack of EXIMBANK financing[30]. Although Argentina refused to sign international non-proliferation treaties, West German official institutions, industrialists and private banks, continued cooperating with a nuclear power programme that met growing electric power needs and was of key geopolitical importance for the military. In 1974 they completed the Atucha I nuclear power station, and

[27] See Calvo (1983, p. 201), Kedar (2013, pp. 143-144), Martinez de Hoz (2014, pp. 33-34) and «*Banco Central: Adiós a la deuda externa*», *Mercado*, 21 September 1978, pp. 13-14.

[28] «Evolution of US Human Rights Policy in Argentina», ARA Draft Memorandum to Viron Vaky dated 11 September 1978, in National Security Archive, George Washington University, Washington, DC; «U.S. Policy to Argentina» (S), memorandum from National Security Advisor Zbigniev Brzezinski to the Secretary of State, Washington, 21 March 1979, Argentina Declassification Project (2016), Vol. III, pp. 45-46. For a general treatment see Schmidli (2011).

[29] The front cover and top story of a key spokesman of the international banking community, praised Martínez de Hoz as one of the best ministers of 1978. See «The World's Best Finance Ministers», Institutional Investor, September 1978, pp. 63-70.

[30] Ambassador Castro to the Secretary of State, CONFIDENTIAL, Buenos Aires, 5 June and 10 July 1979, USNA, RG 59.

in October 1979 signed contracts for another, known as Atucha II. Canada followed the same policy and competed with West Germany, but had to make do with the completion of the *Embalse Río Tercero* power station[31]. Whitehall officials remembered earlier political violence and diplomatic clashes over the sovereignty of the Falkland Islands. Early in 1977, therefore, they thought that the excellent prospects and high calibre of the economic team justified «a strong revival of interest in Britain in doing business with Argentina»[32]. Finally, bankers had begun to finance foreign exchange needs which neither multilateral nor bilateral sources met[33]. One field was state and private sector financing which was no longer covered by the national budget or via expansive central bank policies[34]. Another was purchases of arms and military supplies which escalated until the South Atlantic War with Great Britain in 1982[35].

In Argentina, despite protracted inflation and fiscal deficits, since early 1978 widespread objections to the impact of current policies precluded a deeper adjustment. The most vocal criticism focussed on an industrial recession, rising unemployment, regressive income distribution, and high interest rates due to central bank policies and the financial reform[36]. Influential spokesmen of Argentina's liberal establishment argued that the programme did not break with past policies and contrasted its failings with the apparent economic success of the Pinochet regime in Chile (Pryluka 2016, pp. 212-220, 223-228). Powerful military commanders forced the ruling Junta to make extra efforts to enforce the financial reform, solve foreign investment disputes and double-check that current policy met the guidelines of early 1976 and had real prospects of success[37].

[31] These references draw on U.S. diplomatic records, Hurtado De Mendoza (2009) and Winegard (2013).

[32] Collins (Foreign and Commercial Office) to Shakespeare (British embassy in Buenos Aires) London, 23 February 1977, in National Archives, Foreign and Commercial Office 7/3266 (thereafter quoted as NA, FCO); and minute by Greville John Macgillivray, 1 April 1976, Bank of England Archive, London, Representative Country Files: Argentina OV102/106 (thereafter quoted as BEA, country specification and folder number).

[33] For the most recent review of these trends and the importance of bankers in world finance see Altamura (2015, pp. 143-144, 161-162).

[34] See the loans in U.S. dollars of the *Banco de la Nación Argentina* (BNA) to the Banco de la Provincia de Buenos Aires (BAPRO) and the *Banco de la Provincia de Córdoba*. The funds were raised through interbank-lending by the BNA's branch in New York. *Actas de las reuniones de directorio del Banco Nación del 31 de agosto de 1978*, and *12 de octubre de 1978*.

[35] Between 1976 and 1983 Argentina's military expenditures rose from an equivalent of 2.8 to 4.2 per cent of the GDP. See Dobry (2011, p. 403).

[36] American embassy to the Secretary of State, Buenos Aires, 9 August 1978, USNA, RG 59.

[37] *Acta Secreta No 34, Reunión de la Junta Militar del 30 de agosto de 1977; Acta Secreta No 75, Reunión de la de la Junta Militar del 7 de setiembre de 1978; Acta Secreta no 76, Reunión de la Junta Militar del 14 de setiembre de 1978;* «The Dynamics of Argentine Decision-Making», memorandum by the Bureau of Intelligence and Research of the U.S. Department of State dated 25 August 1978, in Argentina Declassification Project (2016), Vol. II, pp. 34-39; Canelo (2004, pp. 227-231, 2008).

By December 1978 the economic team had no other policy options and a diminished capacity to withstand more pressure and criticism. They therefore accepted and launched a foreign exchange rate policy reform proposed by the BCRA monetarists which was rooted in the «monetary approach to the balance of payments» theory developed by leading economists of the University of Chicago. The «Tablita Cambiaria», its nickname, was a schedule of preannounced corrections of the free exchange rate between the peso and the U.S. dollar. Like the reduction of imports tariffs enforced a few months later, it was used as a last-ditch tool against inflation until the Martínez de Hoz team left office in March 1981[38]. Its basic premise was that a strong commitment to its implementation in a full exchange freedom environment was bound to lower inflation without the «social costs» of the «shock therapy» of IMF-supported policies[39]. Moreover, it also marked the rise of central bank «monetarists», whose policies led to an international financial relations strategy which no longer hinged upon the procedures and sources of economic development and stabilisation discussed so far.

3. CENTRAL BANK ORTHODOXY, STATE BANKS AND THE «DEEPENING» OF ARGENTINA'S FOREIGN INDEBTEDNESS

The «Tablita cambiaria» was a compromise solution for an economic team that badly needed to regain the initiative[40]. All officials, however, viewed it as evidence of the continuity of the April 1976 programme and, therefore, as a springboard for closer relations with international markets and further financing for the government and the private sector. This assessment led to a novel drive with the same high-risk maturity, cross-currency and interest rate mismatches that Mexican banks ran into until the onset of the foreign debt crisis of 1982[41]. The government, state and private companies contracted foreign loans either on their own or with the financial intermediation of state banks. The most notorious were the armed forces which, without central bank control and adequate planning, contracted substantial loans to finance their re-equipment during the escalation of a

[38] See Canitrot (1983, pp. 39-40), Novaro and Palermo (2003, pp. 264-268) and Pryluka (2016). For the most recent analysis of the «tablita» see Kiguel and Kiguel (2015, pp. 105-111).

[39] In early 1979 Secretary of Commerce Alejandro Estrada, a high-ranking member of the economic team, argued that stronger «shock» measures would have provoked «unfair suffering» and «widespread bankruptcies». See *La Nación*, 14 February 1979, pp. 1, 5.

[40] Early in 1979 an IMF mission chief who had just been to Buenos Aires reported that it was «uncertain whether the military leaders would be willing to accept a new economic recession». «Mission to Argentina», office memorandum by Marcello Caiola, Washington, 9 April 1979 in IMFA, Central Files, Country Files: Argentina, c/Argentina/Caiola and Staff Mission March 1979.

[41] Mexican banks largely funded their long-term lending with short-term foreign debt. Whereas loans to customers were arranged at fixed rates, liabilities to fund them carried variable rates. A devaluation risk of the peso persisted and raised cross-currency problems because customers' income was in local currency and debts were in hard currencies. See Alvarez (2015).

boundaries dispute with Chile in 1978-1979 and for the South Atlantic War of 1982 with Britain[42].

Other interrelated national, international and institutional factors also stimulated foreign indebtedness and the overseas expansion of state banks. In Argentina, rate adjustments of the «Tablita» lagged behind inflation[43]. They therefore sustained a free market with an overvalued currency which was uncompetitive for exports, stimulated foreign indebtedness as discussed below and inflows of competing imports for local goods that triggered further industrial unemployment and a deeper recession. With the financial reform of 1977, significant «spreads» between local and foreign interest rates turned external loans into cheaper options for working and investment capital needs as long as the «Tablita» stood firm (see Calvo 1983, p. 211; Baliño 1990, p. 50). Higher real active interest rates than abroad also stimulated poorly regulated over-exposure and short-term foreign capital inflows and outflows that fuelled risky though profitable relending operations, financial speculation and future balance of payment imbalances. Both reforms, however, were steadfastly enforced although as from 1979 two shocks hit Argentina: rises in oil prices, after the Islamic Revolution in Iran, and in interest rates due to the anti-inflationary policy of the Federal Reserve Bank in the United States.

As of the late 1970s, multilateral and bilateral financing were insufficient for developing countries' needs, quite often did not meet their needs and were subject to bureaucratic delays, and conditionality clauses[44]. On the contrary, established and new capital markets overflowed with prompt funding that could be raised through various financial instruments[45]. Foreign financial regulatory bodies and monetary authorities did not have the power to regulate bankers' overseas lending operations in order to sustain sound institutions and avoid systemic risks and market instabilities (Frydl 1979-1980; Carlozzi 1981; Schenk 2010; Altamura 2015). The Fund had to concede that it could not control deficit countries' all-too-easy banking loans which delayed indispensable economic stabilisation policies (Witteveen 1976; Helleiner 1985, 1994; James 2005; Schenk 2006, 2010). After the 1973-1974 oil crisis, therefore, all of them welcomed the recycling

[42] These purchases rose from U$S 558 million in 1973-1975 to U$S 3,514 billion in 1976-1983, such that as of 1982 central bank and Ministry of Economy surveys recorded that the armed forces had U$S 4,621 million outstanding debts equivalent to about 10.6 per cent of Argentina's total foreign debt. See Dobry (2011, p. 404) and Basualdo *et al*. (2016, p. 152).

[43] Calvo (1983, p. 202) calculated that between November 1977 and November 1980 the annual inflation rate fell from 177 per cent to 89 per cent, and the rate of devaluation from 117 per cent to 27 per cent.

[44] The IDB and the World Bank, for example, had had capitalisation problems since the early 1970s. See Sharma (2013b), Babb (2009), Gwin (1994) and Milobsky and Galambos (1995).

[45] London, New York and Frankfurt were the established centres; the new ones were Bahrain, Singapore, Panama City, Tokyo and the U.S. West Coast. See Reed (1980), Cheng (1976), Johnson (1976) and Hodjara (1978).

of petrodollars as an effective, efficient and timely relief for the balance of payment problems of oil-importing nations. In brief, with the liberalisation of capital flows and their capacity to meet the pressing needs of potential borrowers, bankers had regained past influence and held the upper hand in international finance (Altamura 2015, pp. 139-139, 161-162, 164, 227-228). Moreover, in February 1980 a Bank of England official noted that, despite some concerns about growing debts, managers seemed prepared to assume greater risks to make further profits in overexposed countries such as Brazil[46].

After 1976 several institutional changes shaped the policies of the most powerful state commercial banks in Argentina, the *Banco de la Nación Argentina* (BNA), and the *Banco de la Provincia de Buenos Aires* (BAPRO). Their new CEOs came from traditional families involved mainly in the cattle-ranching business. Like Martínez de Hoz, they belonged to the *Sociedad Rural Argentina*, the influential business association of Argentina's most powerful landowners and cattle breeders. In one case (Juan María Ocampo) the family was also the majority shareholder in the *Banco Ganadero*, which served the livestock sector. The other (Roberto Bullrich) had interests in rural real estate and cattle trading. In view of their social background, ideology and professional experience in the private sector they deplored state intervention in the economy. Thus, they hailed the end of «financial repression» in 1977, and were fully committed to the Martínez de Hoz plan. Their appointment also signalled strong military support for pastoral activities which earlier Peronist policies had discriminated against, even though they were decisive in rebuilding vital exports. However, neither of them was a professional banker and both were quite inexperienced in recent international finance. They were dazzled by the cheap financing available abroad and involved their institutions in the negotiations and risky business deals that prevailed[47]. Pressing needs to compensate for domestic funding shortages and profit-making considerations discussed below pushed them into this drive. They were also convinced that their century-old institutions should do away with their «provincial» imprint and record, and build upon their prestige and past history to reach out into the international arena[48].

The BNA began to contract loans on its own, as a member, or leader of banking consortia which arranged syndicated loans for single borrowers[49].

[46] See a comment scribbled on a Bank of England report in «Visit to Brazil: January 1980». Minute on a visit to Brazil by E. Ewbank, in BEA, International Division Files: Brazil 4A27/67.

[47] In an interview with *Mercado* in October 1980 the president of the BAPRO anticipated plans to operate with low «spreads», but at the same time assured that all operations would be sound.

[48] The president of the BNA argued that venturing abroad required «imagination» and strong decisions. He also suggested that the institution was following the pioneer drive of the main international banks in their expansion to London and Tokyo during the last decade. See *Mercado*, 15 September 1977, pp. 32-41.

[49] Consortium banking emerged when international banks associated for operations known as syndicated loans. This strategy allowed banks to maintain their individuality. They contributed their

In late 1976 it became a member of the Euro-Latin American Bank (EULABANK), a consortium of European and Latin American banks founded in 1974 to intermediate Eurocurrency loans to the state and the private sector in Latin America[50]. To seek more funding and business opportunities, it began financial intermediation in hard currencies from the head office in Buenos Aires and an expanding network of branches and representative offices abroad[51]. Later, it opened a «shell branch» in the Cayman Islands, an offshore financial centre[52]. This was just a booking office (or «nominal branch») with relatively cheap and quick access to the Euromarkets that registered contracts and kept the accounting of transactions set up in established financial centres.

Established Argentine private banks, provincial state banks which no longer received central bank financing, and Latin American private banks and major state-owned companies which were new customers received multiple loans[53]. Quite often operations were rolled over for periods of 90 days. Between 1977 and 1980 the BNA also participated in syndicated loans to the national government, occasionally for specific public works[54]. According to a special survey carried out by Euromoney, by early 1981 the bank was a leading Latin American borrower in the syndicated loan market[55]. Financing the military build-up became a standard practice. The

(*footnote continued*)
individual expertise and competitiveness to raise larger amounts of funds with lower administrative costs and default risks, exploit specific advantages of some financial centres, and reach out to more potential investors. Some associations were temporary and geared to obtain funding for specific projects. In other cases, banks became permanent members of specific institutions known as consortium banks which had been chartered to strengthen commercial and financial relations between different regions all over the world.

[50] *Actas de las reuniones de directorio del Banco de la Nación Argentina del 19 de agosto y del 2 de setiembre de 1976.*

[51] In September 1977 the BNA inaugurated its first European branch in London. Later it opened branches in Paris, Panama Chicago, San Francisco and upgraded its New York branch. See «Un banco de nivel internacional», *Redacción* (Buenos Aires) October 177, pp. 40-42; and the *Memoria y Balance General* of various years.

[52] *Acta de la reunión de directorio del Banco de la Nación Argentina del 16 de octubre de 1980.*

[53] According to the minutes of executive board meetings, in 1979 and 1980 the BNA granted loans for miscellaneous purposes to Chilean and Mexican banks, to the *Banco Cafetero* of Colombia, to state banks in provinces such as Córdoba, Neuquén, and Salta, and to Argentine private banks such as the *Banco de Mayo* and the *Banco Tornquist*. *Petróleos Mexicanos* (PEMEX) and Brazil's *Companhia Siderurgica Nacional* also received loans. The annual report for 1981 reported loans for U$S 505 million to 85 unspecified Latin American banks.

[54] In 1977 the BNA led a consortium of U.S. and Canadian banks that granted a 3-year U$S 50 million loan with a 1.58 annual interest rate over the London Interbank Offered Rate (LIBOR) for the Zárate Brazo-Largo project, a key regional development project. In January 1980 it accepted the invitation of Lloyds Bank International to contribute U$S 27 million in a 6-year U$S 250 million loan with a 0.6 annual interest rate over LIBOR for purposes that the minutes of its Executive Board meetings do not specify. Canadian, Mexican and Brazilian banks were junior partners in this syndicate.

[55] See «Latin America's Big Borrowers», in Euromoney, April 1981, p. 5. According to this survey PEMEX and *Petroleo Brasileiro* (PETROBAS) occupied the first two positions in this ranking.

Panama branch raised funds to grant U$S 160.3 million loans to the Army in August and November 1978[56]. In March 1980 the London branch intermediated a U$S 23 million loan from a syndicate led by Morgan Grenfell & Co. Ltd for Navy purchases of Lynx helicopters and their spare parts[57]. Moreover, the executive board built upon an impressive track record of loans by foreign branches, and in October 1980 contracted short-term loans and issued bonds at floating interest rates in the Tokyo, Singapore and Hong Kong capital markets[58]. This decision ignored the impact of the international oil and interest rates shocks of 1979 in Argentina, a banking crisis due to the financial reform of 1977, and a foreign exchange crisis with spill-over effects on the banking sector which would start a few months later as a result of the «Tablita».

The BAPRO is an almost identical and notorious case (BAPRO 1984; De Paula and Girbal de Blacha 1998, pp. 184-199, 236-251). Between 1977 and 1980 it inaugurated full branches in Miami, Los Angeles and New York; and a «shell branch» in the Cayman Islands in October 1979. It also raised U$S 1,700 million in capital markets of which about 30 per cent were earmarked to its main cattle-breeding and agricultural customers. The rest financed high-risk loans in overexposed countries such as Brazil, Poland and Mexico[59]. As with the BNA, cross-border financial intermediation departed from its previous track record and did not contribute to the socio-economic development of the province that it was expected to promote.

The balance sheets of the BNA and the BAPRO showed a problematic increase in foreign liabilities for three reasons by the early 1980s. Due to the new monetary and credit policies, between 1975 and 1981 central bank financing to the BAPRO for regular and emergency liquidity needs fell from 58.7 per cent to 1.2 per cent of total resources (BAPRO 1984, p. 48). At the BNA such financing fell from 80.8 to 0.6 of total resources between 1975 and 1977 (see *Banco de la Nacion Argentina* 1976-1977, pp. 21, 28). Catastrophes such as the floods of 1980 in the Province of Buenos Aires raised emergency funding needs[60]. Finally, like Mexican banks, both banks ran into maturity, cross-currency and interest mismatches already mentioned (see page 13) and

[56] *Acta de la reunión de directorio del Banco de la Nación Argentina del 6 de diciembre de 1979.*

[57] *Acta de la reunión del directorio del Banco de la Nación Argentina del 20 de marzo de 1980, Sección Asuntos Confidenciales.*

[58] A prospectus distributed to potential investors underlined that between 1978 and 1979 loans of overseas branches had risen from 1.392 to U$S 3.118 billion. *Actas de las reuniones de directorio del Banco de la Nación Argentina del 2 de octubre y el 29 de octubre de 1980; Ambito Financiero* (Buenos Aires) 28 October 1980, p. 7; and *Banco de la Nación Argentina* (1980: 38).

[59] The Grand Cayman branch was one of the managers in a U$S 65 million syndicated loan for the *Banco Francés e Brasileiro S.A.* Wells Fargo Bank N.A. funded the operation. Euromoney, July 1981, p. 133.

[60] In 1980 the BAPRO obtained a U$S 250 million syndicated loan, of which U$S 150 million were relent on unspecified operations the board considered quite profitable. The other U$S 100 million financed the reconstruction of basic infrastructure and emergency relief measures in rural districts affected by the floods.

indulged in overseas borrowing and financial intermediation sprees to make profits without central bank monitoring and an adequate safety net.

As a result of debt-financed lending, the international shocks of 1979, the default that followed the outbreak of the South Atlantic war, and the Latin American debt crisis, like its customers the BNA ended up heavily indebted and unable to meet normal repayment of loans. In 1979 U$S 4.3 billion debts of the armed forces with the BNA were equivalent to 35.5 per cent of total loans the institution granted that year. In mid-1982 a DM 30 million emergency loan from the *Deutsche Sudamerikanische* Bank bailed out the New York branch[61]. At the end of the dictatorship the BNA was the main creditor of the military (Basualdo *et al*. 2016, pp. 152-154, 159). Moreover, in early December 1983 the central bank provided U$S 1.6 billion for the repayment of loans granted to the armed forces and state provincial banks[62]. The BAPRO was in the same situation. Immediately after the democratic restoration of December 1983 its new president had to commission an audit of its finances which disclosed the cost of «transnationalisation», and was the basis of a significant though uphill institutional reconstruction, recapitalisation and policy overhaul. According to this survey, at the end of 1980 the BAPRO had external liabilities equivalent to 7 per cent of Argentina's foreign debt, and by 1981 61 per cent of its resources were foreign loans. As of December 1983 the institution had also granted one-third of foreign currency loans in high-risk countries such as Brazil, Mexico and Poland. Thus, a high proportion of all loans were non-performing (BAPRO 1984, pp. 48, 54, 65). Moreover, despite cross-currency mismatches, profit incentives had led managers to take advantage of the financial reform and the «Tablita» to induce presumably qualifying local customers to take cheaper loans in hard currencies[63].

Until the economic team left office in March 1981, there were further debates and criticism mostly focussed on the consequences of industrial policies, the financial reform, the «Tablita Cambiaria», and rising foreign debts. In private, «traditional» liberal Secretaries of Commerce and Finance, Alejandro Estrada and Juan Alemann, respectively, had reservations about the exchange and financial reforms, and the lack of a proper adjustment. Article IV Consultation reports and internal memoranda also showed increasing IMF concern that would peak after Martínez de Hoz left office. Objections focussed on the uneven economic adjustment, the failings of the «Tablita», the financial reform, the banking and foreign currency crises they

[61] *Acta de la reunión de directorio del Banco de la Nación Argentina del 19 de agosto de 1982.*

[62] See *Acta de la reunión de directorio del Banco de la Nación Argentina del 9 de diciembre de 1983*; and *DEUDA PUBLICA- LEY No 23.015/1983*.

[63] According to this audit, in 1978 bank credit granted with external resources cost 40 per cent of that financed internally; 60 per cent in 1979; and 32 per cent in 1980. Thus, state enterprises and private firms with direct access to credit on the international market or through the intermediation of local banks directed their requirements towards funds offered abroad. See BAPRO (1984, p. 15).

might trigger, and the purposes and high cost of foreign borrowing hitherto underestimated, arguing that neither the national government nor the central bank was directly responsible for it[64].

The minister and most of the team disregarded criticism because it carried no decision-making influence. After all, Argentina was not subject to a «stand by» and foreign investors and financiers such as David Rockefeller, Wilfried Guth and former Secretary of the Treasury William Simon supported the programme[65]. Notwithstanding internal disagreements, simmering clashes and the resignation of key officials due to the reforms of late 1978, they insistently underlined the benefits of the programme and the need to persevere with it. During the annual meetings of the IMF and the World Bank in 1980, the minister also contrasted the gloomy prospects of the world economy after the international shocks of 1979 with his belief that their impact on the national economy should not be overestimated, and that Argentina no longer had balance of payments problems[66]. World Bank President McNamara's renewed support for his programme and its achievements during a meeting with the Argentine delegation also enhanced such optimism[67]. Moreover, McNamara had hinted that for two reasons «middle income» members deserving aid such as Argentina should hasten to tap the IBRD again for lending to fund projects. For the time being the board had shelved a controversial «graduation policy» whereby eventually these nations would no longer be eligible for such funding[68]. Also, the Bank had just begun to grant Structural Adjustment Loans that committed borrowing nations to significant macroeconomic reforms (Sharma 2013a).

However, on his return to Buenos Aires Martínez de Hoz faced two problems stemming from the financial and exchange reforms that persisted until well after he left office. The banking and financial crisis which broke out in March 1980 had worsened and the government had to take emergency measures to ensure stability and public confidence in the banking system[69]. Also, continuous foreign exchange losses and overheating in the exchange market, due to capital flight, would force ineffectual devaluations of the peso in February, April and June 1981, and later raise prospects of another foreign

[64] Veigel (2009, pp. 64-71); and «Briefing for Mission to Argentina», Washington, 13 August 1981, in IMFA, Western Hemisphere Department Files, Argentina-Correspondence – Christian Brachet 1981-Box 11. Other documents provide retrospective views on the programme.

[65] These visitors came to Argentina between November 1978 and March 1979.

[66] «Coyuntura: El balance de Martínez de Hoz», *Mercado*, 2 October 1980, pp. 17-18.

[67] See «Argentina- meeting with the delegation at Annual Meeting in Washington», Office Memorandum for the Records by Peter R. Scherer, 17 October 1980, in WBGA, Records of President Robert S. McNamara, Argentina-Correspondence 2, Folder 1770941.

[68] The Bank had started to debate a «*graduation policy*» whereby creditworthy «middle income» nations with certain policy-making capabilities, institutional development, and easy access to private capital markets would no longer be eligible for support.

[69] See the *Acta de la reunión de directorio del Banco Central del 24 de abril de 1980*, pp. 4-15; and the detailed report of central bank vice-president Alejandro Reynal to the board in the *Acta de la reunión de directorio del Banco Central del 3 de marzo de 1981*.

debt default[70]. Yet, neither these developments nor the aftermath of the South Atlantic war with Britain, the outbreak of the Latin American foreign debt crisis, and the fact that the White House had begun to track the Argentine situation quite closely, led Martínez de Hoz to change his views[71]. He insisted that foreign loans were sound and legitimate tools, that national credit standing had been restored, the economy had been recapitalised, and that their annual service demanded a low percentage of gross domestic product and the value of exports[72]. To arrest rising criticism he focussed on the results of the early drive for economic stabilisation and development aid that followed the criteria of the Bretton Woods era. However, he studiously ignored post-December 1978 trends in which flawed central bank policies and cross-border financial intermediation played a key role. Ultimately he also blamed Argentina's macroeconomic problems and rising foreign debt on unexpected external shocks, the recent war, and foreign-debt-management mistakes of the economic teams that followed him in office.

4. CONCLUSIONS

As with previous balance of payments crises since the late 1950s, the international financial strategy of Minister Martínez de Hoz started with a replay of IMF «stand-bys» supported by the U.S. Treasury and foreign banks as «supplementary financiers». Close relations with the World Bank and the IDB resumed and increased project lending which was the main purpose of funding provided by both institutions. Autarkic state-corporations and entities also began to rely on foreign loans to substitute for earlier central bank inflationary financing and insufficient appropriations in the national budget, especially after the financial reform of 1977. These moves restored relations with the international financial community, met economic stabilisation needs, raised working and investment capital, and mostly helped to fund basic infrastructure and public works which were long overdue.

Then the main Argentine state banks entered the field and became the key protagonists of a drive that ended in large-scale foreign indebtedness. Institutional growth aspirations, profit-making opportunities, and foreign exchange and local currency needs induced tapping regional and global financial centres with more frequency and larger-scale operations. The most noteworthy identifiable aims were financing basic infrastructure and investment projects in Argentina, particularly in the energy sector, the

[70] See the *Acta de la reunión de directorio del Banco Central del 19 de marzo de 1981.*

[71] See «Argentine Economic Update and Outlook»; Department of the Treasury memorandum for the Cabinet Council on Economic Affairs dated 29 June 1982. This document was consulted through internet at https://www.cia.gov/library/readingroom/document/cia

[72] Martínez de Hoz underlined that between 1976 and 1980 BAPRO and BNA had falling spreads over the LIBOR. See the articles he published in *La Nación* between 22 and 24 August 1982; and his posthumous memoirs in Martinez de Hoz (2014, pp. 96-104, 120-23).

military build-up, financial intermediation to worldwide state and private third-parties with dubious or poor track records, and the substitution of earlier central bank financing to the state and local private sector. Presumably loans also financed questionable speculation through arbitration of spreads, efforts to sustain the «tablita» on behalf of the central bank, or met government foreign exchange needs. Managers of state banks also intended to exploit specific tax, interest rate, and regulatory advantages and differentials between capital markets, and viewed these decisions as a natural way to turn their institutions into new key players in international finance.

Between 1976 and 1978 human rights violations emerged as a conflictive issue in bilateral relations with Argentina for U.S. Congress, the press, and public opinion. However, whereas the Ford administration did not consider them a major foreign policy issue, the Carter administration's policies were completely different. Even so, later on humanitarian concerns subsided before other strategic concerns and Washington's policies did not block Argentina's access to multilateral organisations' loans because the United States had limited decision-making influence in them. Moreover, as the Martínez de Hoz programme unfolded and the military regime redressed past grievances of private foreign investors, in general U.S. businessmen and both the Ford and the Carter administrations welcomed the new economic prospects in Argentina.

Actual Argentine-Fund relations in this period suggest a more nuanced view than the charges that the IMF complacently endorsed gross failings in the Martínez de Hoz plan and Argentina's mounting foreign debt. By March 1976 Fund staff and officials were certainly looking forward to restoring old links and influence with a more forthcoming administration. However, despite personal connections and ideological affinities with the new economic team, the terms and timing of the negotiations for a new «stand by», and the overhaul of earlier exchange controls and overvaluation of local currency restrained their early expectations and actual power.

Argentina's anticipated repayment of the 1975-1976 debts and the refusal to sign another «stand by» in late 1978 deprived the IMF of their «seal of approval» influence on current and future policies, and on access to alternative foreign financing. Afterwards both parties remained on good terms and annual Article IV Consultation missions and reports were routine tasks that merely allowed mild IMF objections for the record. If such criticism pointed to future difficulties, it was matched by reportedly reassuring facts such as the central bank's institutional independence and the economic team's endorsement of the mainstream rules of international finance. Meanwhile, the foreign bankers who now dominated international finance and had no qualms about funding foreign exchange needs of whatever regime was prepared to do business with them took these reports as evidence that Argentine-IMF relations were in good standing. Therefore, they granted alternative and more substantial loans without further risk analyses.

To what extent did Martínez de Hoz rightly advocate the legitimacy of foreign indebtedness and disclaim his responsibility in Argentina's well-known disaster? When the foreign debt quagmire erupted he recalled that in March 1976 Argentina was immersed in chaos and on the brink of a foreign debt default. Hence to meet balance of payments and development financing needs, relations with the international financial community had to be restored. He also demonstrated that, in stark contrast with the hitherto unexamined record of the previous government, more frequent loans from multilateral agencies had financed pending and new basic infrastructure works and private sector investment projects. In some cases, he added, this had paved the way for indispensable co-financing from official and private banking sources.

On the other hand, Martínez de Hoz never fully acknowledged the failings of the financial reform and the «tablita cambiaria». He did not explain how both measures, high inflation and interest rates, unleashed «decentralised» foreign indebtedness which the central bank did not control, quite often had national government repayment guarantees which became a millstone, and fuelled financial speculation and capital flight. The risks taken until late 1980 were accounted for by the non-inflationary nature ascribed to foreign loans, their accessible repayment terms, and the fact that Argentina had profited from favourable conditions in capital markets before the shocks of the late 1970s. Later problems, which were obvious by early 1981, were blamed on adverse circumstances abroad and public policies when he was no longer in office.

In sum, his analyses were self-vindicating and focussed mainly on the successful replay of Argentina's classical pattern to pursue economic development and stabilisation. They studiously ignored rising international banks' loans, cross-border financial intermediation policies of state banks and how such fateful strategies originated the foreign debt problems of the early 1980s.

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