

## Introduction

To understand what happened in Argentina we need to look to the economic reforms that nearly all Latin America undertook in the '80s. Countries emerging from years of poverty and dictatorship were told that democracy and the markets would bring unprecedented prosperity. And in some countries, such as Mexico, the rich few have benefited. More broadly, though, economic performance has been dismal, with growth little more than half of what it was in the 1950s, '60s and '70s. Disillusionment with “reform”—neo-liberal style—has set in. Argentina's experience is being read: This is what happens to the A-plus student of the IMF. The disaster comes not from not listening to the IMF, but rather from listening [to it].<sup>1</sup>

The Argentine crisis of 2001 inevitably raises the question of how a country that until the 1930s was expected to join the list of the richest countries in the world ended up suffering such economic deterioration. Although Argentina may have made its own economic mistakes over the years, we must also look at the international economy in general, and at the International Monetary Fund (IMF), in particular to understand what went wrong. In effect, the crisis in 2001 took place as an already heavily indebted Argentina was following the IMF's advice to the letter. But Argentina was not the only country that experienced economic stagnation or worse while implementing painful austerity measures promoted by the IMF. Other Latin American countries also suffered a considerable decline in growth in the 1990s. Indeed, the acute recession that began in 2001 triggered what experts from the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) termed the “lost half decade” for Latin America, a period characterized by declining growth rates, increasing poverty, and social inequality.<sup>2</sup>

Although most of the problems discussed here are common to many countries in the region, this book focuses mainly on Argentina's experience as the most comprehensive prism for understanding IMF–Latin American relations. As Joseph Stiglitz rightly indicates, no other country in the region tried harder to endear itself to the IMF; no other country was so applauded by the IMF; and no other economy experienced so traumatic a crisis as Argentina. But Argentina is a good case in point for political reasons, as well. Since the IMF's foundation in 1944, the various forms of regime that have existed in Argentina—including dictatorships and democracies, some populist, others conservative, liberal, reformist, or developmentalist—have prevailed in all of Latin America. The history of the relations between the IMF and the shifting Argentine administrations serves to illustrate (1) how every twist and turn in Latin American politics has (or has not) affected the IMF's *modus operandi* in the region; and (2) the countries' willingness to approach or confront the IMF, to continue to interact with it almost daily, or to interrupt interactions with this influential institution. To this mix must be added an ambivalent and often tense relationship with the United States as the strongest member state in the IMF since its establishment and the only one with *de facto* veto power. Argentina is thus an even more illuminating case than Brazil or Mexico, whose ties to Washington have been friendlier and significantly more stable.

To understand Latin America's lost half decade at the turn of the twenty-first century, it is not enough to look back at the "lost decade" of the 1980s. To appreciate fully not only *what* happened to one of the most promising economies of the region but, more important, *how* it happened, we must begin at the seminal historical moment in which the IMF and the World Bank were created: the Bretton Woods Conference of 1944 and the surprisingly neglected formative period of the IMF from the 1940s to the 1970s. The early and contemporary history of IMF–Latin American relations offers a window onto the formal and informal processes and patterns that were well under way in the 1980s and 1990s, when countries in the region fairly unanimously embarked on a series of neoliberal reforms promoted by the IMF and inspired by the Washington Consensus—the set of ten policies that the U.S. government, the IMF, and the World Bank believed were necessary elements of "first-stage policy reform" that developing countries should adopt to increase economic growth.

To weave together the story told in this book, I conducted extensive historical research in archives on three continents, including complete series of IMF documents that I had the fortune to be among the first researchers to access. The focus of this book is the relationship between the IMF and its "chronic" borrowers, a topic that to date has been dominated by social scientists. In contrast with the existing literature, which focuses almost exclusively on recent events, this book covers the full history of the relations between the parties. My goal in this

study is to build a much needed bridge among history, international relations, political economy, and political science, with the historical narrative and empirical data at its center.

### The Analytical Framework: The Routine of Dependency

This book, which proposes an atypical and revisionist approach to understanding the IMF–Latin American relationship, illustrates unequivocally that the strictly economic aspects of the partnership (loans, stabilization and adjustment programs) are merely the tip of the iceberg. Developing under the surface is a multifaceted array of routine and almost ritual interactions that continues even when the countries are subject to no loan agreements with the IMF. These interactions include detailed weekly reports dispatched to the IMF’s headquarters from the central banks of the borrowing countries; trips to Washington made by presidents and ministers; periodic IMF missions to Latin America; and, in some instances, the fixed presence of IMF officials in national central banks and ministries of economy. A large corpus of letters, memoranda, reports, and resolutions deposited at the U.S. National Archives and Records Administration, the British National Archives, the Archives of the Central Bank of Argentina, and the Argentine Ministry of Economy, along with recently declassified collections held in the IMF Archives in Washington, DC, reveals the inner workings of this mutual, though asymmetrical, relationship. I refer to this unexplored yet fundamental facet of the relationship between the IMF and Latin America—which constitutes a core component of the IMF’s relations with each and every borrowing country, whether it is in Latin America, Africa, Asia, Eastern Europe, or, now, Europe (i.e., Greece)—as a “routine of dependency.” This routine exists at varying levels over time and emerges as an integral component of the IMF’s and the borrower’s economic and political life.

I recognize that “dependency” may be a loaded term for some Latin Americanists. My concept of the routine of dependency represents an attempt to reflect the countless cyclical interactions that have been taking place routinely—day by day, year after year—between the IMF and a borrower country such as Argentina. The term “routine of dependency” seemed to be a natural fit for the concept of economic and finance ministers’, central bank presidents’, and their unstable and in some cases undertrained staffs’ expending great time and effort to maintain routine interaction with highly qualified representatives of a solid, stable institution that has as one of its main goals an engagement in these complex interactions and mechanisms. Clearly, lender–borrower and creditor–debtor relations are not merely asymmetrical. They are power relations. They are dependency relations between economically, politically, and often professionally

unequal parties that nevertheless are equally active and equally accountable for their actions. In effect, even poor countries can alter or interrupt the routine of dependency—a concept that has little in common with the determinism and pessimism of dependency theory.

That said, this book may serve as an invitation to rethink dependency theory, to reframe center–periphery relations in ways that are more in line with the current globalized economy. In that economy, multilateral institutions such as the IMF and the World Bank play the role that until recently was filled by only the most developed countries, and nations can considerably improve their economic positions (as have the so-called BRIC countries—Brazil, Russia, India and China).

In contrast with many scholarly works in which the IMF’s borrowing states are presented as manipulable, passive victims of the IMF’s neoliberal policies—or, alternatively, scholarly works in which the IMF is described as a scapegoat used by corrupt elites, interest groups, and governments to justify the questionable results of unpopular economic programs—this work emphasizes the political, economic, and bureaucratic motivations and constraints of all parties involved. Hence, it devotes attention to the rapid strengthening and evolution of the IMF, to the high level of political and economic instability in Latin America, and to the impact of the United States on what appear to be not only bilateral relations between the IMF and each of its borrowers but also a triangular IMF–Latin American–United States relationship.

In line with the emergent literature on the IMF as an organization that is controlled not only by its most powerful member states but also by a highly professional and homogeneous staff of economists—such as the groundbreaking works by Sarah Babb and Jeffrey Chwieroth<sup>3</sup>—this book advocates the need to better understand the far-reaching impact of the formal and informal interactions between members of the IMF staff and officials of the debtor countries. According to the findings that I present, the massive presence of IMF economists in borrowing member states has led to a process of socialization and internalization of common working norms and ideas, especially on the part of the borrowers. In this manner, and through the creation of professional and personal ties (or what the international relations literature usually refers to as an “epistemic community”), some of the most prominent officials in economic and finance ministries and at central banks provide the conditions for the IMF’s growing and mutually condoned influence and intervention in the local sphere. Moreover, the IMF appears to be one of the few long-term constants in Latin American nations that have experienced economic, social, political, and institutional turmoil.

The conflictive IMF–Latin American relationship has attracted the attention of numerous economists and political scientists. Most of them have focused their attention on the loan agreements signed from the 1990s onward.<sup>4</sup> This interest

in loans is understandable: Latin America has experienced serious debt crises in more than just the past few decades; in fact, the region's struggle to repay foreign debt is as old as the independent nations themselves. During the independence wars of the early nineteenth century, leaders in Latin America signed loan agreements with foreign creditors that were necessary to achieve political independence but that also engendered premature economic dependence. In 1824, the newly independent nations of Argentina, Mexico, and Peru, following similar steps taken by Colombia and Chile two years earlier, contracted their first loans with the British Barings Brothers Bank. Because most Latin American countries were already familiar with debt crises and defaults when the IMF launched its activities in the region, the signing of conditional loan accords was highly controversial among politicians, economists, and the public.

Few books have been published on the history of relations between the IMF and countries in Latin America. One by Jon V. Kofas focuses on the Colombian and Chilean cases, and one by Thomas Scheetz focuses on Peruvian-IMF relations.<sup>5</sup> Only three books have included the formative period of the ties between Argentina and the IMF: the first by Luigi Manzetti; the second, by Raúl García Heras; and the third, by Noemí Brenta (the last two in Spanish).<sup>6</sup> While significantly different from one another in scope and nature, these three books emphasize the Argentine perspective and focus on specific periods of the IMF's involvement in that nation.

In contrast to conventional approaches in the literature, this book presents the origins and evolution of Argentine-IMF ties as an example whose relevance transcends national boundaries. As historical evidence demonstrates, Argentina is one of many Latin American nations whose relationship with the IMF has been shaped, on one hand, by norms, policies, ideas, and practices designed by this multilateral organization, and on the other hand, by economic ills common to most Latin American nations (e.g., unfavorable terms of trade and balance-of-payments problems), similar economic strategies (e.g., import-substitution industrialization adopted in the 1930s, populist and expansionist policies of the 1940s and 1950s, and neoliberal models from the 1970s on), and pernicious, widespread political instability.

Irrefutably, the routine of dependency that is described here by systematically following the Argentine case reflects the IMF's patterns of interaction with other borrowers. This assertion derives not only from the notion that most Latin American debtors have experienced similar political and economic processes, but also from the fact that the working mechanisms that characterize Argentina's ties with the IMF are part and parcel of the institution's functioning. Indeed, IMF missions to member states all proceed the same way: a number of IMF economists serve as permanent residents in borrowing countries; the IMF Executive Board approves all loan arrangements; and all stand-by arrangements (SBAs) follow the same guidelines and include a clause that defines uniform

monitoring processes. Indeed, Stiglitz gave a telling account of one of his missions as a senior World Bank official to conduct negotiations with a borrowing country. When all of the parties involved began to read the draft of the SBA the IMF had produced, they noticed that the name inserted in the document for the borrowing nation was that of another country, from another continent. This technical error, as Stiglitz noted, suggests that the IMF's agreements are based on a single template; in this instance, the technocrats had failed to cut and paste the name of the borrowing country into all of the relevant clauses.<sup>7</sup>

Certainly, the mechanisms that I gather under the umbrella of the routine of dependency are generally conducted by the same individuals. Thus, for instance, the head of the IMF's Western Hemisphere Department is responsible for relations with all countries in the region, and he and his staff negotiate with delegates from all of the Latin American nations. Jorge del Canto, who headed the Western Hemisphere Department from 1957 until 1977, was deeply involved in the IMF's interactions not only with Argentina but also with Brazil, Chile, and other neighboring nations. That is, the same members of the IMF bureaucratic apparatus perform the same routine actions time and again, based on the same instructions, rules, economic premises, and goals. There is little room to maneuver or innovate, and there is no time to tailor a different pattern of interaction to each of the 188 IMF member states. As the Argentine Claudio Loser, who led the Western Hemisphere Department from 1994 to 2002, noted, "I have always compared the IMF with three other structures that, like the IMF, are characterized by great cohesion and vertical discipline: the old Communist Party (I am not joking), the Vatican, and the military. Everything is pleasant, very structured. There is lot of tension, lots of work and satisfactions. But there is very little freedom of action."<sup>8</sup>

## Outline of the Book

Since the real scope and meaning of the routine of dependency, both as an analytical tool and as a very concrete behind-the-scenes mechanism, can be better understood when we look at it over the long term, this book covers an expansive period of time. It opens with the planning of the Bretton Woods Conference in 1942 and ends with the repayment of debts to the IMF by several Latin American nations in 2005, making a final reference to more recent events.

While the chapters are structured around the relations between the IMF and Argentina as a window onto the inner workings of a phenomenon that is common to other countries, examples from other Latin American borrowers support critical events and insights. Indeed, as this book demonstrates, Latin American nations experience not only simultaneous cycles of populism, neoliberalism, or dictatorship but also simultaneous efforts to strengthen or weaken their interaction with the IMF. For instance, while the dictatorships of the 1970s

in Argentina, Brazil, and Chile were friendly to the IMF, the current leftist (or “neopopulist”) administrations of a large number of nations (including Argentina, Bolivia, Ecuador, Uruguay, and Venezuela) have adopted powerful anti-IMF stands. In other words, changing relationships with the IMF have reflected widespread trends in the region.

In keeping with the historical nature of this book, the chapters are organized chronologically, allowing the reader to follow the inception, entrenchment, and institutionalization of the routine of dependency year by year, step by step, loan by loan, and interaction by interaction. As my analysis reveals, the routine of dependency has not been exempt from friction and disagreements or from periods of decreased intensity. Interestingly, in most cases in which the work routine was altered, diminished interaction was initiated by Argentina. In effect, the IMF has been (sometimes overly) tolerant of and flexible toward Argentina and has made considerable efforts to keep the wheels of the routine of dependency in motion—efforts that are explicable, since the routine of dependency secures not only the IMF’s permanent intervention on the local, regional, and global scenes but also the engagement, relevance, and influence of its staff.

Chapter 1 discusses the planning of the IMF and World Bank during World War II and emphasizes the marginal role that the United States and Britain assigned to Latin America in the design and management of both institutions. The U.S. decision to invite the Allied nations—including all of the Latin American countries except Argentina—to the Bretton Woods Conference illustrates that alignment with Washington has always been a precondition to gaining access to the alleged fruits of multilateralism. Through its analysis of the differential voting system of the IMF and World Bank, Chapter 1 explains the weak formal position that Latin American member states have held within the IMF, as the allocation of quotas confirms.

Chapter 2 covers the thus far neglected negotiations between Argentina and the Bretton Woods institutions during 1946–1955, or the first Perón era. It demonstrates that, contrary to the monolithic approach in the historiography, which describes the nationalist leader Juan D. Perón as the archenemy of the IMF and of U.S. hegemony in Latin America, Perón made significant and continual efforts to gain membership for Argentina in the Bretton Woods institutions. In addition, studying the relationship between Perón and the IMF provides an alternative platform for challenging broadly accepted premises about how the United States shapes the IMF’s policies and decisions. Contrary to the usual assumptions made by scholars who adopt principal-agent theories or state-centered approaches, analysis of the Argentine case indicates that the IMF and the U.S. administration do not always have the same interests and goals: While the IMF was willing to expand the number of its member states by opening its doors to Peronist Argentina, for example, the United States was reluctant to approve the move. It is interesting to note that, at the time, the IMF had

established a strong collaborative relationship with Getúlio Vargas, the populist but remarkably pro-United States president of Brazil. Chapter 2 ends with the overthrow of Perón in September 1955 and the acceptance of post-Peronist and dictatorial Argentina into the IMF and World Bank. Argentina's inclusion among the Bretton Woods institutions in 1956 is represented as an opportunity to increase Latin America's representation and influence within the management of both organizations.

Chapter 3 describes and defines the routine of dependency. The first loan agreement Argentina signed with the IMF, in 1958, and the subsequent implementation of a belt-tightening stabilization program become a window onto the broad range of monitoring activities stipulated in the loan agreements signed by borrowers in Latin America and elsewhere from the 1950s on. Chapter 3 maintains that these monitoring procedures paved the way for a long series of interactions between Argentine and IMF technocrats and high-ranking officials. These interactions, which took place with few local nuances in most of the IMF's borrowing countries, soon became fertile ground for the development of a socialization process through which local representatives and institutions internalized the standards, working norms, precepts, and ideas of the IMF, thus creating an epistemic community. As historical documents indicate, the socialization process was not just a byproduct of the lender-borrower relationship. It was also a central component of the new multilateralism and a reflection of the need or desire of key economists and politicians in Argentina and other countries to transform their governments into active players on the new multilateral economic scene.

Chapter 4 explores the political ups and downs that affected the routine of dependency from 1962 to 1972, one of the most unstable and turbulent decades in contemporary Argentine political history. The chapter shows that the routine of dependency was not always immune to the political crises that erupted in Argentina. Indeed, at times Argentina promoted what I call "temporary episodes of detachment" from the IMF. These episodes did not cause complete interruptions in the routine of dependency, but they did lead to decreases in its intensity—decreases that the IMF attempted to prevent. Chapter 4 focuses on, among other issues, the intriguing case of President Arturo Illia (1963–1966), whom numerous critics called (in my view, unfairly) a political "turtle." Illia, the leader of the Radical Civic Union, was the first Argentine president to actively and deliberately interrupt the routine of dependency and resist the pressures exerted by the international financial community. Illia's autonomist position vis-à-vis the IMF has since been adopted by only two Peronist presidents: Néstor Kirchner in 2005 and now Cristina Fernández de Kirchner. At the beginning of his presidency, Raúl Alfonsín (1983–1989) intended to follow a similar autonomist path, but in the wake of a serious economic downturn, he finally signed a new loan agreement with the IMF.



Chapter 5 focuses on two stormy chapters of Argentina's history: the Peronism of the 1970s and the military dictatorship led by General Jorge Rafael Videla, which began with the coup of March 1976 and ended in 1983. An examination of the relations between late Peronist Argentina and the IMF sheds new light on the debates, doubts, and conflicts that interactions with the IMF triggered within the ruling party and government. In addition, it highlights the IMF's willingness to compromise in approving new loan agreements even when it seemed unlikely that the borrowing country would be able to repay its debts and fulfill the conditions of the loan. The IMF's flexibility toward Argentina represents a broader institutional attempt to keep the routine of dependency intact. As Chapter 5 illustrates, the dictatorial regimes in Argentina, along with those in Brazil and Chile, were eager to rehabilitate and further entrench themselves in their relationships with the IMF, which lent international legitimacy to illegitimate governments. The perceived honeymoon between the IMF and José Alfredo Martínez de Hoz, the economic minister during the cruelest dictatorship in Argentine history, is a symbol of the ideological alliance between two parties that supported the liberalization of Argentina's economy. The alliance between that neoliberal government and the IMF was not unique; the close ties between Augusto Pinochet's regime in Chile and the IMF is another case in point.

Chapter 6 examines the relationship between the IMF and its Latin American member states in the aftermath of the debt crisis that erupted in 1982 and during the lost decade—a period characterized by economic stagnation and inflation, on one hand, and by democratization around the region, on the other. Chapter 6 pays particular attention to the application of heterodox programs under President Raúl Alfonsín, as well as under his counterparts in Brazil and Peru. Then it turns to the double tenure of Carlos Saúl Menem (1989–1999), the poster child for neoliberalism, and the brief and in some ways tragic presidency of Fernando de la Rúa (1999–2001). The chapter concludes with Néstor Kirchner's term (2003–2007) and with the repayment of IMF loans by several debtors in 2005, signaling a shift in Latin America's relations with the IMF.

Finally, this book makes an empirical assessment of several key questions often raised by social scientists (and by citizens of debtor countries). One set of questions explores the true meaning of the economic neutrality that is the source of such pride for the IMF: Does the IMF really remain economically neutral in its dealings with its member states in general, and with its potentially unstable Latin American debtors in particular? How and why did essentially different Latin American regimes establish and promote their intense routine of dependency with the IMF? The other set of questions relates to the nature of the IMF itself; as the Argentine case reveals, there is considerable tension between two interrelated and complementary facets of the institution. On one hand, the IMF is a multilateral organization that is highly influenced by its strongest shareholders—in particular, the United States—leaving its decisions

subject to political considerations. On the other hand, because the IMF is a well-established bureaucracy comprising a professional team of hundreds of economists who hold doctorates from the most renowned (and, for the most part, U.S.) universities that, over the years, has established its own goals, beliefs, norms, and interests, it is expected to act according to strict economic criteria. As this book demonstrates, the tensions between the two faces of the IMF coin are not always resolved in the same manner. How are they resolved? To find answers to these and other intriguing questions about IMF–borrower relations, we must put aside old truisms and dichotomies that were never tested empirically and follow the historical documents to the heart of the routine of dependency.