

# Salvador Allende and the International Monetary Fund, 1970–73: The Depoliticisation and Technocratisation of Cold War Relations

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*Abstract.* This article unveils the continuous and productive relationship that developed between Chile and the IMF during Salvador Allende's presidency (1970–73). This counter-intuitive relationship was made possible by the systematic depoliticisation and technocratisation of the ties between them. By downplaying ideological discrepancies and keeping a high degree of autonomy, the IMF and Chilean technocrats blurred rigid Cold War divides and circumvented the US-imposed embargo against Allende's regime. The examination of this relationship sheds new light on Allende's positioning in the international arena and provides a unique prism to reconsider dichotomist perceptions of the Cold War in Latin America.

*Keywords:* Salvador Allende, IMF, Cold War, depoliticisation, technocratisation, technocrats, bureaucratic apparatus, invisible blockade

## *Introduction*

On 4 September 1970, despite US government efforts, Salvador Allende won Chile's elections, becoming the first president ever to embark on a constitutional road to socialism. With Allende in power, President Richard Nixon (1969–74) implemented a policy of destabilisation that had two main goals:

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to encourage and support domestic opposition to Allende's regime; and to unsettle the Chilean economy through an invisible blockade that cut off all bilateral and multilateral aid to the country. The blockade was promoted by the National Security Advisor and Secretary of State, Henry Kissinger. It included a refusal to provide new loans to Chile, demands that Chile repay old loans, and the use of privileged US voting power in multilateral lending institutions to persuade them not to lend to Allende's government. Speaking to the United Nations on 4 December 1972, Allende denounced this damaging blockade. He emphasised that the World Bank, the Inter-American Development Bank (IDB), the US Agency for International Development (USAID), and the Export-Import Bank had violently interrupted financial relations with Chile.<sup>1</sup> The only organisation Allende omitted from his speech was the International Monetary Fund (IMF). This omission was undoubtedly intentional, as the IMF, turning a deaf ear to Washington's demands, not only did not join the blockade, but actually violated it.

Rather than asking who is to be blamed for Allende's overthrow, this article focuses on Allende's intense and fruitful relationship with the IMF, one of the few institutions that provided vital assistance to his regime and whose role in this stormy chapter of Chile's history scholars have completely overlooked.<sup>2</sup> While at first glance any Allende-IMF collaboration in the context of the Cold War might seem impossible, the opposite was the truth. It was precisely the Cold War that made this counter-intuitive relationship real. Drawing on a large corpus of previously unexamined documents from IMF archives and additional primary sources, this article demonstrates that Allende's administration and the IMF had strong motivations to cultivate their mutual cooperation, in particular, their urgent need to secure their own functioning and survival. For this reason both parties were ready to compromise to make their relationship work, thereby creating a *de facto* pocket of détente in a still intense Cold War climate in Latin America.

The inevitable question is how could the IMF and Allende's administration reconcile their ideological differences in order to fulfil their own interests? As explained below, this partnership was enabled, largely, by the remarkable depoliticisation and technocratisation of interactions between them.

<sup>1</sup> Speech to the United Nations, 4 Dec. 1972, available at <http://www.salvador-allende.cl/Discursos/1972/NU.pdf>. Allende accused lending institutions, apart from the IMF, on several occasions: see also his speech in the National Stadium in Santiago, 4 Nov. 1971, available at <http://www.salvador-allende.cl/Discursos/1971/PrimerAniversario.pdf>.

<sup>2</sup> Scholarship on destabilising efforts against Allende is abundant: see, for example, Lubna Z. Qureshi, *Nixon, Kissinger, and Allende: U.S. Involvement in the 1973 Coup in Chile* (Lanham, MD: Rowman & Littlefield, 2010); Kristian Gustafson, *Hostile Intent: U.S. Covert Operations in Chile, 1964–73* (Dulles, VA: Potomac Books, 2007); Jonathan Haslam, *The Nixon Administration and the Death of Allende's Chile: A Case of Assisted Suicide* (New York: Verso, 2005).

‘Technocratisation’ refers to the way relations were shaped and executed mainly (though not exclusively) by technocrats, economists with a high level of specialised academic training who occupied key decision-making or advisory roles in large organisations, including the Chilean state and the IMF. In this respect, this article is in dialogue with emerging scholarship that examines the far-reaching impact of the IMF’s bureaucracy on the institution’s policy and functioning.<sup>3</sup> While Chile’s technocratisation is commonly associated with the impact of the ‘Chicago Boys’ during General Augusto Pinochet’s regime (1973–90),<sup>4</sup> and certainly not with periods prior to Eduardo Frei’s first presidency (1964–70),<sup>5</sup> Allende’s case confirms that technocrats had already established themselves as central actors in Chile’s centres of power before Pinochet’s dictatorship. Furthermore, contrary to arguments that maintain that the relative power of the technocrats was dramatically reduced under Allende’s rule, archival research reveals that technocrats in Allende’s administration (and the IMF) were markedly proactive and often adopted positions that differed, and sometimes contradicted, those of their political peers and superiors.<sup>6</sup> By keeping a high degree of autonomy, IMF and Chilean technocrats built strong professional and pragmatic bridges over conflicting ideological waters.<sup>7</sup>

<sup>3</sup> See, among others, Sarah Babb, ‘The IMF in Sociological Perspective: A Tale of Organizational Slippage’, *Studies in Comparative International Development*, 38: 2 (2003), pp. 3–27; Jeffrey Chwieroth, *Capital Ideas: The IMF and the Rise of Financial Liberalization* (Princeton, NJ: Princeton University Press, 2010); Mark Copelovitch, *The International Monetary Fund in the Global Economy* (Cambridge: Cambridge University Press, 2010); Claudia Kedar, *The International Monetary Fund and Latin America: The Argentine Puzzle in Context* (Philadelphia, PA: Temple University Press, 2013).

<sup>4</sup> On Chile’s Chicago Boys, see Valerie Brender, ‘Economic Transformations in Chile: The Formation of the Chicago Boys’, *American Economist*, 55: 1 (2010), pp. 111–22; Manuel Délano and Hugo Traslaviña, *La herencia de los Chicago Boys* (Santiago: Ornatorrinco, 1989); Carlos Huneeus, ‘Technocrats and Politicians in an Authoritarian Regime. The “ODEPLAN Boys” and the “Gremialists” in Pinochet’s Chile’, *Journal of Latin American Studies*, 32: 2 (2000), pp. 461–501; Paul Sigmund, ‘The Rise and Fall of the Chicago Boys in Chile’, *SAIS Review of International Affairs*, 3: 2 (1983), pp. 41–58; Juan Gabriel Valdés, *La escuela de Chicago: operación Chile* (Buenos Aires: Zeta, 1989).

<sup>5</sup> Glen Biglaiser, ‘The Internationalization of Chicago’s Economics in Latin America’, *Economic Development and Cultural Change*, 50: 2 (2002), pp. 269–86; Hira Anil, *Ideas and Economic Policy in Developing Countries: Regional, National and Organizational Case Studies* (Westport, CT: Praeger, 1998), chaps. 2–5; Verónica Montecinos, ‘Economists in Party Politics: Chilean Democracy in the Era of the Markets’, in Miguel A. Centeno and Patricio Silva (eds.), *The Politics of Expertise in Latin America* (London: Macmillan, 1998), pp. 126–41; Patricio Silva, ‘Technocrats and Politics in Chile: From the Chicago Boys to the CIEPLAN Monks’, *Journal of Latin American Studies*, 23: 2 (1991), pp. 385–410; Patricio Silva, *In the Name of Reason: Technocrats and Politics in Chile* (University Park, PA: Penn State University Press, 2009).

<sup>6</sup> Silva, *In the Name of Reason*, p. 221.

<sup>7</sup> In order to explain the technocratisation of IMF-Chile relations during Allende’s regime, I refer, when possible, to specific technocrats who were remarkably proactive and influential. Unfortunately, it is extremely difficult to obtain biographical information about the

The study of the hitherto ignored relationship between Allende, an ideological partner of the Soviets and Fidel Castro, and the IMF, an organisation that the United States has influenced deeply since its foundation in 1944, invites us to reconsider three interrelated issues whose importance transcends Chilean borders.<sup>8</sup> One is the dichotomist perceptions of the Cold War in Latin America, which groundbreaking work by Tanya Harmer, Gilbert Joseph, and Daniela Spenser, among others, has only recently begun to revise significantly.<sup>9</sup> The second is the actual influence that Washington could and could not exert within an institution in which it has *de facto* veto power and which is broadly perceived as an arm of US foreign policy. The third issue refers to the dynamic and extraordinarily autonomous role that the IMF played in this bipolar conflict. A few scholars have briefly referred to the small loans that the IMF, allegedly reluctantly, provided to Allende's regime. Paul Sigmund argues that since the Fund had the mandate to make compensatory loans for foreign exchange shortfalls, Washington could not object to its lending to Allende's Chile. He adds that the IMF did not sign conditional loan agreements with Chile because this would have required austerity measures that Allende was unwilling to undertake.<sup>10</sup> Ricardo Israel states that while the World Bank and the IDB 'acted as agents of US foreign policy' and cut their funds to Allende, the IMF 'adopted a more ambivalent approach' that at the time remained unknown.<sup>11</sup> These interpretations, though, provide a very partial picture of Allende's relations with the IMF. In fact, the Fund's assistance to Allende's government greatly surpassed its mere (and certainly not insignificant) financial aspects and encompassed countless interactions that broke the economic blockade and blurred rigid Cold War divides.

The examination of Allende-IMF relations sheds new light on a particular historical moment for all the parties involved. From the IMF's perspective, this was a time when its role and influence were under question. In effect, in the

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technocrats in both the IMF and Allende's administration. The IMF, as a rule, does not make available any biographical data on former and current staff. As for Chile, official records, newspapers, and other primary and secondary sources provide several personal details of ministers of economy and presidents of the Central Bank (all of them public figures), but the remainder of the staff usually remains anonymous and behind the scenes.

<sup>8</sup> For a revealing examination of Cuba's complex relations with Allende's Chile, see Tanya Harmer, *Allende's Chile & the Inter-American Cold War* (Chapel Hill, NC: University of North Carolina Press, 2011), especially pp. 11–6, 32–8, 65–7, 132–3, 199–200.

<sup>9</sup> Harmer, *Allende's Chile*; Gilbert Joseph and Daniela Spenser (eds.), *In from the Cold: Latin America's New Encounter with the Cold War* (Durham, NC: Duke University Press, 2008).

<sup>10</sup> Paul Sigmund, 'The "Invisible Blockade" and the Overthrow of Allende', *Foreign Affairs*, 52: 2 (1974), pp. 322–40.

<sup>11</sup> Ricardo Israel, *Politics and Ideology in Allende's Chile* (Tempe, AZ: Arizona State University, 1989), pp. 160–6.

early 1970s, the IMF not only had to redefine its role in a changing international financial architecture, but also had to come to terms with a new wave of nationalism in Latin America that was characterised, among others, by strong anti-IMF stances. Under these circumstances, the IMF, and especially its Western Hemisphere Department (WHD), could not allow itself to ‘lose’ socialist Chile. First, since most communist countries were not members of the IMF during the Cold War, the WHD worried that Allende might imitate Cuba’s withdrawal from membership in 1964.<sup>12</sup> Whereas the potential withdrawal of a relatively small economy like Chile posed no immediate threat to the Fund’s financial stability, the WHD’s director reasonably feared a domino effect in Latin America. It was not only that other Latin American nations might establish pro-Soviet administrations and rescind their IMF membership; during the 1970s Latin American states strove to avoid IMF conditional lending and signed politically less controversial agreements with other lenders, such as the Inter-American Development Bank (IDB), the Export-Import Bank, and commercial banks, thereby lessening the Fund’s involvement in the region.<sup>13</sup> Second, in August 1971, the Nixon administration unilaterally suspended the convertibility of dollars into gold.<sup>14</sup> This step marked the end of the so-called ‘Bretton Woods monetary system’ of fixed exchange rates that had prevailed for years in the industrialised capitalist economies, and the Fund’s original *raison d’être* evaporated.<sup>15</sup> The IMF thus had to look for new duties and widen its clientele in developing nations. One of its principal strategies in order to remain active was to expand its technical assistance. Following the inauguration of the IMF Institute (for the training of members’ monetary officials) in 1964, and until 1973, technical assistance became one of the Fund’s major activities.<sup>16</sup> It is against this background, that the WHD’s counter-intuitive permanent

<sup>12</sup> Most Soviet Bloc states withdrew from the Bretton Woods institutions during the Cold War and only rejoined them after 1992, although Romania joined in 1972: IMF List of members, available at [www.imf.org/external/np/sec/memdir/memdate.htm](http://www.imf.org/external/np/sec/memdir/memdate.htm). See also Valerie J. Assetto, *The Soviet Bloc in the IMF and the IBRD* (Boulder, CO: Westview Press, 1988), chaps. 2 and 4.

<sup>13</sup> Juan Manuel Pastor, ‘Managing the Latin American Debt Crisis: The International Monetary Fund and Beyond’, in Gerald Epstein, Julie Graham and Jessica Nembhard (eds.), *Creating a New World Economy: Forces of Change and Plans of Action* (Philadelphia, PA: Temple University Press, 1993), pp. 289–313.

<sup>14</sup> Margaret Garritsen de Vries, *The International Monetary Fund, 1972–78: Cooperation on Trial* (Washington, DC: IMF, 1985), vol. I, chap. 1; Joanne Gowa, *Closing the Gold Window: Domestic Politics and the End of Bretton Woods* (Ithaca, NY: Cornell University Press, 1983), chap. 2; Harold James, *International Monetary Cooperation since Bretton Woods* (Washington, DC: IMF and Oxford University Press, 1996), chap. 9.

<sup>15</sup> James Vreeland, *The International Monetary Fund: Politics of Conditional Lending* (New York: Routledge, 2007), p. 9.

<sup>16</sup> Margaret Garritsen de Vries, *The IMF in a Changing World, 1945–85* (Washington, DC: IMF, 1986), pp. 85–93.

assistance to, and collaboration with, Allende's administration should be interpreted.

From Chile's perspective, this was a period of political and economic weakness. Allende was elected with scarcely a third of popular votes, and Chile was immersed in an economic crisis aggravated by the economic blockade. If this were not enough, the lack of alternative sources of support outside the Soviet bloc and long-standing tensions with its Latin American neighbours made Chile's international position particularly vulnerable.<sup>17</sup> When Allende's team announced in late 1970 that it would follow a foreign policy of 'healthy realism', it found it hard to maintain ties with the West, but also with Cuba, the Soviet bloc, and China.<sup>18</sup> Moreover, Chile could not appease Washington, which from the start concluded that in order to prevent Marxist contagion in Latin America Allende should be removed from power.

On the one hand, therefore, the IMF had to demonstrate that it was still 'useful' despite (or because of) its shrinking role in developed nations. The WHD had the opportunity to do so in Chile. Ties with Allende would not only boost the IMF's intervention in Latin America, but could also demonstrate to communist states that membership in the Fund was a worthwhile option. On the other hand, Allende's government had to find a way to avoid being isolated or tagged as a new Soviet satellite. Cooperation with the IMF, one of the few sources of support outside the Soviet bloc, could signal to the West, to the Non-Aligned Movement, and to opponents at home, that Allende's regime was indeed based on ideological pluralism.<sup>19</sup> Undoubtedly, the short-term goals and interests of both the IMF and Allende's government fuelled their partnership.

### *Time of Evaluation*

Since the 1950s the IMF had played an influential role in Chile's economy, granting it loans that paved the road to complementary credits from other lenders. Chile relied so heavily on foreign assistance that by 1970 its foreign debt amounted to US\$3.1 billion, one of the highest in the world in per capita terms.<sup>20</sup> The IMF's financial activities were accompanied by intensive interactions between the parties. They included periodic visits by IMF missions to Santiago, Chilean visits to the IMF headquarters in Washington, the dispatch of weekly reports from Chile's Central Bank to the IMF, and

<sup>17</sup> Clodomiro Almeyda, *Obras escogidas, 1947–92* (Santiago and Madrid: Centro de Estudios Políticos Simón Bolívar and Fundación Presidente Allende, 1992), chap. 6.

<sup>18</sup> Harmer, *Allende's Chile*, pp. 78–9.

<sup>19</sup> On the UP's ideological pluralism, see Almeyda, *Obras escogidas*, chap. 6.

<sup>20</sup> Jon Kofas, *The Sword of Damocles: US Financial Hegemony in Colombia and Chile, 1950–70* (London: Praeger, 2002), pp. 179–82.



the negotiation and signature of loan agreements in the form of ‘stand-by-arrangements’(SBAs).<sup>21</sup> Through SBAs the IMF provided access to a pre-defined amount of money, subject to conditions, for a limited period of time. Unlike ordinary loans, it did not provide the entire sum in one instalment but in phases, with the loan ‘on stand-by’ between phases. Progress between phases, or the right to continue to draw funds, was contingent on the borrower’s ability to meet the conditions. In order to determine whether the borrower did so, IMF technocrats conducted an exhaustive and continuous surveillance process that emerged as one of their main duties. It is precisely the highly interventionist nature of the SBAs that makes them so significant to the IMF staff’s working routine and survival, and, on the other hand, so controversial and ‘imperialist’ from the borrowers’ perspective.

After their launch in 1952 SBAs became the IMF’s dominant lending instrument in developing nations. Countries like Argentina, Bolivia, Brazil, Chile, Peru, and Uruguay, have often adopted them to support stabilisation plans aimed, among others, at solving problems in their balance of payments and curbing inflation. From the mid-1950s until the early 1970s a heated debate took place in Latin America about what renowned economists such as Aldo Ferrer, Celso Furtado, Aníbal Pinto, Raúl Prebisch, and Osvaldo Sunkel perceived as the poor results of IMF-supported stabilisation plans.<sup>22</sup> This debate was particularly intense in Santiago, which, as the home of the Economic Commission for Latin America (ECLA) and several ‘think-tanks’ staffed by exiled social scientists from other countries, was a centre for intellectual radicalism and the birthplace of ‘dependency’ theory in the 1960s. At the core of the debate between ‘monetarists’ (at the time, mainly the US Treasury, the IMF, and the World Bank), and representatives of the ‘structuralist school’ (generally associated with ECLA), were disagreements about inflation and the link between stabilisation and development.<sup>23</sup> While monetarists understood inflation as a monetary phenomenon caused by excessive demand and a lack of fiscal discipline, structuralists believed that inflation in the region derived from supply bottlenecks arising from socio-political

<sup>21</sup> Benjamin Cohen, ‘Balance-of-Payments Financing: Evolution of a Regime’, *International Organization* 36: 2 (1982), pp. 457–78; Joseph Gold, *Stand-by Arrangements* (Washington DC: International Monetary Fund, 1970); Erica Gould, *Money Talks: The International Monetary Fund, Conditionality, and Supplementary Financiers* (Stanford, CA: Stanford University Press, 2006), chap. 1.

<sup>22</sup> Aníbal Pinto, ‘Estabilidad y desarrollo: ¿metas incompatibles o complementarias?’, *El Trimestre Económico*, 27: 2 (1960), pp. 258–73; Osvaldo Sunkel, ‘El fracaso de las políticas de estabilización en el contexto del proceso de desarrollo latinoamericano’, *El Trimestre Económico*, 30: 4 (1963), pp. 620–40.

<sup>23</sup> Anil Hira, *Ideas and Economic Policy in Latin America: Regional, National, and Organizational Case Studies* (Westport, CT, and London: Praeger, 1999), pp. 56–73; Cristóbal Kay, *Latin American Theories of Development and Underdevelopment* (London and New York: Routledge, 1989), pp. 47–54.

tensions, sectoral imbalances, and expectations generated by the development process.<sup>24</sup> Structuralists criticised the IMF's anti-inflationary plans for not tackling the roots of inflation and for provoking stagnation, unemployment, and income inequality.<sup>25</sup> Moreover, since structuralists considered that inflation should be reduced gradually, they rejected the IMF's pressure to implement shock policies aimed at cutting inflation drastically and immediately.

Obviously, labour unions and political opponents in Chile, mainly on the Left, also criticised the monetarist and 'imperialist' foundations of the SBAs. Criticism focused not only on the high social cost of IMF-supported plans, but also on their political implications. For instance, in 1959 Christian Democrats and Socialists, Allende among them, accused President Jorge Alessandri (1958–64) of permitting what they called 'the US economic domination of Chilean production and trade through the signing of SBAs'.<sup>26</sup> As we shall see, discussions between the WHD's and Allende's economists reflected this monetarist-structuralist controversy.

Criticism aside, recurrent economic crises and inflation brought Chile to the IMF's negotiating table time and again. Before Allende's inauguration, the IMF had granted 11 SBAs to three Chilean administrations that were different in their ideologies, policies, and social base of support. The first, for a total of US\$35 million, was signed in April 1956, only after President Carlos Ibáñez (1952–58) reluctantly agreed to adopt an IMF-supported stabilisation plan and, abandoning electoral promises, introduced a bill that suspended the right to strike, restricted wage and salary increases, and reduced social welfare expenditures.<sup>27</sup> In the early 1960s the IMF approved several SBAs to the conservative and pro-business Alessandri administration. In 1969 President Frei, a Christian Democrat who supported ECLA's ideas and pledged a 'revolution in liberty', signed the last SBA before Pinochet's regime, worth US\$40 million.<sup>28</sup> Simply put, the IMF had never hesitated to approve SBAs to every Chilean government that (more or less reluctantly) adopted its monetarist recommendations and implemented a stabilisation plan.

Prior to Allende's inauguration, Chile-IMF relations were good.<sup>29</sup> In November 1969 an IMF mission led by Jorge Del Canto, an influential economist, visited Santiago. Del Canto, a Chilean and an old ideological foe but friend of Raúl Prebisch, had been directly involved in the IMF's activities in

<sup>24</sup> Kay, *Latin American Theories*, pp. 50–1.

<sup>25</sup> Pinto, 'Estabilidad y desarrollo', pp. 258–73.

<sup>26</sup> Kofas, *The Sword of Damocles*, pp. 134–5.

<sup>27</sup> *Ibid.*, pp. 116–21.

<sup>28</sup> 'Fund Relations with Chile', 11 Aug. 1971, Appendix to SM/71/209, IMF Archives.

<sup>29</sup> Statements referring to friendly Chile-IMF relations appear in several IMF internal documents and reports; see, for example, 'Mr. Escobar's Statement on Chile. Executive Board Meeting 70/53', EBM 70/53 (22 June 1970), IMF Archives.



the region and in Chile for years.<sup>30</sup> He joined the IMF Research Department in 1953 and served as director of the WHD from 1957 until his retirement in 1977. During his stay in Santiago, Carlos Massad, the Central Bank president, ‘expressed satisfaction with the present status of relations between Chile and the Fund and asked to convey to the [IMF] Managing Director his appreciation for the cooperation given by the Fund to Chile’.<sup>31</sup> Massad (a Christian Democrat and one of the first ‘Chicago Boys’, a former consultant for ECLA, vice-president of Chile’s Central Bank between 1964 and 1967, and its president between 1967 and 1970) also announced the non-renewal of the SBA that was to expire on 18 April 1970.<sup>32</sup> Massad declared that this decision was the result of the improvement in the balance of payments and ‘in no way reflect[ed] a desire to weaken the existing good relations between Chile and the Fund’.<sup>33</sup>

In March 1970 another IMF mission arrived. In line with the IMF’s standard procedures, it reviewed Chile’s economic performance under the SBA. It met with the ministers of finance and economy, the Central Bank’s president and advisors, and also with the ministers of labour, mines and petroleum, the under-secretary of agriculture, the Development Corporation, and the Copper Corporation.<sup>34</sup>

As the September elections approached, the IMF, the US government and large sectors of Chile’s society predicted that none of the presidential candidates (former President Alessandri, Salvador Allende and Radomiro Tomic Romero of the Christian Democrats) would obtain a clear majority of votes. The IMF anticipated that Allende, the candidate of *Unidad Popular* (UP) – a coalition that comprised the pro-Soviet Communist Party, the heterogeneous Socialist Party and the leftist Movement of Popular Unity Action (MAPU) – would finish last in the polls.<sup>35</sup> Contrary to the IMF’s assessment, President Nixon perceived Allende as a significant threat to US interests in the region. Hence, in September 1970, he instructed the CIA to prevent Allende from coming to power or unseat him if elected.<sup>36</sup>

<sup>30</sup> Edgar Dosman, *The Life and Times of Raúl Prebisch* (London: McGill-Queen’s University Press, 2008), p. 462.

<sup>31</sup> Jorge Del Canto to Managing Director and Deputy Managing Director, Confidential Office Memorandum, Chile, 2 Dec. 1969, Chile Country Files, Immediate Office Sous-Fonds, Western Hemisphere Department (hereafter WHD-Chile), Box # 49, Folder 2, IMF Archives.

<sup>32</sup> David Hojman, *Chile: The Political Economy of Development and Democracy in the 1990s* (Pittsburgh, PA: University of Pittsburgh Press, 1993), p. 23.

<sup>33</sup> *Ibid.*

<sup>34</sup> Jacques Barnouin to Managing Director and the Deputy Managing Director, Confidential Office Memorandum, ‘Mission to Chile, 2–20 March 1970’, 27 March 1970, WHD-Chile, Box # 49, Folder 2, IMF Archives.

<sup>35</sup> *Ibid.*

<sup>36</sup> Frederich Gareau, *State Terrorism and the United States: From Counterinsurgency to the War on Terrorism* (Atlanta, GA: Clarity Press and Zed Books, 2004), chap. 3.

Efforts to hamper Allende's victory were unsuccessful. Since none of the candidates received an absolute majority, the national congress had to decide between Allende and Alessandri, the two candidates who had topped the vote, with 36.2 per cent and 35.2 per cent respectively. On 24 October it confirmed Allende's election, and Chile embarked on a democratic transition to socialism. The fact that Washington had supported anti-Allende propaganda, and that Moscow had contributed to finance Allende's candidacy, confirmed that Chile's left turn was indeed part of the Cold War confrontation.<sup>37</sup>

Following Allende's victory, Del Canto opined that 'since Chile [was] heavily indebted to the Fund ... and [was] allocated around US\$21 million in Special Drawing Rights (SDRs) each year, and membership in the Fund is a precondition to deal with the World Bank [the IMF's twin institution], I personally would doubt the seriousness of any reported rumours of Chile leaving the Fund'.<sup>38</sup> Moreover, 'on the basis of rather comprehensive press coverage of Dr. Allende's campaign', the WHD concluded that 'the program of Popular Unity... [did] not mention the IMF'.<sup>39</sup> The IMF staff added that 'later on in the course of his campaign, Dr Allende published an "immediate action plan" which for the first time referred to the Fund. It specified that the PU Government will abrogate Chile's commitments with the IMF and will put an end to the scandalous devaluation of the Escudo'.<sup>40</sup> According to the Fund, the plan 'seemed to imply not that the Popular Union [sic] Government would seek Chile's withdrawal from Fund membership but rather [that it] would not enter into any standby program involving a flexible exchange rate'.<sup>41</sup> Del Canto's team emphasised that 'in his victory press conference ... , Dr. Allende declared that he did not favor resigning from any international organization'.<sup>42</sup>

The staff's evaluation, whether intentional or not, was only partly accurate. To begin with, Allende's rhetoric was unambiguously anti-imperialist. For instance, in a speech to the Senate on January 1970, he declared that 'the leftist

<sup>37</sup> Christopher Andrew and Vasili Mitrokhin, *The World Was Going Our Way: The KGB and the Battle for the Third World* (New York: Basic Books, 2005), chap. 4; Joseph Noguee and John Sloan, 'Allende's Chile and the Soviet Union: A Policy Lesson for Latin American Nations Seeking Autonomy', *Journal of Interamerican Studies and World Affairs*, 21: 3 (1979), pp. 339–68.

<sup>38</sup> Del Canto to Paul Schweitzer, Note, 14 Sept. 1970, WHD-Chile, Box # 49, Folder 2, IMF Archives. Special Drawing Rights (SDRs) are an international reserve asset created by the IMF in 1969 to supplement its member countries' official reserves. Their value is now based on a basket of four key international currencies, and they can be exchanged for freely usable currencies.

<sup>39</sup> Barnouin to Del Canto, Office Memorandum, Dr Allende's Campaign Statements about Chile's Relationship with the Fund, 14 Sept. 1970, WHD-Chile, Box # 49, Folder 2, IMF Archives.

<sup>40</sup> *Ibid.*

<sup>41</sup> *Ibid.*

<sup>42</sup> *Ibid.*

movement is determined to avoid a situation in which the Chilean people will be mocked in its desire [to reach] economic and political independence'.<sup>43</sup> Similarly, the UP pact condemned 'the interests of the imperialist capital that exploits, plots, corrupts and disrupts the development of our country'.<sup>44</sup> Certainly, not every anti-imperialist expression is a synonym for anti-IMF policies. However, in the 1970s, when developing countries were elaborating their proposals for a New International Economic Order to replace the Bretton Woods System orchestrated by the IMF and the World Bank, and when Chile was remarkably active and influential in the Non-Aligned Movement, the IMF could not deny that Allende's discourse had anti-IMF connotations.<sup>45</sup> The UP programme, reflecting Allende's known anti-IMF views, actually stated: 'The US monopolies, with the complicity of bourgeois governments, have gained control of most of our copper, iron and nitrate. They control our foreign trade and dictate our economic policy through the IMF and other agencies'.<sup>46</sup> Likewise, the first steps that Allende intended to implement as president included the repayment of debts to the IMF.<sup>47</sup> The importance of such a step cannot be denied, as it would lessen not only the financial burden resulting from interest repayments, but also the intensity of the IMF's monitoring of Chile's economy and policies. As described below, the WHD's technocrats understood that collaboration with Allende's administration would demand an unusual degree of pragmatism and flexibility on both parties.

### *Laying the Foundations of a Counter-intuitive Partnership*

To understand better how a Marxist government and the IMF managed to cooperate despite Cold War divides, several clarifications about the Fund's structure and the composition of Allende's economic team should be made.

<sup>43</sup> Salvador Allende, 'Por qué soy candidato único de la izquierda' (Speech in the Senate, 6 Jan. 1970), in Gonzalo Martner (ed.), *Salvador Allende, 1908–73: obras escogidas* (Santiago and Madrid: Centro de Estudios Políticos Simón Bolívar and Fundación Presidente Allende, 1992), pp. 275–80.

<sup>44</sup> UP Pact signed in December 1969, available at [http://www.salvador-allende.cl/Unidad\\_Popular/Pacto%20de%20la%20UP.pdf](http://www.salvador-allende.cl/Unidad_Popular/Pacto%20de%20la%20UP.pdf).

<sup>45</sup> Jagdish N. Bhagwati (ed.), *The New International Economic Order: The North-South Debate* (Cambridge, MA: MIT Press, 1977); Robert Cox, 'Ideologies and the NIEO: Reflections on Some Recent Literature', *International Organization*, 33: 2 (1979), pp. 257–302; Murphy Craig, *Emergence of the NIEO Ideology* (Boulder, CO: Westview, 1984); Stephen Haggard and Beth A. Simmons, 'Theories of International Regimes', *International Organization*, 41: 3 (1987), pp. 491–511; Jorge Lozoya and Jaime Estevez (eds.), *Latin America and the New International Economic Order* (New York: Pergamon Press, 1980).

<sup>46</sup> Programa básico del gobierno de la Unidad Popular, available at <http://www.memoriachilena.cl/archivos2/pdfs/MC0000544.pdf>.

<sup>47</sup> Arturo Fontaine and Miguel González Pino (eds.), *Los mil días de Allende* (Santiago: Andros Impresores, 1997), pp. 961–3.

The IMF is a dual institution. On the one hand, it is a multilateral organisation with almost universal membership, which, through a complex scheme of differential voting power, is dominated by its strongest member, the United States.<sup>48</sup> The body that represents the multilateral facet of the Fund is the Executive Board of Directors, which is in charge of policy issues and loan approvals. It comprises 24 directors who unequally represent individual countries or groups of countries. On the other hand, the IMF is also a large, highly professional and homogeneous bureaucracy composed of economists who are responsible to the IMF and not to the authorities of their countries of origin. As Jeffrey Chwieroth argues, much of what the staff does is rooted less in instructions from the executive directors than in its informal and autonomous approach.<sup>49</sup> It is not surprising, therefore, that the Executive Board and the staff do not necessarily share the same goals and interests. If these differences were not enough, the IMF's technocrats (as distinct to executive directors) are instructed to avoid political considerations while dealing with member states. They are expected to monitor countries' economies and be blind to the nature of their political regimes.<sup>50</sup> In this sense, the depoliticisation and technocratisation of relations between the IMF and Chile were, to some extent, the result of the IMF's self-imposed norms. The remarkable point here is the unusually high degree of pragmatism and autonomy that the depoliticisation of ties with a Marxist administration demanded from Del Canto's team. To be sure, while the WHD's technocrats were used to being relatively flexible and tolerant while interacting with Latin American states, nothing compares to the original strategies that they developed in order to avoid giving the IMF's Executive Board reasons to ban ties with Allende's Chile.<sup>51</sup>

A somewhat similar duality between political and professional apparatuses also characterised Allende's economic team. On the one hand, Allende appointed party members as ministers: Pedro Vuskovic, a Marxist affiliated with the Socialist Party and an economist at ECLA since 1949, was selected as minister of economy; Américo Zorrilla Rojas, from the Communist Party and a former editor of the Communist Party newspaper, *El Siglo*, was appointed minister of finance.<sup>52</sup> On the other hand, with the aim of gaining the trust of local and external opponents, Allende filled prominent

<sup>48</sup> It grew from 44 original member states in 1945 to 188 member states in 2014.

<sup>49</sup> Chwieroth, *Capital Ideas*, p. 247.

<sup>50</sup> Richard Swedberg, 'The Doctrine of Economic Neutrality of the IMF and the World Bank', *Journal of Peace Research*, 23: 4 (1986), pp. 377–90; Vito Tanzi, *Argentina, An Economic Chronicle* (New York: Jorge Pinto, 2007), pp. 19–20.

<sup>51</sup> In Kedar, *The International Monetary Fund and Latin America*, I show that in the Argentine case, the WHD was in most cases surprisingly flexible and pragmatic, even when Argentina did not fulfil the conditions stipulated in various SBAs.

<sup>52</sup> The IMF followed the composition of Allende's team closely and prepared lists indicating the ministers' political affiliation: see 'First Cabinet of Chilean President Salvador Allende, 3 Nov. 1970', WHD-Chile, Box # 49, Folder 2, IMF Archives.

positions at the influential Central Bank with prestigious economists without party affiliations who were able to engage in the technocratisation of interactions with the IMF staff. Besides the need to appoint highly trained economists to governmental positions, central bankers have to be able to work with, and be respected by, the IMF staff. This fact inevitably brings to mind the ‘sympathetic interlocutors’ described by Jeffrey Chwieroth. According to Chwieroth, the emergence of domestic interlocutors sympathetic to the IMF staff’s policy goals critically shapes the Fund’s willingness to supply loans and a government’s willingness to request them. The willingness to cooperate, the argument goes, is strengthened if economists from both sides share similar professional training and work experience, as well as a mutual understanding about the ‘appropriate’ policies.<sup>53</sup> The case of Allende’s Chile was different. The collaboration between the two sides was surely eased by a somewhat common professional training, as several Chilean economists held PhDs from leading US universities like their peers at the Fund, and/or had participated in training programmes at the IMF. However, the IMF and Chilean officials cooperated with each other not because of (a non-existent) ideological affinity between them, but rather *despite* (or thanks to) their ideological rivalry.

In Chile, as in all the IMF’s borrowing member states, central bankers have played a fundamental role in relations with the Fund. It is not only that the IMF transfers its funds to central banks, but central banks are also in charge of all the data that member states (creditors and borrowers alike) have to furnish to the IMF (including data on reserve levels and exchange rates). Agreements with the Fund are signed by ministers of economy, but also by central bankers. In fact, central bankers are prominent and sometimes the sole national representatives involved in negotiations with the IMF. Most likely aware of these facts, Allende replaced Carlos Massad, the Central Bank president, with Alfonso Inostroza Cuevas, a renowned economist with no formal political affiliation who had worked at ECLA and the University of Chile, and who was an economic advisor to Allende’s previous presidential campaigns.<sup>54</sup> Inostroza was already familiar with several IMF colleagues, since he had also worked in Chile’s Central Bank between 1955 and 1966, and in 1958–59 spent a training period at the Fund, like other technocrats.<sup>55</sup> Inostroza, like other Chilean economists, cultivated a long friendship with his compatriot, Del Canto, which certainly facilitated relations with the WHD. In fact, while organising a trip to Santiago on April 1971, Del Canto sent an informal note to Inostroza expressing his desire to meet him

<sup>53</sup> Jeffrey Chwieroth, ‘“The Silent Revolution”: How the Staff Exercise Informal Governance over IMF Lending’, *Review of International Organizations*, 8: 2 (2013), pp. 265–90.

<sup>54</sup> Ozren Agnic, *Allende, el hombre y el político: memorias de un secretario privado* (Santiago: RIL Editores, 2008), p. 204.

<sup>55</sup> ‘Alfonso Inostroza asumió la presidencia del Banco Central’, *El Mercurio*, 6 Nov. 1970.

and other ‘old friends’ from the Central Bank.<sup>56</sup> As for Massad, who had been interacting with the Fund for years, rather than distancing him from the public sphere, Allende appointed him as Chile’s Executive Director at the IMF.<sup>57</sup>

In November 1970, with the new authorities in office, the two sides launched their joint activities. The following month Massad, who began working at the IMF just a few days after leaving the Central Bank, sent a detailed memorandum on exchange rates to Del Canto. Jorge Marshall Silva, who had also been the research director of Chile’s Central Bank during the Alessandri and Frei administrations (and held a PhD in economics from Harvard University, as did numerous IMF economists), provided the Fund with decrees, laws and circulars related to recent modifications in the exchange rate system.<sup>58</sup> The WHD concluded that modifications had been ‘relatively minor’. Nevertheless, ‘the Chilean authorities apparently [were] intending to abandon the flexible exchange rate policy which has been pursued for a number of years’.<sup>59</sup> This possibility preoccupied Del Canto as it implied that even though IMF members were not allowed to alter their exchange rate system unilaterally, Chile was on the verge of doing so. Yet, since ‘an informal visit of a [IMF] staff team ... has been agreed upon with the [Chilean] authorities for some time in January,’ Del Canto ‘[did] not propose at [that] time to circulate Massad’s memorandum to the Executive Directors’.<sup>60</sup>

This comment raises two important questions. First, why was an informal rather than a formal visit conducted? Second, why did Del Canto hide information from the Executive Board? Unfortunately, the documents available do not provide full answers to these questions. However, taking into account the fact that official visits to member states should be approved by the Executive Board, one cannot but suggest that Del Canto kept it informal in order to be exempted from the need to request the Executive Board’s authorisation. He probably knew that the State Department had already instructed the US Executive Director to the World Bank to influence every discussion on Chile ‘without the hand of the U.S. Government showing in the process’.<sup>61</sup> Whether or not this was the case, he could have anticipated that, eventually, Washington would ask the US Director at the Fund to block contacts with Chile. In fact, as the historical evidence reveals, Del Canto decided

<sup>56</sup> Del Canto to Inostroza, 14 April 1971, WHD-Chile, Box 49, Folder 2, IMF Archives.

<sup>57</sup> Central Bank of Chile, available at <http://www.bcentral.cl/eng/about/functions/o8c.htm>.

<sup>58</sup> Del Canto to Managing Director, ‘Recent Modifications to Chile’s Exchange Regulations’, 23 Dec. 1970, WHD-Chile, Box 49, Folder 2, IMF Archives.

<sup>59</sup> *Ibid.*

<sup>60</sup> *Ibid.*

<sup>61</sup> State Department, ‘Memorandum for Mr Henry A. Kissinger. The White House’, 4 Dec. 1970, S/S 16364, 52–53, National Security Archive, available at [www2.gwu.edu/~nsarchiv/NSAEBB/NSAEBB8/docs/doc20.pdf](http://www2.gwu.edu/~nsarchiv/NSAEBB/NSAEBB8/docs/doc20.pdf).



more than once not to consult or update the IMF's Executive Board. This strategy became so widespread that it irritated President Nixon, the US Secretary of State, Henry Kissinger, and the Secretary of the Treasury, John B. Connally. In a telephone conversation about Latin America, India and Pakistan in June 1971, the three expressed great discontent with the IMF and the World Bank, 'particularly their staff'.<sup>62</sup>

On 18 January 1971, just three months after Allende's inauguration, an informal IMF mission arrived to spend five days in Santiago. Its main goal was 'to examine Chile's recent exchange measures and practices and to agree on the timing of the next Article XIV Consultation'.<sup>63</sup> It reported, without criticism, that the recent modifications introduced by Chile 'were mostly aimed at checking capital flights, although some of them entailed changes in restrictions on current payments and thus fell under the Fund's approving jurisdiction'.<sup>64</sup> The fact that Chile implemented modifications without previously consulting the Fund did not disrupt the mission's work, and it devoted significant time to meeting new officials: 'The [WHD] staff team met with a very cordial reception by the Chilean authorities.'<sup>65</sup> Discussions were held with the Central Bank's management, the ministers of economy and finance, and the executive director of the Copper Corporation. The visit culminated in a 90-minute summit with Allende, at his residence, which 'developed in a very friendly and relaxed atmosphere'.<sup>66</sup> Undoubtedly, these summits reflected the desire of both the WHD and Chile to establish productive bilateral relations. As the mission reported: 'It came out very clearly ... that no serious difficulties should be expected in our relationship with the new Chilean government in the near future'.<sup>67</sup>

Goodwill abounded, but relations were not free of constraints. The mission reported that '[the Chilean] authorities indicated that, for political reasons, the present Government could not seek any stand-by [arrangement] with the Fund as a certain stigma of foreign domination was attached in the recent [election] campaign to [SBAs]'.<sup>68</sup> While emphasising the negative effect of the sharp decline in international copper prices on Chile's economy (prompted by Washington's decision to sell its strategic copper reserves to flood the market and harm Chile's exports), the Chileans

<sup>62</sup> Phone Conversation no. 517–020, Richard Nixon, Henry Kissinger and John B. Connally, June 11, 1971, in *The Nixon Administration's Response to Salvador Allende and Chilean Expropriation*, available at <http://nixontapeaudio.org/chile/chile.pdf>.

<sup>63</sup> Fernando A. Vera to Managing Director and Deputy Managing Director, 'Visit to Chile', 3 Feb. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>64</sup> *Ibid.*

<sup>65</sup> *Ibid.*

<sup>66</sup> *Ibid.*

<sup>67</sup> *Ibid.*

<sup>68</sup> *Ibid.*

communicated their intention to request IMF funds within the framework of 'ordinary facilities'. Ordinary facilities are the IMF's financial instruments with no conditions attached. Therefore, from the borrowers' perspective, their political price tag is considerably cheaper than that of SBAs. Finally, the mission 'was assured that the flow of information [to the Fund] will not be interrupted or diminished'.<sup>69</sup>

Although the mission achieved its aims, it could not conceal ideological discrepancies. Chile's ministers stated that 'the present government is committed, and determined, to effect basic changes in the economy in a process of socialization that will involve profound modifications in the control of the means of production and in the distribution of income'.<sup>70</sup> Chileans emphasised that these measures would be 'carried out within a constitutional framework' and include 'the nationalization of private banking, of the larger mining companies and of large production and distribution monopolies, beginning with textiles and cement'. They also declared that 'expropriations will be compensated'.<sup>71</sup> The IMF representatives refrained from reacting to these declarations, even while they witnessed Chile's first steps to socialism. The mission's silent response to the ministers' statements, certainly atypical for a WHD accustomed to exert pressure on national authorities, reflected its effort to avoid conflict with Chile.

New consultations took place after the municipal elections of 4 April 1971, in which the UP received 49 per cent of the votes and which was widely considered a test to evaluate its electoral strength. An official mission, headed by Jacques P. Barnouin (a French economist and Chief of the Western South American Division – the most active WHD sub-division at the time), stayed in Santiago from 24 May to 11 June 1971. Like the earlier informal mission, it met not only with the Central Bank's staff, but also with President Allende, the ministers of economy and finance, the management of the Central Bank and the Planning Office, the director of the Budget, the vice-president of the Copper Corporation, the vice-president of the Land Reform Corporation, and the president of the United Workers' Confederation.<sup>72</sup> The numerous meetings and the quality of the data provided to the mission testified to the great importance that the Chileans attributed to cooperation with the Fund, the only lender that was ready to violate the invisible blockade imposed by the United States and assist Allende's government.

Since this mission was official, Del Canto updated the Executive Board. His report avoided criticism even when Chile had adopted measures that were

<sup>69</sup> *Ibid.*

<sup>70</sup> *Ibid.*

<sup>71</sup> *Ibid.*

<sup>72</sup> 'Chile – Staff Report and Proposed Decision for the 1971 Art. XIV Consultation', 11 Aug. 1971, SM/71/209, IMF Archives.

incompatible with IMF recommendations. Instead of explaining that Chile's nationalist and redistributive policies included nationalisations and expropriations, an increase of capital controls, and the implementation of expansionary fiscal and monetary policies, the report depoliticised its conclusions by using neutral and technical terms. It stated, for instance, that the new government 'calls for a reactivation of the economy, a large-scale income redistribution in favor of wage earners and farmers, and a sharp reduction in the rate of inflation, at the same time that substantial changes are made in the structure of ownership in key sectors of the economy'.<sup>73</sup> The only criticism was expressed in 'pure' economic terms: the mission predicted that the wage increases would lead to 'a record public budget deficit' and 'the financing of this deficit will strain the banking system'.<sup>74</sup> The neutral tone of the report apparently reflected Del Canto's attempt to avoid giving the Executive Board pretexts to ban further interactions with Chile.

Curiously, Chile's Central Bank staff perceived the report as critical. In an internal document that was unofficially sent to the WHD (apparently by Marshall Silva), it was argued that the report revealed a serious misunderstanding of Chile's situation.<sup>75</sup> In a personal and unofficial note to Barnouin, Marshall Silva claimed that the report 'was considered overly critical and very pessimistic about [Chile's] future'.<sup>76</sup> Barnouin responded: 'I am aware of the tone of these reports and of the general position of yourselves at the Fund, so that I did not find it so unfavorable'.<sup>77</sup> The gap in the interpretations is intriguing. First, it is clear that a careful examination of numerous reports on Latin American states corroborates Barnouin's judgement that this specific one was far from being negative or critical. Compared to others in which national policies were defined as detrimental, or in which an economic team, as in the case of Pinochet's initial economic team established soon after the coup in 1973, was described as 'lacking in experience about the business of running the government', this report certainly sounded impartial, or even supportive.<sup>78</sup> The problem seemed to be that the report found its way to the Chilean press, where it was used to condemn Allende's economic policies. Therefore, it would be logical to propose that Marshall Silva's warning meant that socialist Chile would collaborate further with a polemical IMF, but it expected much more careful treatment in return. In any event, Marshall Silva urged Barnouin

<sup>73</sup> Ibid.

<sup>74</sup> Ibid.

<sup>75</sup> 'Observaciones del Banco Central de Chile al informe del personal del FMI sobre consultas del Art. XIV con Chile, 1971', (no date) WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>76</sup> Marshall to Barnouin, Note, 5 Oct. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>77</sup> Ibid.

<sup>78</sup> The quotation is from Carlos Sansón to Acting Managing Director, 'Mission to Chile, 7 Nov.–6 Dec.', 11 Dec. 1973, WHD-Chile, Box 50, Folder 4, IMF Archives.

to guarantee that the data provided to the Fund should remain highly confidential.<sup>79</sup>

In the meantime, though, Chile's government publicly announced its intention to slow down the flow of information to the Fund. In his analysis of Chile's statement, Del Canto considered that 'it is difficult to know whether Chile is willingly – or unwillingly – moving in the direction of confrontation with the Fund, *à la* Czechoslovakia or Cuba'.<sup>80</sup> In other words, Del Canto could not be sure that Chile would not rescind its membership of the Fund. He thus instructed his staff to be 'extremely cautious with the press' in order not to allow 'the Chilean authorities to use this as an excuse to [sic] an eventual confrontation with the Fund'.<sup>81</sup> Yet, he concluded that 'no action [was] required on [the WHD's] side'.<sup>82</sup> He probably anticipated that his compatriots and friends at Chile's Central Bank would make every possible effort to avoid a Chilean withdrawal from the Fund, as it desperately needed not only its financial assistance but also its seal of approval.

A few days later, Marshall Silva informed Barnouin that the Central Bank sought to have only one correspondent at the Fund: the WHD. Evidently, the Chileans understood that the WHD's technocrats were their most reliable partners in the IMF. Marshall Silva also revealed that Chile's government was still deliberating whether it would agree to continue to make Chile's statistics public through the annual *International Financial Statistics*, one of the IMF's major publications.<sup>83</sup> It is worth noting that the provision of statistical data for publication is an obligation of all IMF members. The mere possibility that Chile would avoid this obligation and downgrade its relations with the Fund propelled Barnouin to call Marshall Silva to solve the 'data crisis'. Marshall, though, had more pressing issues to discuss. He responded that 'the Chilean authorities would like to see [him] in Santiago before the end of the year in order to avoid a delay in the making of a compensatory purchase [a Fund ordinary facility]'.<sup>84</sup> Barnouin responded that he would reorganise his schedule to arrive by late November.<sup>85</sup> The timetable did not please the

<sup>79</sup> Marshall to Barnouin, Note, 5 Oct. 1971.

<sup>80</sup> Del Canto to Azocar, Confidential Office Memorandum, 'Chile: Post-Mortem on the question of Use of IMF data on Reserves by the Press', 20 Oct. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>81</sup> *Ibid.*

<sup>82</sup> Jay Reid to Del Canto, Office Memorandum, 'Chile's Reserves and the Press', 21 Oct. 1971; Del Canto to Reid, Confidential Office Memorandum, 'Chile – Flow of Information for International Financial Statistics', 22 Oct. 1971, both in WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>83</sup> Barnouin to Dannemann, 'Letter Mr. Marshall – Chile', 29 Oct. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>84</sup> Barnouin to Del Canto, 'Telephone Conversation with Jorge Marshall', 29 Oct. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>85</sup> *Ibid.*

Chileans. Inostroza called the WHD and insisted ‘that he want[ed] to consult on a couple of urgent, important questions, and inquired whether Mr. Barnouin and [Fernando A. Vera] could travel to Santiago next week’.<sup>86</sup> When asked about the issues in question, Inostroza replied that ‘he could not mention them over the telephone but assured [us] that they were important’.<sup>87</sup> Barnouin advanced his trip.<sup>88</sup> The WHD definitely interpreted this call as a window of opportunity to ensure its continued activity in Chile.

Discussions with Inostroza, sometimes also with Minister Vuskovic, were held in Santiago between 10 and 16 November. It soon turned out that the urgent matter in question was the renegotiation of Chile’s US\$3.1 billion external debt, as Chile acknowledged that its ‘financial situation [had] deteriorated more rapidly than foreseen in the last consultation’.<sup>89</sup> The fiscal deficit was expected to increase sharply and the deficit on the balance of payments for 1971 as a whole was expected to reach ‘twice the amount foreseen in the consultation report’.<sup>90</sup> ‘Given these gloomy prospects, the authorities felt that they were left with no alternatives but to suspend service payments on the bulk of their external debt temporarily and to approach the major creditors for an urgent debt renegotiation if a disorderly interruption of Chile’s external payments were to be avoided.’<sup>91</sup> The WHD was determined to help Chile avoid default. The Chilean government expressed its intention to open negotiations with the Paris Club, an informal forum of 16 European creditors serviced by the French Treasury, at which creditors agree to take a common approach to restructuring the repayment schedules of debtor countries and sometimes reduce the amount of outstanding debt itself.<sup>92</sup> Since, by the early 1970s, the Paris Club invited IMF economists as observers at its meetings with debtor countries and as providers of information and technical advice, the Fund surely anticipated that Chile’s initiative would bring it back to business as usual.

Following consultations with Barnouin, the Chileans drafted a general communication to all major creditors expressing their intention to request the Fund’s technical assistance in negotiating with them. They also prepared a letter to the French government, which, as chairman of the Paris Club, could initiate a multilateral ‘urgent renegotiation of service payments on all

<sup>86</sup> Vera to Del Canto, ‘Chile’, 5 No. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>87</sup> *Ibid.*

<sup>88</sup> *Ibid.*

<sup>89</sup> Barnouin to Managing Director and Executive Managing Director, ‘Mission to Chile, November 10–16, 1971’, 19 Nov. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>90</sup> *Ibid.*

<sup>91</sup> *Ibid.*

<sup>92</sup> Enrique Cosío-Pascal, ‘The Emerging of a Multilateral Forum for Debt Restructuring: The Paris Club’ (UNCTAD Discussion Papers, no. 192, Nov. 2008), pp. 1–12.

public and private debt'.<sup>93</sup> Barnouin, aware of the fact that Chile would be unable to reschedule its debt without the Fund's support, tried, for the first time, to exert moderate pressure on Chile and 'stressed that the mere renegotiation of service payments ... will not solve Chile's balance of payments problems ... if existing domestic financial policies are not seriously tightened'.<sup>94</sup> He added that 'an adequate evaluation of Chile's debt renegotiation proposal implies the making of a comprehensive assessment of the financial policies that the authorities intend to follow in 1972'.<sup>95</sup> According to Barnouin, 'Chilean representatives received these remarks favorably and indicated that they would like a Fund mission ... in early December in order to prepare an ad hoc report on Chile's current economic situation which will be ... forwarded to the creditor countries'.<sup>96</sup>

Since the Paris Club normally requires debtor countries to adopt a stabilisation programme approved and monitored by the IMF, typically in the form of an SBA, 'the [Chilean] authorities raised the question of a possible link between a renegotiation agreement and a stand-by arrangement with the Fund'.<sup>97</sup> They stressed, however, that 'for internal political reasons they would find it extremely difficult to enter into any stand-by negotiations with the Fund'.<sup>98</sup> As we shall see, Allende's political inability to request an SBA did not mean that he had renounced the right to make use of the IMF's non-conditional, and far less controversial, financial facilities.

Despite the initial agreement with Barnouin on multilateral debt renegotiations, Chile called for bilateral talks. This non-agreed move disappointed Barnouin. He was not alone. Chilean officials with whom Barnouin talked took the view that Chile's move 'was unfortunate' since 'it was likely to delay the renegotiation process ... and lead nowhere'.<sup>99</sup> In fact, neither Chilean technocrats nor Barnouin believed that bilateral talks with the United States (a permanent member of the Paris Club) could succeed, since debt renegotiation implied a breaking of the economic embargo. Moreover, and in line with standard US policies regarding the imposition of sanctions on countries that do not pay compensation after expropriating US-owned businesses, Washington was determined to bar debt rescheduling as long as

<sup>93</sup> Barnouin to Managing Director and Executive Managing Director, 'Mission to Chile, November 10–16, 1971', 19 Nov. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>94</sup> *Ibid.*

<sup>95</sup> *Ibid.*

<sup>96</sup> *Ibid.*

<sup>97</sup> *Ibid.*

<sup>98</sup> *Ibid.*

<sup>99</sup> Barnouin to Vera, 'Chile – Debt Renegotiation', 24 Nov. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.



Chile did not compensate US companies.<sup>100</sup> Barnouin thus reported that with the postponement of multilateral talks it became ‘less urgent to prepare an ad hoc report on Chile’s economic situation’ and suggested the postponement of consultations until early 1972.<sup>101</sup> Disagreement over debt negotiations, though, did not hinder Chile-IMF collaboration. Chileans understood that without the IMF’s substantial support their chances of reaching agreement with European creditors were nil. The WHD, for its part, could not miss this opportunity to act as mediator between creditors and a Latin American debtor. Ironically, Allende’s Chile and the IMF were mutually dependent.

In late November Chile formally requested IMF technical assistance in the debt renegotiations and the use of ‘a compensatory credit that would offset the drop of copper prices [the main export and source of foreign income to Chile]’.<sup>102</sup> More specifically, Chile applied for the Compensatory Financing Facility (CFF) that the Fund had created in 1963 to help member states cope with temporary exogenous shocks affecting export earnings. This request not only reflected the strength of the cooperation between the IMF and Allende’s Chile but also demonstrated that even states that were not aligned, ideologically, politically or economically, with Washington could turn the IMF into an institution that served their own needs. The WHD, overlooking the economic policies implemented by Allende, recommended that the Board should approve Chile’s request. It argued in technical terms that Chile had been experiencing a shortfall of export earnings due to the instability of copper prices in the world market and noted ‘that the request [met] the requirement that the shortfall is largely attributable to circumstances beyond the control of the member’.<sup>103</sup> The Executive Board analysed the recommendations and could not find any procedural pretext to reject Chile’s request. On 10 December 1971, it granted Chile US\$39.5 million within the unconditional framework of the Compensatory Financing of Export Fluctuations.<sup>104</sup> While this did not suffice to solve Chile’s economic crisis, compared with the US\$40 million of the highly conditional 1969 SBA, this unconditional loan constituted a great achievement for Allende’s

<sup>100</sup> On copper nationalisation, see, among others, Hal Brands, ‘Richard Nixon and Economic Nationalism in Latin America: The Problem of Expropriations, 1969–74’, *Diplomacy and Statecraft*, 18: 1 (2007), pp. 215–35.

<sup>101</sup> Barnouin to Vera, ‘Chile – Debt Renegotiation’, 24 Nov. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>102</sup> Chilean Embassy in Washington DC to the IMF Managing Director, 29 Nov. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>103</sup> Confidential, ‘Chile – Use of Fund Resources’, Prepared by the Research Department and the Western Hemisphere Department (In consultation with the Exchange and Trade Relations, the Legal, and the Treasurer’s Departments), 3 Dec. 1971, EBS/71/325, IMF Archives.

<sup>104</sup> Cable, IMF to Chile Central Bank, 10 Dec. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

administration. The approval of the facility surely represented a meaningful crack in the economic embargo the United States had imposed on Chile, but it by no means implied that the IMF endorsed Allende's economic policies. More than anything else, it echoed the determination of Del Canto's team to avoid Chile's withdrawal from the Fund, and Allende's intention to avoid isolation and make use of any available assistance. It was much more than mere pragmatism. It represented the need of both parties to collaborate under adverse political conditions.

### *The IMF as a Safeguard of Allende's Regime*

Barely three days after the approval of the CFF, Chile announced the establishment of a system of multiple exchange rates – which the IMF disapproved of.<sup>105</sup> With the aim of avoiding conflict, Chile formally invited an IMF mission to discuss the exchange rate reform that it had already launched. The mission arrived in Santiago on 2 January 1972.<sup>106</sup>

In February, following the customary practices of the Paris Club, 'the creditor countries stated that the granting of a stand-by arrangement by the Fund to Chile was a precondition for the debt rescheduling'.<sup>107</sup> The WHD acknowledged that Chile would be unable to fulfil this precondition. In early March, therefore, another IMF mission headed to Santiago to elaborate a replacement for a regular SBA. It finally took the form of a unilateral policy statement that the Chileans could present at the third and most decisive meeting with the Paris Club, scheduled for 29–30 March.<sup>108</sup> While scholars suggest that no SBA was signed due to Allende's refusal to do so, a close examination of Chile-IMF relations reveals a more nuanced reality.<sup>109</sup> Understandably, SBAs were not a real option for Allende. The UP's electoral campaign, as already mentioned, had criticised this type of agreement harshly. Hence its mere negotiation could be perceived as a betrayal of electoral promises and cause tension within Allende's coalition. What academic literature has ignored is that even if Del Canto had been willing to consider an SBA, he was unable to negotiate one. According to the IMF's rules, it can provide states in serious financial crisis only with the highest conditional level of SBAs (as not all SBAs contain the same number and type of conditions), which was

<sup>105</sup> Cable, Reuter to Western Hemisphere Department, 31 Dec. 1971, WHD-Chile, Box 49, Folder 3, IMF Archives.

<sup>106</sup> Fund Staff Mission to Chile, 28 Dec. 1971, EBD/71/442, IMF Archives.

<sup>107</sup> Confidential Briefing for Mission, 27 Feb. 1972, WHD-Chile, Box 50, Folder 1, IMF Archives.

<sup>108</sup> *Ibid.*

<sup>109</sup> See, for example, Barry Herman, José Antonio Ocampo and Shari Spiegel (eds.), *Overcoming Development Country Debt Crisis* (Oxford: Oxford University Press, 2010), p. 239; *Clarín* (Chile), 23 April 1972 (reprinted in *Los mil días de Salvador Allende*, pp. 365–6).

unacceptable to the UP.<sup>110</sup> No less importantly, if some of the IMF's interactions with Allende's Chile were facilitated by Del Canto's readiness to avoid subjecting them to the Executive Board's approval, it was simply impossible to follow the same path in the case of SBAs, because every step related to the negotiations, approval and monitoring of an SBA must be brought to the Board's table. Obviously, there was no room to expect that an Executive Board strongly influenced by Washington would grant an SBA to Allende's administration. Indeed, there was a serious gap between the readiness of the Executive Board and that of the WHD to grant or even consider an SBA to Allende's Chile. The Executive Board saw the SBA as a clear seal of approval that it refused to grant to Allende's Chile. The WHD saw it as a means to reactivate its activity in Chile.

To make Chile's statement comparable to an SBA, therefore, it included three main areas that appeared in all the IMF's conditional arrangements: first, concrete balance of payments targets; second, a commitment to place strict limits on new medium-term foreign indebtedness; and, third, actions to avoid incurring commercial arrears.<sup>111</sup> The fact that the WHD helped to formulate the statement indicates that it was ready to overlook almost all its rules and procedures in order not to lose Chile.<sup>112</sup> I emphasise, 'almost' all rules and procedures but not all of them. On the one hand, the IMF assisted Chile in articulating a document that would pave the road to agreement with the Paris Club. On the other hand, it underlined that it 'does not imply that the Fund would accept it as the basis of a purchase by Chile or a stand-by arrangement ... or that the Fund would be willing to approve the exchange measures that it would involve'.<sup>113</sup> In negotiations with the Paris Club, then, the WHD openly backed a statement that it did not fully accept. In fact, the WHD's technocrats used it as a means to remain active in Chile and relevant in the eyes of the international financial community, but knew that it would be impossible to convince the Executive Board to offer substantive support to Allende's regime. Also, it would not be unreasonable to suggest that Del Canto feared that full backing for Allende's collapsing economy was a double-edged sword. If Chile's economy recovered, reducing Allende's reliance on the Soviets, it would be a significant IMF achievement. But if, in contrast, Allende's economy collapsed, the IMF, and especially the WHD, would have lost credibility.

<sup>110</sup> Confidential Briefing for Mission, 27 Feb. 1972, WHD-Chile, Box 50, Folder 1, IMF Archives.

<sup>111</sup> Ibid.

<sup>112</sup> In 1965 the IMF adopted a similar strategy while helping Argentina reschedule its debts with the Paris Club: see Raúl García Heras, *El Fondo Monetario Internacional y el Banco Mundial en la Argentina* (Buenos Aires: Lumiere, 2008), pp. 120–45.

<sup>113</sup> Confidential Briefing for Mission, 27 Feb. 1972, WHD-Chile, Box 50, Folder 1, IMF Archives.

Yet these joint efforts yielded fruit. By mid-April the Paris Club members had agreed 'to abandon their original insistence that Chile enter into a stand-by arrangement with the Fund as part of the renegotiation package, and [were] on the verge of accepting the substitute offered by Chile'.<sup>114</sup> Moreover, even though, in late 1971, Kissinger had recommended the adoption of 'a policy of voting against any loan to a country that has expropriated a significant US business interest without taking reasonable steps toward compensation or submitting the dispute to an impartial arbitration process', the United States also signed the accord.<sup>115</sup> Washington signed not because of Chile's statement, but, apparently, because President Nixon considered that it would be a tactical mistake to remain intransigent while all other debtors were ready to compromise.<sup>116</sup> In fact, Guy Nebot, chairman of the Paris Club, defiantly told the US delegation that the compensation dispute constituted a US-Chilean bilateral problem that 'would not be a subject of rupture', and 'if the US [did] not wish to sign the final act [it was] free to do so'.<sup>117</sup>

Agreement with the Paris Club for a total of US\$258 million was signed on 19 April 1972. While Washington pressed hard to reschedule no more than 65 per cent of the total principal and interest, it received little support from other creditors and Chile rescheduled 70 per cent, subject only to the exclusion of US long-term aid loans.<sup>118</sup> According to the IMF, 'this level of refinancing exceeded that previously accorded to any Latin American country'.<sup>119</sup> At the creditors' request, though, Chile added 'a supplementary statement encompassing domestic financial policies ... and an undertaking to provide information to the Paris Club on internal developments'.<sup>120</sup>

<sup>114</sup> Office Memorandum, Del Canto to Managing Director, 'Briefing for Visit to Chile', 13 April 1972, WHD-Chile, Box 50, Folder 1, IMF Archives. In March 1972 Ambassador Letelier informed the US State Department that an IMF mission was assisting Chile in the elaboration of 'acceptable alternatives to a stand-by': see 'Conversation between Ambassador Letelier and Dept Asst Secretary Crimmins', telegram from Department of State, 9 March 1972, Box 1149, General Records of the Department of State, Subject Numerical Files, 1970-73 Economic, INCO 15-2, RG 59, U. S. National Archives and Records Administration.

<sup>115</sup> Confidential Action Memorandum, The President's Assistant for National Security Affairs (Kissinger) to President Nixon, Attached to a memorandum from Hormats to Kissinger, 4 Oct. 1971, National Archives, Nixon Presidential Materials, NSC Files, Agency Files, Box 289, Treasury, Volume II 1971. Confidential. SUBJECT: U. S. Expropriation Policy in Multilateral Institutions, available at <http://2001-2009.state.gov/r/pa/ho/frus/nixon/iv/15575.htm>.

<sup>116</sup> Harmer, *Allende's Chile*, pp. 161-3.

<sup>117</sup> Alberto Eguren to Enrique Lerda, 'Back-to-office-report - Paris Club Meeting on Chile's External Debt', 13 April 1972; file unit 1596218, World Bank Archives.

<sup>118</sup> 'Agreement on Chile's Debt Reportedly Signed in Paris', *Washington Post*, 20 April 1972; 'Agreement on Rescheduling Foreign Debt', *The Times*, 20 April 1972; Office Memorandum, David Finch and Barnouin to Managing Director, 'Final Chilean Debt Meetings: Paris, April 17-19', 21 April 1972, WHD-Chile, Box 50, Folder 1, IMF Archives.

<sup>119</sup> *Ibid.*

<sup>120</sup> *Ibid.*

Nevertheless, debt rescheduling and financial assistance from the IMF did not prevent Chile's economic deterioration. Once again Marshall Silva called Barnouin and urged him to pay an urgent visit to Chile 'to explore informally the possibility for Chile to make use of Fund resources'.<sup>121</sup> Marshall Silva, reflecting the considerable influence of technocrats in Chile's centres of power, stressed that 'he was strongly advising the authorities to request a stand-by arrangement'.<sup>122</sup> Since the call came shortly after personnel changes in Chile's administration, including the tactical replacement, in June 1972, of Vuskovic by Carlos Matus (a renowned economist with no political affiliation who had graduated from Harvard University), the WHD favoured an early meeting to evaluate the seriousness of the crisis and the government's intentions.<sup>123</sup>

On 18 July 1972 Chile sent an official request to the Fund for an unconditional purchase equivalent to SDR 1.5 million in Deutschmarks.<sup>124</sup> The Board quickly approved the request, as the amount, equivalent to US\$1.5 million, was minimal.<sup>125</sup> Most importantly, following Marshall Silva's call, the WHD began to elaborate its strategy to negotiate an SBA *ad referendum* with Chile. Nonetheless, the WHD mission was instructed to explain to the Chileans that the managing director and several executive directors remained unconvinced about the viability of an SBA.<sup>126</sup> In other words, the technocrats in the WHD and the Chilean Central Bank made it clear that they were restricted by their political authorities.

In the meantime, instability in Chile increased. On 2 November 1972, in an attempt to reinstate internal security, restore order in the copper mines, and settle a paralysing truck-drivers' strike that had started in October, Allende nominated a new cabinet which included three high-ranking Armed Forces officers.<sup>127</sup> In a move that the WHD lamented, Matus, the apolitical minister of economy, was replaced by Fernando Labra, a member of MAPU.<sup>128</sup>

At this stage, the WHD began to discuss with the Paris Club the possible rescheduling of Chile's debt service obligations due in 1973, an option

<sup>121</sup> Barnouin to Del Canto, Office Memorandum, 'Telephone conversation with Jorge Marshall', 30 June 1972, WHD-Chile, Box 50, Folder 1, IMF Archives.

<sup>122</sup> *Ibid.*

<sup>123</sup> *Ibid.*

<sup>124</sup> Until 1973 1 SDR was equivalent to US\$1.

<sup>125</sup> Confidential Office Memorandum, Managing Director to Members of the Executive Board, 28 July 1972, WHD-Chile, Box 50, Folder 1, IMF Archives; Chile – Gold Tranche Purchase Transaction, 27 July 1972, EBS/72/245, IMF Archives.

<sup>126</sup> Walter Robichek to Barnouin, Office Memorandum, 'Negotiations with Chile', 17 Aug. 1972, WHD-Chile, Box 50, Folder 2, IMF Archives.

<sup>127</sup> Office Memorandum, Barnouin to Del Canto, Meeting with Ambassador Letelier, 3 Nov. 1972, WHD-Chile, Box 50, Folder 2, IMF Archives.

<sup>128</sup> *Ibid.*

stipulated in the 1972 accord.<sup>129</sup> The WHD's role in this new round of negotiations was so prominent that it not only assisted Chile but in actuality represented it. In fact, Nebot opened negotiations not with Chilean representatives but with WHD technocrats, and asked them to convey several messages to Chile. First, he stated that Chile could not hope to obtain more than a temporary extension of the 1972 agreement until the Fund published its report on consultations to be held in March 1973. Second, he indicated that the Europeans would negotiate with Chile only if the Fund provided them a staff report similar to that delivered in 1972.<sup>130</sup> Simply put, without the Fund's intervention, no negotiations, let alone any agreement, could take place.

On 14 December 1972, Chile's Central Bank sent another formal request to the Fund for the use of the CFF.<sup>131</sup> Despite initial doubts, the IMF staff recommended Executive Board approval, as it considered that the drop in Chile's export earnings was due to the decrease of copper prices in international markets and out of Chile's control.<sup>132</sup> As it had a year earlier, the Executive Board approved Chile's request to purchase the equivalent of SDR 39.5 million (US\$ 39.5 million).<sup>133</sup> Once again, then, Chile found a legitimate and politically acceptable way to use IMF funds even when its Executive Board disapproved of Allende's policies. The approval of the CFF undoubtedly facilitated negotiations with the Europeans.

### *The Crisis*

In 1973 Chile's political situation worsened. In the parliamentary elections of 4 March 1973, the UP obtained only 43.5 per cent of the votes and the Confederation of Democracy, the main opposition alliance, got 54.6 per cent. Allende then took several steps aimed at halting the political crisis, including new changes in his cabinet, but to no avail. Due to escalating tensions with the communists over economic policies and in an attempt to stabilise his coalition, Allende appointed Orlando Millas, a lawyer and member of the

<sup>129</sup> Ibid

<sup>130</sup> Ibid.

<sup>131</sup> Cable, Chile Central Bank to Interfund, 14 Dec. 1972, WHD-Chile, Box 50, Folder 2, IMF Archives.

<sup>132</sup> Office Memorandum, Barnouin to Del Canto, 'Chile – Export Performance and Second Use of Compensatory Financing Facility', 10 Nov. 1972, WHD-Chile, Box 50, Folder 2, IMF Archives; Confidential, Secretary to Members of Executive Board, 'Chile – Use of Fund Resources', 13 Dec. 1972, EBS/72/388, IMF Archives.

<sup>133</sup> Cable, Interfund to Chilean Central Bank, 20 Dec. 1972, WHD-Chile, Box 50, Folder 2, IMF Archives.



Communist Party, as minister of economy. The following months, however, were plagued with the sense of an imminent coup.

As in 1972, Allende's ties with the IMF were reinforced by the Paris Club's demand to keep it involved in talks with Chile. Aware of the likelihood that Chile could soon declare default, European creditors were eager to reach an agreement. In January 1973 Nebot called a creditors' meeting to be held no later than 15 May and pressed the Fund to prepare a report and forecast on Chile's economy. The WHD replied that the timetable was unworkable. Nebot lowered expectations and, against Washington's protests, requested instead a short ad hoc report, which (contrary to full reports) did not require the Executive Board's approval. Nonetheless, the situation in Chile became so severe that the WHD could not continue to take decisions without consulting the Board: its reputation was certainly at risk. Del Canto thus informed Nebot that it would be impossible to meet his timetable.<sup>134</sup>

The 1973 consultation with Chile, which examined the feasibility of an eventual SBA, was held in Santiago between 26 April and 17 May.<sup>135</sup> The collaboration with the Fund was so vital that even in the midst of a deep economic and political crisis, key government officials devoted long hours to meeting the mission. Chilean participants included President Allende, the minister of economy and reconstruction, the minister of finance, the president and vice-president of the Central Bank, the director of the Bureau of National Planning, the vice-president of the Land Reform Corporation, the director of the budget in the Ministry of Finance, and high-level officials in the Copper Corporation and the Bureau of Agricultural Planning.<sup>136</sup> Following the consultation, Chile adopted new measures related to exchange rates, price and credit policies, and invited a WHD team to return to Santiago 'to discuss the new measures ... as well as a more comprehensive stabilization program reportedly under government consideration'.<sup>137</sup> Complementary discussions took place between 25 and 27 June 1973, with almost the same massive presence of Chilean authorities – except for Allende.<sup>138</sup> Undoubtedly, the Chilean and IMF technocrats realised that neither a full stabilisation programme nor an SBA were plausible options at the time. The

<sup>134</sup> Office Memorandum, Barnouin to Del Canto, 'Fund Participation in the next Chilean debt meeting', 5 April 1973, WHD-Chile, Box 50, Folder 3, IMF Archives.

<sup>135</sup> 'Briefing for Mission to Chile', Approved by Del Canto and David Finch, 16 April 1973, WHD-Chile, Box 50, Folder 3, IMF Archives.

<sup>136</sup> Confidential, 'Staff Report for the 1973 Article XIV Consultation', Approved by Jorge Del Canto and David Finch, 13 June 1973, SM/73,141, IMF Archives.

<sup>137</sup> 'Supplementary Staff Report and Amended Proposed Decision for the 1973 Article XIV Consultation', Approved by Del Canto and David Finch, 3 July 1973, SM/73,141 Supplement 1, IMF Archives.

<sup>138</sup> *Ibid.*

congressional elections of March 1973 had failed to create the right climate for the adoption of austerity measures and left the government without the majority needed to pass laws in Congress.<sup>139</sup> The mission therefore concluded that even if Chile's government followed the IMF's advice, it would be unable to obtain prompt results.<sup>140</sup>

During the negotiations held with the Paris Club on 12–13 July 1973, several delegations, including that from the United States, urged Chile to launch a stabilisation programme as a prerequisite for the next meeting scheduled for 31 October 1973. Since Nebot understood that Allende was unable to take such a step, it was agreed that 'Chile would invite the Fund, before September 30, to send a technical assistance mission to Chile to report to the creditor countries ... on the additional policy measures which Chile [was] planning to introduce. In the meantime, no payments would have to be made [to creditors]'.<sup>141</sup> The collaboration between Inostroza, president of the Central Bank and head of Chile's mission to Paris, and Barnouin from the WHD was critical to the negotiations' success. The Fund's support seemed to have secured a new round of talks. As in previous meetings, the US delegation and Nebot disagreed over the question of the linkage between debt rescheduling and compensation for expropriated property. Nevertheless, since Chile and the United States were still negotiating compensation, discussions continued to take place.<sup>142</sup>

As agreed, on 5 September Chile formally invited a WHD mission in order to fulfil the Paris Club's requests.<sup>143</sup> It was scheduled to arrive on 15 October 1973.<sup>144</sup> However, the coup of 11 September put a brusque end to the counter-intuitive yet fruitful collaboration between Allende's Chile and the IMF. On 12 September, with the military junta in power, the WHD staff began to assess the situation. Barnouin, who played a key role in relations between the IMF and Allende's Chile, estimated that the economic crisis would surely force the new government to request an IMF mission soon. In a letter to Del Canto, Barnouin noted that 'we must be aware [that] new [Chilean] authorities will not find [Barnouin] acceptable as mission head or may not cooperate willingly with [him]'. He added: 'Should Chilean request for a mission materialize [he] feels that for the sake of Fund's continuing role in Chile [he] should be replaced as mission head by ... [an]other

<sup>139</sup> 'Briefing for mission to Chile', 16 April 1973.

<sup>140</sup> *Ibid.*

<sup>141</sup> Confidential Letter, Eduard Brau to Managing Director, 'Chilean Debt Meeting – Paris, July 12–13', 19 July 1973, WHD-Chile, Box 50, Folder 3, IMF Archives.

<sup>142</sup> *Ibid.*

<sup>143</sup> Office Memorandum, Barnouin to Del Canto, 'Fund Visit to Chile', 5 Sept. 1973, WHD-Chile, Box 50, Folder 4, IMF Archives.

<sup>144</sup> Office Memorandum, Linda Koenig to Del Canto, 'Fund Visit to Chile', 10 Sept. 1973, WHD-Chile, Box 50, Folder 4, IMF Archives.

available WHD senior officer'.<sup>145</sup> Barnouin understood that after three years of strong collaboration with Allende's regime, his chances of gaining Pinochet's trust were nil. Immediately, Del Canto appointed a new team to deal with Chile. A unique chapter of Chile's history and of its ties with the Fund ended.

### *Conclusions*

When Salvador Allende assumed Chile's presidency in 1970, the US government redoubled its efforts to destabilise his regime and avoid a Marxist contagion in the region. The invisible economic blockade promoted by President Nixon and Secretary Kissinger was a key component of these efforts. Whereas all the other multilateral lenders joined the blockade, the IMF emerged as the only international institution that provided vital and continuous assistance to Allende's regime. While only a few scholars have so far referred to the allegedly insignificant amounts that the IMF provided to Allende's government, historical documents reveal that the Fund's financial support to Chile was not only significant but merely the tip of the iceberg. Developing under the surface, and especially among the IMF's and Chile's technocrats, was a multifaceted, strong, and mutually beneficial cooperation.

This counter-intuitive collaboration was largely facilitated by the depoliticisation and technocratisation of their mutual ties. While these mechanisms reflected several working norms of the IMF, especially its self-imposed 'economic neutrality', there is no doubt that their implementation in this particular case required extra efforts on both sides. Certainly, Allende's administration had to find a way to access desperately needed funds from the IMF but without committing political suicide while doing so. Thanks to the formal and informal involvement of senior Central Bank technocrats, Allende's government demonstrated to communist states and to Latin American borrowers alike that they could use the Fund's resources and remain free of binding and controversial conditional agreements. Moreover, besides the significant non-conditional facilities that the IMF granted Chile in 1971 and 1972, the strong ties between the parties paved the road to a vital, and by no means obvious, debt rescheduling with the Paris Club. From Allende's perspective, cooperation with the Fund constituted not only a means to access financial support, but was also a major political achievement. Irrefutably, the permanent interactions with the WHD helped Allende convey a message of 'pragmatic pluralism' which he considered vital to his regime's survival.

<sup>145</sup> Cable, Barnouin to Del Canto, 12 Sept. 1973, WHD-Chile, Box # 50, Folder 4, IMF Archives.

From the Fund's perspective, its ongoing assistance to a socialist government that implemented economic measures, such as expropriations, which often contradicted the IMF's liberal guidelines, was not a sign of weakness but rather of strength. Indeed, it was precisely the strength and stability of the Fund's bureaucracy which enabled it to subordinate short-term to long-term goals. Within the context of the Cold War, when the IMF's role in Latin America was under question, and the Bretton Woods monetary system was collapsing, it seems that all the WHD could expect was to retain Chile in its list of members. With this goal in mind, and by keeping a high degree of autonomy from the IMF's Executive Board, the WHD's technocrats created flexible and original strategies to support Allende's administration without letting the US government and its representatives in the IMF's management interfere. As events after September 1973 show, and from the IMF's perspective, the WHD's strategy was a wise one and bore its desired fruits.

In contrast to conventional approaches that depict the Fund as a loyal arm of US foreign policy, the Allende-IMF collaboration demonstrates that this is not always the case. In effect, under certain circumstances, and even while the US government and the IMF share the same economic principles, their immediate interests and goals can be different, if not altogether incompatible. The clash between Washington's and the IMF's interests surrounding relations with Allende's Chile was not unique. It is inevitably reminiscent of the confidential negotiations that took place between the IMF and Peronist Argentina between 1946 and 1955. At the time, Perón and the IMF were both eager to make Argentina's entry into the IMF effective. However, due to long-standing tensions between the United States and populist Argentina, Washington vetoed this move time and again and Argentina was accepted as a Fund member only after the overthrow of Perón.<sup>146</sup>

Finally, the close examination of Allende's collaboration with the Fund's WHD provides a unique vantage point for understanding the triangular relations between Chile, the IMF and the United States. It invites us to reconsider a critical point in the Cold War when the superpowers embarked on détente but intensified their indirect confrontation in the Third World. The pragmatic and professional manner in which Allende's technocrats conducted their joint work with their peers at an already controversial IMF, and their success in gaining access to non-conditional IMF funds, indicate that even leftist Latin American governments that are not aligned with the United States can turn the IMF into an institution that serves their own needs. Today, when Latin American leaders strive to avoid the IMF's conditional lending and intervention, it seems that at least some of the challenges that Allende's administration successfully confronted are still present.

<sup>146</sup> Claudia Kedar, 'Chronicle of an Inconclusive Negotiation: Perón, the IMF, and the World Bank, 1946–55', *Hispanic American Historical Review*, 92: 4 (2012), pp. 637–68.

*Spanish and Portuguese abstracts*

*Spanish abstract.* Este artículo muestra la continua y productiva relación que se desarrolló entre Chile y el FMI durante la presidencia de Salvador Allende (1970–73). Esta peculiar relación fue posible por la sistemática despolitización y tecnocratización de los lazos entre ellos. Al poner de lado las discrepancias ideológicas y mantener un alto grado de autonomía, el FMI y los tecnócratas chilenos hicieron menos claras las rígidas divisiones de la Guerra Fría y circunnavegaron el embargo estadounidense en contra del régimen de Allende. El examen de dicha relación ofrece una nueva perspectiva sobre el posicionamiento de Allende en la arena internacional y provee un enfoque único para reconsiderar las percepciones dicotómicas de la Guerra Fría en Latinoamérica.

*Spanish keywords:* Salvador Allende, FMI, Guerra Fría, despolitización, tecnocratización, tecnócratas, aparato burocrático, bloqueo invisible

*Portuguese abstract.* Este artigo desvela a contínua e produtiva relação que se desenvolveu entre o Chile e o FMI durante o mandato de Salvador Allende (1970–73). Este relacionamento contra-intuitivo tornou-se possível devido à sistemática despolitização e tecnocratização da relação entre as duas partes. Minimizando as diferenças ideológicas e mantendo um alto nível de autonomia, o FMI e os tecnocratas do Chile ofuscaram as divisões da Guerra Fria e contornaram o embargo imposto pelos Estados Unidos contra o governo de Allende. A análise desta relação apresenta uma nova visão sobre o posicionamento de Allende na arena internacional e oferece um ponto de vista único para se reconsiderar percepções dicotômicas sobre a Guerra Fria na América Latina.

*Portuguese keywords:* Salvador Allende, FMI, Guerra Fria, despolitização, tecnocratização, tecnocratas, aparato burocrático, bloqueio invisível