

**Chile, Argentina and the Bretton Woods System
(1945-1973)**

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Short abstract

This thesis analyses how Latin America's Southern Cone actively and strategically navigated the Bretton Woods international monetary system (1945–1973). Aiming to re-centre traditional accounts focused on industrialised economies, it shows how Chile and Argentina engaged and shaped global financial developments in the postwar era. Central to those interactions were the countries' fragile external positions and their ISI models, which remained at odds with global non-discriminatory norms. Drawing upon a vast range of archival sources, from government agencies to major trading partners' records, this dissertation is divided into three main parts. Part I explores how the Southern Cone navigated the complex postwar dollar shortage and the emergence and consolidation of currency blocs. Chapter 1 delves into Chile's use of a discriminatory system of multiple exchange rates, while Chapter 2 analyses the unfolding and crisis of what this thesis refers to as the 'bilateral-nationalistic' strategy in Argentina. Part II focuses on the global transition towards multilateralism, normally signalled by currency convertibility of major industrial countries. In the Southern Cone, such a shift took the form of stabilisation programmes aimed at modernising the countries' import-substitution models and buttressed by unprecedented levels of international cooperation (Chapters 3 and 4). Finally, Part III examines the eventful final decade of the Bretton Woods order, which roughly coincided with the Southern Cone's industrial heyday. It shows how a combination of improved trade conditions and international assistance enabled both Chile (Chapter 5) and Argentina (Chapter 6) to enjoy a comfortable external position and assist America with its balance of payments constraints in the late 1960s. Taken together, the three parts of this thesis reveal a more complex architecture of the postwar order, portraying it as a truly global system deeply embedded in cooperation and multilateralism.

Long abstract

Operating between 1945 and 1973, the Bretton Woods System (BWS) stands out as the only global financial order emerging from international deliberation in the history of globalisation. It was a system characterised by pegged exchange rates, convertibility for current account transactions and tolerance for controls on capital movements perceived as destabilising. A key feature of the postwar monetary order was the role of the IMF in assisting member countries facing short-term balance of payments fluctuations, and of the IBRD in providing development finance. Participation in the BWS via IMF/IBRD membership made countries eligible for multilateral technical and financial support in exchange for committing to agreed-upon rules, most clearly outlined in the Fund's Articles of Agreement. Significantly, such rules and the blueprints designed at the 1944 Bretton Woods Conference proved inadequate to account for the imbalances of the postwar period. As a result, the BWS evolved in ways that favoured regional and often discriminatory solutions, delaying its full operation until the late 1950s. Yet in the 1960s, new pressures emerged as the pegged regime came to rely on complex and costly ad hoc mechanisms. The system ultimately collapsed in the 1970s when those cooperative approaches, among other factors, were abandoned by major industrialised countries.

Conventional accounts of the postwar monetary system tend to emphasise the role played by industrialised (or G10) countries. In seeking to explain the main shifts and turns of the BWS, economic historians are correct in highlighting that the policy choices of industrialised capitalist nations shaped critical aspects of the international monetary order. Scholarship on the BWS, however, offers limited insight into the extent to which systemic dynamics may have shaped developing regions (and vice versa). Centred on the experience of the Southern Cone of Latin America and drawing on extensive archival records, this thesis contributes to filling that gap by examining Chile's and Argentina's active and strategic navigation of the postwar financial order. In doing so, it re-centres traditional North Atlantic accounts on the BWS and gives fresh insights into the broader operation of the global financial order after 1945. The analysis draws upon a wide range of archival records, including central bank and government sources from both countries, multilateral institutions, and key trading partners, many of which were classified or confidential at the time. This multi-archival approach underpins the three main parts of the dissertation, which examine key aspects of the Southern Cone's navigation of the postwar financial regime.

Before outlining the main parts of the dissertation, it is crucial to define some key characteristics of the Southern Cone. Arguably, the most distinctive policy feature of both economies in the postwar era was their reliance on the Import Substitution Industrialisation (ISI) model. During the Bretton Woods era, policymakers in Santiago and

Buenos Aires remained greatly committed to supporting domestic industries in ways that sometimes hindered the export sector. Combined with fragile external positions and domestic macroeconomic imbalances, the ISI model hinged on a wide range of external and often discriminatory regulations. A second distinctive aspect of the Southern Cone was its specific alignment with major industrialised countries. While Chile maintained close economic and political ties with the United States and received substantial aid in the 1960s, Argentina decided to remain near its traditional European partners and Britain in particular. At specific turns, these different alignments shaped their respective participation in the postwar international monetary system.

The First Part of this thesis, entitled ‘The Southern Cone and the Postwar Dollar Shortage (1945-1950),’ focuses on the immediate postwar period. The chapters begin by revisiting the wartime trade boom, which allowed the Southern Cone to accumulate record levels of international reserves. A crucial distinction in how the two countries navigated the postwar order was membership in the Bretton Woods institutions, with Argentina only joining in 1956. As a founding member of both the IMF and the IBRD, Chile developed a complex early relationship with the Fund. As Chapter 1 explores, the regulatory framework Chile inherited from the interwar period conflicted with the Fund’s initial push for liberalisation prior to the 1947 sterling crisis. Long and often contentious negotiations followed between IMF missions and Chilean officials over the persistence of non-tariff barriers, particularly multiple exchange rate practices. Despite recurrent agreements and plans to unify the exchange rate system, these were repeatedly abandoned amid external payments constraints, symptomatic of both the constraints of ISI, the global dollar shortage, and the IMF’s diminished powers. In sum, Chile’s discriminatory regime remained in place until the mid-1950s, reflecting Bretton Woods’ increasing tolerance for exclusive currency arrangements during its so-called ‘regional turn.’

While Chile’s postwar experience with exchange rate policy has received only marginal attention in the literature, Perón’s Argentina (1944-1955) remains one of the most extensively studied by economic historians of Latin America. To uncover new dimensions, Chapter 2 offers a fresh perspective on Buenos Aires’ integration into the postwar global economy. Rather than embracing multilateralism, Argentina pursued a ‘bilateral-nationalistic’ strategy characterised by the nationalisation of foreign-owned assets, the repatriation of public debt, and the extension of credit to both European and Latin American countries. This strategy, however, relied on the assumption that access to convertible sterling (secured in 1946) would remain stable. On that basis, Argentina embarked on an ambitious import programme from the dollar area, while directing exports primarily to soft-currency Europe. The 1947 sterling crisis dealt a significant blow to this approach, further complicated by Argentina’s exclusion from the Marshall Plan’s

overseas purchases. By the end of the decade, the country's previously favourable external position had deteriorated into a severe balance of payments crisis. Its nationalist-bilateral strategy was ultimately abandoned. Instead, Buenos Aires started to increasingly rely on discriminatory mechanisms to face external payments difficulties, converging thus with the Chilean experience.

Fast forward to the mid-1950s, the second part of this study examines the 'Stabilisation Programmes in Chile and Argentina Against the Backdrop of G10 Convertibility (1955–1962).' At the outset of this period, both countries faced the exhaustion of the ISI model and embarked on their first comprehensive stabilisation programmes. Chapter 3 opens by exploring the long-term consequences of global inconvertibility and bilateralism for Chile's direction of international trade, underscoring its position vis-à-vis the dollar area, a theme largely overlooked in the historiography. While the policy packages adopted during these programmes are relatively well known, this chapter draws attention to neglected aspects related to the evolution of the BWS. It shows how regulatory overhauls, supported by short-term external assistance and cooperation from the G10 and commercial banks, helped Chile move toward core Bretton Woods principles, such as the reduction of exchange rate discrimination and the gradual phasing out of bilateral trade arrangements.

In September 1955, a military coup abruptly ended Perón's second term. Successive governments were eager to move away from his more isolationist policies, including applying for Bretton Woods membership. Like Chile, and almost simultaneously, Argentina's new authorities also implemented ambitious stabilisation programmes. Chapter 4 explores Argentina's full reintegration into the international financial system. While historians have documented the main policy choices, their timing, and the reasons for their eventual failure, less attention has been paid to the mechanisms that enabled Argentina's shift toward multilateralism and the cooperative stance of its international partners. In that line, a key contribution of this chapter (and thesis at large) lies in uncovering the origins, operation and early evolution of the 'Paris Club,' an informal group of Western European creditor countries created to restructure Argentina's debt in 1956. The chapter also asserts the importance of continued international support towards the Southern Cone during Argentina's first post-Perón democratic government in 1958, as it involved key assistance from the IMF, G10 economies and their commercial banks.

Amid the severe balance of payments crises of the early 1960s, few observers would have anticipated that Chile and Argentina were about to experience their highest growth rates of the postwar period. Part Three of this thesis, entitled 'The Industrial Peak of the Southern Cone in the Last Decade of Bretton Woods (1964–1973),' explores this apparent paradox. Chapter 5 begins by analysing the 1965 debt negotiations between Chile and the Paris Club, mostly omitted from the historiography. In retrospect, this early debt relief

proved essential for the Christian Democratic government's economic programme, which also benefited from improving trade conditions. The chapter contends that, thanks to a more comfortable international reserve position, Santiago was able to experiment with an innovative exchange rate regime, alongside a renewed push for regional and financial integration and moderate support towards the US balance of payments. The final years of the BWS, however, coincided with the rise of a Marxist government, more focused on nationalisations than raising concerns over a new Western economic governance. Yet support from capitalist nations remained relevant: amid renewed balance of payments difficulties, Santiago once again turned to its G10 creditors in 1972. That the venue for debt restructuring was none other than the Paris Club sheds light on the institutional legacy of the Bretton Woods era that this thesis seeks to bring to the fore.

The Paris Club reappears for the last time in the first part of Chapter 6, playing a key role in the reorganisation of Argentina's external liabilities at the outset of its so-called 'industrial spring.' Like Santiago, Buenos Aires benefited from favourable global trading conditions, and international reserves soared. Seeking to capitalise on this opportunity, the government turned to the IMF and key G10 partners for additional support, even when the balance of payments position did not yet demand it. As this chapter argues, the military (in power since a new coup in 1966) sought to demonstrate its commitment to restoring investor confidence: it declared the peso convertible and drawable from the Fund, dismantled all current and capital account restrictions, and issued expensive bonds in European and US markets, including the Eurodollar market. Investors reacted with strong interest as Argentina appeared as a more stable venue than those of the G10, at that time menaced by currency realignments. From this strengthened position, Argentina even provided assistance to the US balance of payments, an episode largely absent from the historiography. Yet the stabilisation programme proved short-lived: by 1971, a severe balance of payments crisis had emerged. To bridge the external gap, Argentina once again called on G10 partners, with commercial banks providing vital assistance in 1972.

Taken together, in an effort to re-centre traditional accounts on the BWS, the episodes examined across this thesis support a central argument: throughout the postwar decades, the G10 economies did not navigate or reshape the monetary and financial system by themselves. Although the main shifts in the BWS were driven by reserve-currency countries and other industrial nations, these developments were also acutely perceived (and responded to) by developing nations. Phenomena such as the dollar shortage, bilateralism, the move toward multilateralism, cooperative arrangements, and ad hoc mechanisms were global in scope. Among the developing world, Latin American countries offer a valuable and fresh baseline from which to reassess the functioning and architecture of the postwar monetary order. In turn, the evolution of the BWS provides

important insights into the systemic constraints (e.g., currency areas) and policy shifts that may have hindered, justified, or supported ISI or alternative development strategies.

Thanks to a wealth of new archival evidence, this thesis documents how Southern Cone nations, while following distinct domestic trajectories, shared a common path within the Bretton Woods framework. They contended with systemic crises and took advantage of new opportunities, and crucially, their post-1955 calls for assistance and cooperation were not ignored. Multilateral institutions and G10 governments repeatedly engaged with these countries not merely as a matter of generosity (PL 480 or America's Food for Peace programme being one of those cases), but more often due to shared and overlapping interests. For institutions like the IMF, the Southern Cone was instrumental in maintaining relevance on the international stage. For creditor governments, motivations ranged from Cold War strategic considerations and securing access to key commodities to preserving or expanding market opportunities. A crucial and lasting outcome of the interactions between the Southern Cone and the G10 was the Paris Club, a forum that this thesis argues is best understood as part of the Bretton Woods multilateral framework (Part II) and as an apparatus that supported the system in the 1960s (Part III). What emerged from engagements like the Paris Club (but also other short-lived arrangements) was a durable pattern of interactions embedded in multilateralism and cooperation, the most enduring legacy of the postwar order.

Key abbreviations and acronyms

AID	Agency for International Development
BIS	Bank for International Settlements
BWS	Bretton Woods System
CBAR	Central Bank of the Argentine Republic [Banco Central de la República Argentina]
CBCCh	Central Bank of Chile [Banco Central de Chile]
CCF	Compensatory Financing Facility (IMF)
CPI	Consumer Price Index
ECLA (or CEPAL)	United Nations Economic Commission for Latin America
EPU	European Payments Union
EXIMBANK	Export-Import Bank of the United States
FE	Foreign Exchange
FDI	Foreign Direct Investment
FRBNY	Federal Reserve Bank of New York
G10	Group of Ten
GAB	General Agreements to Borrow
GATT	General Agreement on Tariffs and Trade
IAPI	Argentine Institute for the Promotion of Trade
IBD	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICA	International Cooperation Administration
IFC	International Financial Corporation
IFS	International Financial Statistics (IMF)
IMF	International Monetary Fund (or Fund)
ISI	Import Substitution Industrialisation
ITO	International Trade Organisation
LAFTA	Latin American Free Trade Organisation
MFN	Most Favoured Nation
NAC	National Advisory Council (United States)
NTB	Non-Tariff Barrier
OECD	Organisation for Economic Co-operation and Development
OEEC	Organisation for European Economic Co-operation
PL 480	Public Law 480 (US Food for Peace Program)
SBA	Stand-By Arrangement (IMF)
SDR	Special Drawing Rights (IMF)
UK	United Kingdom
US	United States of America
YTM	Yield to Maturity

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INTRODUCTION

“As to the third illusion, let me refer to Bretton Woods. The [flawed] perspective in which Bretton Woods and other institutions were conceived was that of the developed countries, that of the centers “What is good for the centers will also be good for the periphery” –a concept which is also being superseded by events...”¹

Raúl Prebisch, 1980

A truly global system

In July 1944, as World War II neared its end, representatives from forty-four nations gathered at the Mount Washington Hotel in New Hampshire for a series of intensive negotiations. Officially titled the United Nations Monetary and Financial Conference, the event was structured into three commissions and numerous committees. Across dozens of meetings, delegates and staff worked through the bread-and-butter issues of the postwar international financial order: how to stabilise exchange rates and promote currency convertibility to support freer trade.² The magnitude of the task warranted the effort. Beginning in the 1930s, the global economy had been destabilised by the collapse of the gold exchange standard and the proliferation of discriminatory arrangements, with wartime controls only deepening those distortions. Linking international economic disorder with the horrors of global war, policymakers came to see a freer international trade and payments system as essential to securing lasting peace. As US Secretary of the Treasury Henry Morgenthau put it in his closing address to the Conference, “[w]e came here to work out methods which would do away with the economic evils — the competitive currency devaluations and destructive impediments to trade,” confidently concluding that “[w]e have succeeded in that effort.”³

In the short term, indicators of the success of the new order seemed evident. For the first and only time in history, both developed and developing nations across the board agreed on a shared set of rules and institutions to govern the international monetary system. These included a system of ‘fixed-but-adjustable’ exchange rates and a

¹ Raúl Prebisch, ‘Structural Change Within the South’, in *Dialogue for a New Order*, ed. Khadija Haq, Pergamon Policy Studies on International Development (New York: Pergamon Press, 1980), 242.

² For the Conference’s most comprehensive transcripts, see Kurt Schuler and Andrew Rosenberg, eds, *The Bretton Woods Transcripts*, 1st edition (Center for Financial Stability, 2012).

³ CVCE, ‘Closing Address by Henry Morgenthau, Jr (22 July 1944)’, accessed 29 July 2025, https://www.cvce.eu/content/publication/2003/12/12/b88b1fe7-8fec-4da6-ae22-fa33edd08ab6/publishable_en.pdf. The Bretton Woods Conference was the culmination of a series of meetings at the Anglo-American and wider level (Atlantic City), drawing on plans originally devised in 1942.

commitment to phase out restrictions on current account transactions. To assist member countries in this transition and provide multilateral financial resources, both the International Monetary Fund (IMF or Fund) and the International Bank for Reconstruction and Development (IBRD) were created. Refuting early sceptics, the period immediately following the conference seemed to validate its promise. By 31 December 1945, thirty countries representing well over half of global GDP had deposited their instruments of acceptance, effectively becoming members of Bretton Woods. Not only did leading nations enter into the new international monetary system, but also colonial territories and the majority of Latin American nations.⁴ At least within the Western Hemisphere area, cooperation appeared to have passed its initial test.

However, the actual evolution of the system reveals a more complex story. The pathway as envisaged in 1944 proved inadequate to account for the difficulties in the immediate postwar period. An International Trade Organisation meant to be the third pillar in the postwar system (alongside the IBRD and IMF) lacked crucial US support and faced resistance from developing countries with industrialisation ambitions, with the much less ambitious General Agreement on Tariffs and Trade (GATT) acting as a de facto framework for international commerce. But even more importantly, international monetary conditions and domestic political difficulties made it impossible for war-torn capitalist countries to comply fully with the new rules.⁵ As a result, discrimination and exchange restrictions persisted throughout most of the 1950s for industrialised Western European nations. Only after their currencies were declared convertible in late 1958 did the Bretton Woods system (BWS) begin to resemble its original design more closely. Yet new challenges soon emerged, and its continued operation came to depend on increasing levels of international cooperation. Ultimately, on 15 August 1971, the dollar's convertibility into gold was suspended, and the postwar monetary order shortly after passed into history.

Even though the BWS evolved in a unique way, most scholars agree that the postwar regime extended for almost three decades. Its design flaws, most notably problems of liquidity, adjustment and confidence, did not prevent a rapid expansion of membership. From the 35 founding members at the end of 1945, another eighty had joined the system

⁴ A year later, another ten joined, with only one withdrawal (Poland). The GDP figures are taken from Jutta Bolt and Jan Luiten van Zanden, 'Maddison-Style Estimates of the Evolution of the World Economy: A New 2023 Update', *Journal of Economic Surveys* 39, no. 2 (2025): 631–71, doi:10.1111/joes.12618. Latin American nations were actively involved in the negotiations, particularly interested in developing finance and also stabilisation commodity agreements. See Eric Helleiner, 'The Latin American Origins of Bretton Woods', in *The Global Political Economy of Raúl Prebisch*, ed. Matias Margulis, RIPE Series in Global Political Economy (London: Routledge, 2017), 70–94.

⁵ For a concise summary of the BWS, see Peter Kugler and Tobias Straumann, 'International Monetary Regimes: The Bretton Woods System', in *Handbook of the History of Money and Currency*, ed. Stefano Battilossi, Youssef Cassis, and Kazuhiko Yago (Singapore: Springer Singapore, 2020), 665–85, doi:10.1007/978-981-13-0596-2_25.

by the early 1970s. This expansion reflected both the 1960s wave of decolonisation and the integration of key capitalist nations in the 1950s, such as Japan, Germany, Argentina and Spain. Adherence to the system was defined by a country's acceptance of the IMF Articles of Agreement, which spelt out the Bretton Woods key principles: defining a par value, eliminating restrictions on current account transactions, and avoiding currency manipulation, among others. Most developed nations complied with those rules by the early 1960s, when they approved Article VIII of the Fund's agreements. By contrast, multilateral authorities allowed most developing members to temporarily retain exchange and discriminatory controls (Article XIV) until they were ready to fully comply with the system's rules.

This project aims to revise and recentre traditional historical narratives of the postwar international system by examining the roles played by Latin America's Southern Cone in shaping its evolving architecture.⁶ The postwar period marked a crucial and complex chapter in the interaction of Chile and Argentina with the global economy and the international financial system. By the time of the Bretton Woods Conference, the Southern Cone had already laid the main foundations of a policy framework based on import-substitution industrialisation (ISI). Problematically, the ISI project relied on a range of discriminatory regulations that conflicted with the principles set out at Bretton Woods, creating a series of sticking points between Argentina and Chile, on the one hand, and multilateral institutions and major trading partners, on the other. Yet such tensions were not unique to Latin America nor to developing countries. Industrialised economies also frequently deviated from Bretton Woods rules even prior to the critical 1960s: in 1948, the IMF suspended France's drawing rights due to its discriminatory exchange practices; Britain unilaterally devalued sterling in 1949; between 1950 and 1961, Canada allowed its currency to float freely.

Despite those industrialised 'rule-breakers,' it can be rightly argued that the evolution of the postwar monetary order was shaped primarily by the policy choices of the major Western countries. For instance, it was the so-called G10 group⁷ of industrialised countries that established the major cooperative responses to deal with international liquidity problems through the General Agreements to Borrow (GAB) (1962) and then the Special Drawing Rights (SDRs) (1969). These countries also held greater voting power in multilateral institutions due to their larger quotas, and their currencies were most frequently drawn from the Fund, reflecting their central role in international settlements.

⁶ The Southern Cone normally includes three countries, Argentina, Chile and Uruguay. In this thesis, however, the term refers specifically to Argentina and Chile, the two largest economies in the subregion, which played more prominent roles in international economic and diplomatic engagements.

⁷ The G10 (Group of Ten) included Belgium, Canada, Federal Germany, France, Italy, Japan, the Netherlands, Switzerland, the UK and the US. In this study, the term 'G10' is used as a shorthand for the developed, industrialised Western countries.

In particular, the dominance of the US dollar, the fixed dollar price of gold, and the persistent difficulties surrounding the pound sterling were decisive in defining the system's final decade.

However, this archival-based project shows that, despite lacking a public profile in global monetary deliberations, Santiago and Buenos Aires not only deliberately and strategically navigated the major shifts of the BWS but also actively engaged with multilateral institutions and the G10 while developing ambitious ISI strategies. The postwar monetary system was, in this sense, a truly global one (but not precisely as Prebisch portrayed in 1980).⁸

Before outlining this project's contributions and its dialogue with different strands of scholarship, it is important to draw attention to the global economic significance of the Southern Cone. Having risen to prominence as major commodity exporters during nineteenth-century globalisation, Chile and Argentina continued to play an important role as providers of key raw materials throughout the postwar era. In the three decades following the Second World War, Chile was among the world's leading copper producers, accounting for an average of 15% of global output. Copper was vital not only for postwar reconstruction and industrial expansion in developed countries, but also as a strategic input in Cold War conflicts such as Korea and Vietnam.⁹ Argentina, on the other hand, remained a traditional exporter of grains (wheat, corn, flax) and livestock products (meat, wool). Although postwar policies did not prioritise exports, Argentina was still the world's third-largest beef producer, behind only the United States and the Soviet Union, and ranked among the top ten wheat producers by the early 1960s. Argentine commodities were of critical importance to Britain in the immediate postwar years and, although declining in significance, remained relevant until the UK's accession to the European Common Market in 1973.¹⁰

In addition to the Southern Cone's global commercial importance, several other features make Chile and Argentina compelling cases through which to examine the wider architecture of the Bretton Woods system. First, both countries received substantial

⁸ See epigraph. Raúl Prebisch was Latin America's most prominent economist in the postwar era, who led the influential UN Economic Commission for Latin America (ECLA or CEPAL) (1950-1963) and later the UN Trade and Development (UNCTAD) (1964-1969).

⁹ For a summary of the copper industry in Chile, see José Pablo Arellano, 'Copper Mining and Its Impact on Chile's Development', *Revista de Integración y Comercio (Integration and Trade Journal)* 35, no. 16 (2012): 45-57.

¹⁰ Data on Argentine commodities from Our World in Data, see Hannah Ritchie, Pablo Rosado, and Max Roser, 'Meat and Dairy Production', *Our World in Data*, 1 November 2019; Hannah Ritchie, Pablo Rosado, and Max Roser, 'Agricultural Production', *Our World in Data*, 1 January 2023. For Anglo-Argentine trade relations, see Colin Lewis, 'Anglo-Argentine Trade, 1945-1965', in *Argentina in the Twentieth Century*, by David Rock (London: Duckworth, 1975), 114-34.

foreign assets; American¹¹ in Chile and British in Argentina. Although pressures for nationalisation intensified (and materialised in Argentina, notably in the railways), the region remained an attractive destination for new foreign direct investment, including expansion of copper facilities in Chile and oil and banking in Argentina in the 1960s. Second, both countries were heavy borrowers from the IMF, which not only made them recipients of multilateral assistance but also placed Southern Cone officials in regular engagement with Fund authorities while the Fund's operational functions were developed or established. Third, as part of Cold War strategic considerations, Latin America became a key zone of influence for the United States and an increasing recipient of American aid following the Cuban Revolution in 1959. Fears of communist expansion made Chile a focus of US initiatives like the Alliance for Progress, while Washington maintained support for successive Argentine governments, including those that followed the coups of 1955, 1962, and 1966.

The next sections examine in greater detail the key features of the BWS and the industrialisation era in Latin America. Their aim is to introduce the main themes and trajectories of the international monetary order and the ISI development model, in order to situate this thesis within the relevant strands of literature and highlight its contribution to current or key discussions. This introductory chapter then presents a summary of the primary sources and databases consulted in the course of the research, followed by an outline of the dissertation's three main parts and chapters, together with their central arguments.

The two phases of Bretton Woods (1945-1973)

An international monetary or financial system refers to the set of rules and institutions that govern cross-border payments. Throughout the history of globalisation, various systems have emerged, from the classical gold standard (1871–1914) to the post-Bretton Woods regime characterised by its high capital mobility (1973 to the present). A common way to conceptualise the BWS (1946–1973) is through its particular solution to the so-called Mundell-Fleming trilemma. This trilemma posits that countries can simultaneously achieve only two objectives between fixed exchange rates, an independent monetary policy and full capital mobility.¹² Under the 1944 Conference

¹¹ Throughout this dissertation, 'America' or 'Americans' refer exclusively to the United States of America and its citizens. It follows the wording used by people in the US to define themselves and most historical records. See also Hal Brands, *Latin America's Cold War* (Cambridge, Mass: Harvard University Press, 2010), 276, doi:10.4159/9780674058439.

¹² In practice, however, countries pursue all three to varying degrees rather than adhering strictly to two. For a recent revision of the trilemma in the Bretton Woods era and how countries used credit controls to escape from the 'trilemma,' see Eric Monnet, 'Credit Controls as an Escape from the Trilemma. The Bretton Woods Experience', *European Review of Economic History* 22, no. 3 (1 August 2018): 349–60,

framework, countries opted for the first two while keeping capital movements mostly restricted due to their perceived destabilising effects.¹³ Exchange rates were to be pegged to the US dollar, which was itself fixed to gold at US\$35 per ounce. National currencies could fluctuate within a narrow band of $\pm 1\%$, while larger adjustments were permitted only in cases of a loosely defined ‘fundamental disequilibrium.’¹⁴ Monetary policy autonomy enabled nation states to pursue key domestic objectives, notably economic growth, welfare states and employment.

With predictable exchange rates and tightly controlled capital flows, a central objective of the BWS was the progressive liberalisation of current account transactions. Member countries were expected to phase out restrictions on payments for trade in goods and services, as well as income transfers such as interest and profit remittances. To abolish these restrictions, Bretton Woods members committed to removing discriminatory exchange controls on current payments, most of which had been introduced following the Great Depression. In the Bretton Woods era, such liberalisation was tantamount to declaring their currencies ‘convertible,’ a status that allowed individuals and companies to freely exchange a given currency for foreign ones in transactions related to trade, services, or income transfers.¹⁵ Convertibility, in turn, was regarded as the cornerstone of a non-discriminatory multilateral system in which cross-border payments were settled collectively by offsetting obligations among members. BWS architects believed that multilateralism, underpinned by international economic cooperation, was the key to postwar economic global prosperity (and long-lasting peace).¹⁶

Besides the solution to the trilemma, a defining feature of the BWS was the creation of new international institutions to support member countries. The IBRD was originally chartered to support the reconstruction of Europe, but soon shifted its focus to development projects in regions where private investment was lacking. While the IBRD’s proposal and operation caused relatively little controversy, the IMF attracted most of the

doi:10.1093/ereh/hex029.

¹³ Reasons for the imposition of capital controls can be found in Lee E. Ohanian et al., *The Consequences of Bretton Woods Impediments to International Capital Mobility and the Value of Geopolitical Stability*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, 1 October 2020), 32–37, doi:10.20955/wp.2020.042.

¹⁴ The notion of fundamental disequilibrium remained undefined at the Conference. It pointed to a situation in which a country’s external imbalance, like a chronic trade deficit, could not be corrected through policy measures apart from an adjustment of the exchange rate. See Teru Nishikawa, ‘Shaping the Fund’s Policy for Exchange Liberalization’, in *History of the IMF: Organization, Policy, and Market*, ed. Kazuhiko Yago, Yoshio Asai, and Masanao Itoh (Tokyo: Springer Japan, 2015), 52, doi:10.1007/978-4-431-55351-9_3.

¹⁵ Michael D. Bordo, ‘The Bretton Woods International Monetary System: A Historical Overview’, in *A Retrospective on the Bretton Woods System. Lessons for International Monetary Reform*, ed. Michael D. Bordo and Barry Eichengreen (Chicago: University of Chicago Press, 1993), 38.

¹⁶ John Gerard Ruggie, ‘International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order’, *International Organization* 36, no. 2 (1982): 393–98.

attention at the Conference and in the years that followed.¹⁷ This was no coincidence: the IMF Articles of Agreement set out the operational framework of the BWS and the members' obligations.¹⁸ A key function of the Fund was to support the system of convertibility with pegged rates (Article IV). In turn, the Fund provided short-term assistance to member countries facing balance of payments difficulties. Members could draw on the Fund resources (e.g., purchase foreign currency in exchange for their own with the promise of repurchase) according to their contributions to the Fund (based on assigned quotas). Over time, the IMF expanded its lending capacity by expansion of membership, revision of quotas and through new programmes.¹⁹

Whether due to its rules, institutions, or broader characteristics, the BWS is conventionally described as a period of remarkable stability. Prima facie, the absence of major financial or banking crises for nearly three decades, coupled with record levels of real growth, seems to support such a characterisation.²⁰ In this vein, several current commentators have called for a new Bretton Woods to tackle twenty-first-century international challenges, including financial crises.²¹ Yet when asked about the prospects of recreating a BWS, financial historians typically caution against hasty conclusions. As Eichengreen argues in a recent essay, the Bretton Woods system required low capital mobility and tight financial regulation, features which would be difficult to replicate in the current context.²² Moreover, the system's actual evolution

¹⁷ See Jeffrey Frieden, 'The Political Economy of the Bretton Woods Agreements', in *The Bretton Woods Agreements: Together with Scholarly Commentaries and Essential Historical Documents*, ed. Naomi Lamoreaux and Ian Shapiro (New Haven: Yale University Press, 2019), 29–30. Literature on the Bretton Woods Conference is extensive. It is normally depicted as a rivalry between two plans, Keynes' and White's, with the final version resembling the latter more. See, for instance, Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton: Princeton University Press, 2013).

¹⁸ CVCE, 'Agreement of the International Monetary Fund (22 July 1944)', accessed 29 July 2025, https://www.cvce.eu/content/publication/2003/12/12/736e2f6e-fcd2-49d7-8b62-d601a3a8b839/publishable_en.pdf.

¹⁹ In the Bretton Woods era, the IMF quotas were revised in 1958/9 (60.7%), 1965 (30.7%) and 1970 (35.4%). The Fund's most relevant programme during this period was the SBA. See Guitián and official histories of the Fund: Manuel Guitián, 'Conditionality: Past, Present, Future', *Staff Papers - International Monetary Fund* 42, no. 4 (December 1995): 803–5, doi:10.2307/3867599; John Keith Horsefield, *The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation. Vol. 1: Chronicle* (Washington (D.C.): International Monetary Fund, 1986); Margaret Garritsen de Vries, *The International Monetary Fund 1966-1971: The System Under Stress. Volume I: Narrative* (Washington, D.C.: The Fund, 1976); Margaret Garritsen de Vries, *The International Monetary Fund, 1972-1978: Cooperation on Trial. Volume 1: Narrative and Analysis*, vol. 1 (Washington, D.C.: The Fund, 1985).

²⁰ See Amir Sufi and Alan M. Taylor, *Financial Crises: A Survey*, Working Paper, Becker Friedman Institute for Economics (University of Chicago, 2021).

²¹ See, for example, Joaquim Levy, Alex A. Weber, and Siddharth Tiwari, 'The Bretton Woods Institutions We Need | by Joaquim Levy, Axel A. Weber and Siddharth Tiwari', *Project Syndicate*, 15 April 2024, <https://www.project-syndicate.org/commentary/imf-world-bank-can-be-empowered-to-address-global-commons-problems-by-joaquim-levy-2-et-al-2024-04>.

²² Barry Eichengreen, 'Bretton Woods After 50', *Review of Political Economy* 33, no. 4 (2 October 2021): 552–69, doi:10.1080/09538259.2021.1952011.

diverged from the path envisaged at the 1944 Conference. Reflecting this shift, the BWS is normally divided into two main sub-periods, with the declaration of current account convertibility in Western Europe at the end of 1958 as the major turning point.²³

The characteristics of both subperiods of the BWS deserve further examination, as the literature emphasises distinctive features which had direct consequences for the Southern Cone's navigation of Bretton Woods. The first phase refers to the period up to December 1958, when major European countries finally declared their currencies convertible for current account transactions. Until that point, Western governments retained exchange controls in an attempt to protect their scarce international reserves. Europe's limited export capacity in the immediate postwar years made it difficult to accumulate sufficient amounts of convertible currency, in what became known as the postwar 'dollar shortage.'²⁴ Europe's delayed convertibility was also explained by the events of 1947, when the Bank of England, under pressure from the terms of the 1946 Anglo-American loan, briefly lifted exchange controls on the pound sterling. The experiment with convertible sterling ended in a resounding failure, prompting Western officials to abandon their commitment to early convertibility as envisioned in the 1944 Conference. As Schenk argues, the 1947 sterling crisis marked a turning point not only for European states' economic pathways but for the whole evolution of the BWS.²⁵ Instead of global convertibility and IMF-led multilateralism, regional currency-based and bilateral solutions took precedence.²⁶

This Bretton Woods 'regional turn' effectively compartmentalised the international monetary landscape into distinct groups that discriminated against non-members. As a

²³ In historical accounts of the system, this analytical distinction appeared first in Bordo's comprehensive overview of the system published in an edited volume in 1993: Bordo, 'The Bretton Woods International Monetary System: A Historical Overview'. Other notable overviews of the BWS include Eichengreen, who emphasises its institutional arrangements, and James, who adopts a more narrative approach. See, respectively, Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, Third edition (Princeton; Oxford: Princeton University Press, 2019); Harold Douglas James, *International Monetary Cooperation since Bretton Woods* (New York: Oxford University Press, 1996). For earlier accounts, see Richard N. Gardner, *Sterling-Dollar Diplomacy in Current Perspective: The Origins and the Prospects of Our International Economic Order* (New York, NY: Columbia University Press, 1980); Charles P. Kindleberger, *A Financial History of Western Europe*, 2. impr (London: Allen & Unwin, 1987).

²⁴ There is some controversy on the extent of this shortage and the pace of convertibility. Eichengreen suggests that convertibility could have been viable for most European countries as early as the early 1950s. See Barry Eichengreen, *Reconstructing Europe's Trade and Payments: European Payments Union* (Manchester: Manchester University Press, 1993), 61–64.

²⁵ Catherine R. Schenk, *International Economic Relations since 1945*, Second edition, *The Making of the Contemporary World* (Abingdon, Oxon; New York, NY: Routledge, 2021), 33–35.

²⁶ Part of this shift was also in line with greater US support for Europe due to Cold War considerations. The wide repercussions of the 1947 crisis in terms of the decline of early multilateralism are also noted in Gardner, *Sterling-Dollar Diplomacy in Current Perspective*, ch. XV. For the diminished role of the IMF, see Margaret Garritsen de Vries and J. Keith Horsefield, *The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation Vol. 2: Analysis* (Washington; London: International Monetary Fund; H.M.S.O., 1969); James, *International Monetary Cooperation since Bretton Woods*, 91–92.

result, economic historians have concentrated on analysing the evolution of these blocs. One major strand of the literature examines Europe's limited convertibility through the European Payments Union (EPU), connecting this monetary experience with the broader process of European integration. Established in 1950 under the aegis of the Organisation for European Economic Co-operation (OEEC) (the body created to administer Marshall Plan aid), the EPU functioned as a multilateral clearing and credit mechanism. Its main objectives were to facilitate intra-European trade without requiring payments in hard currencies and to promote the gradual liberalisation of trade restrictions among participating countries. The clearing system was coordinated by the Bank for International Settlements (BIS), an interwar institution that also provided critical technical support to the EPU and a credit element funded by the US.²⁷ Given its role in mitigating the dollar shortage, liberalisation of European trade and facilitating the transition to convertibility, historians broadly agree that the EPU was a successful experience of monetary cooperation.²⁸

A second strand of scholarship looks beyond the European continent and traces the evolution of the sterling area. This area comprised an ample and diverse group of countries that fixed their currencies to sterling and agreed to hold the bulk of their international reserves in Britain's currency. In the postwar era, a key characteristic of the sterling area was sterling's dual function: while serving as the anchor of this regional monetary system, it also played a broader role as an international reserve currency within the BWS.²⁹ Throughout the inconvertible phase of Bretton Woods (and beyond), sterling area countries enjoyed preferential access to British capital and freer trade with the UK, while efforts were made to limit deficits with hard currency countries. A key challenge for Britain during the postwar years was the management of its wartime debts, commonly referred to as 'sterling balances,' which were primarily owed to other members of the

²⁷ Gianni Toniolo, *Central Bank Cooperation at the Bank for International Settlements, 1930-1973*, Studies in Macroeconomic History (Cambridge: University Press, 2005), 334-35.

²⁸ For a comprehensive analysis of the EPU, see Eichengreen, *Reconstructing Europe's Trade and Payments*; Jacob J. Kaplan and Günther Schleiminger, *The European Payments Union: Financial Diplomacy in the 1950s* (Oxford: Clarendon Press, 1989). Milward frames the Union within the broader process of European integration, with some references to the BWS. See Alan S. Milward, *The Reconstruction of Western Europe 1945-51* (London: Methuen, 1984), 252.

²⁹ The burdens imposed by the sterling area on the UK are remarked on by Susan Strange, *Sterling and British policy: A political study of an international currency in decline* (London, New York, 1971). This view has been revised by Schenk, who shows how London leveraged sterling's international role (within sterling area and the BWS) to pursue its gradual retreat as an international currency. See Catherine R. Schenk, *The Decline of Sterling. Managing the Retreat of an International Currency, 1945-1992* (Cambridge ; New York: Cambridge University Press, 2010). More recently, Avaro has questioned the assumption that the sterling area operated as a mutually beneficial system for all its members. See Maylis Avaro, 'Zombie International Currency: The Pound Sterling 1945-1971', *The Journal of Economic History* 84, no. 3 (September 2024): 917-52, doi:10.1017/S0022050724000329.

sterling area, but also South American countries, including Argentina.³⁰ Notably, this strand of the Bretton Woods literature is distinctive in that it directly addresses the participation of developing countries in the international monetary system.³¹

A final yet much less developed group of studies deal with countries outside developed countries or the sterling area. Within this category, the most important was the so-called ‘dollar area.’ Unlike the more structured sterling area or the EPU, the dollar area functioned less as a formal regional monetary arrangement than a ‘default’ or residual grouping. It offered no preferential trade arrangements, imposed no explicit obligations to hold reserves in US dollars (though most countries did), and lacked coordinated exchange controls or commitments to intra-group liberalisation. Membership in this area varied over time and depended primarily on the extent to which a country conducted its trade in US dollars. Under this criterion, the US and Canada were permanent participants of the dollar area, as well as Mexico and Central American countries. In South America, only Venezuela demanded dollars against its exports, while countries like Argentina traded mostly in soft currency via bilateral agreements, with Chile somewhere in between. Problematically, a clear characterisation of the dollar area and its evolution during the inconvertible phase of Bretton Woods is largely absent from major historical accounts of the postwar system.³² Although not the primary focus, one of this thesis’s contributions is to shed new light on the dollar area’s significance within the broader Bretton Woods framework (Part II).

The declaration of convertibility in December 1958 marked the beginning of the second phase of the BWS. From that point onwards, the international monetary order more closely aligned with the principles set out at the 1944 Conference. However, both contemporaneous economists and later scholars have noted important observations about the ‘fully-functioning’ phase of Bretton Woods. For one, by the time currencies were declared convertible, the system had already evolved into a de facto gold-dollar standard with the US dollar as the main global reserve currency and sterling playing a secondary role.³³ Second, although the IMF had substantial resources and played a part

³⁰ Catherine R. Schenk, ‘The Sterling Area 1945–1972’, in *Handbook of the History of Money and Currency*, ed. Stefano Battilossi, Youssef Cassis, and Kazuhiko Yago (Singapore: Springer, 2020), 776–77, doi:10.1007/978-981-13-0596-2_29.

³¹ For African and Asian countries, see, for example, Catherine R. Schenk, ‘Monetary Institutions in Newly Independent Countries: The Experience of Malaya, Ghana and Nigeria in the 1950s’, *Financial History Review* 4, no. 2 (October 1997): 181–98, doi:10.1017/S0968565000000950; Catherine R. Schenk, ‘Malaysia and the End of the Bretton Woods System 1965–72: Disentangling from Sterling’, *The Journal of Imperial and Commonwealth History* 36, no. 2 (1 June 2008): 197–220, doi:10.1080/03086530802180932.

³² This nonetheless contrasts with the contemporaneous interest of IMF officials. See, for instance, Johan H. C. de Looper, ‘Recent Latin American Experience with Bilateral Trade and Payments Agreements’, *IMF Staff Papers* 4, no. 1 (1954): 85–112.

³³ As Triffin identified, this shift involved a risk to the system’s sustainability, as a fixed national currency also had to meet global liquidity demands. This ‘Triffin dilemma’ has been recently revisited by Michael D. Bordo and Robert N. McCauley, ‘Triffin: Dilemma or Myth?’, *IMF Economic Review* 67, no. 4 (1 December

in key multilateral support schemes for the UK and others, its influence was far more limited than originally envisioned. This became particularly evident with the creation of the SDRs in 1969, a reform to increase international liquidity that is usually regarded as too little, too late. Finally, the increasing mobility of capital during this period was hardly compatible with the 1944 blueprints. Larger capital flows resulted from the rapid expansion of trade, greater presence of multinational corporations and the emergence of a fast-growing Eurodollar market.³⁴

Throughout the 1960s, the BWS confronted a series of interrelated challenges that came to define the underlying dilemmas of its apparent stability. First clearly articulated at the 1964 Bellagio Conference, economists identified three major problems: the difficulty of adjustment between surplus and deficit countries (notably West Germany and the United States, respectively); concerns about confidence in the dollar's convertibility at the prevailing parity; and the adequacy of international liquidity to support expanding global trade and payments.³⁵ It is also worth noting that developing countries voiced their own concerns about the international monetary system's structural flaws. Benefiting from the momentum of the 'development decade' and the institutional space provided by the UN system, they advanced their claims through newly established forums such as UNCTAD and the Group of 77, both created in 1964.

Given that system leaders failed to resolve the structural problems outlined above, it may be surprising that the BWS endured into the early 1970s. A widely shared view in the literature attributes this longevity to increased international coordination and cooperation. On the one hand, there were efforts to buttress the IMF, including quota increases, the introduction of the GAB, and the creation of the SDRs. More significantly, however, the G10 countries developed a series of ad hoc mechanisms aimed at sustaining the system, including multilateral support operations for the pound sterling. In recent years, financial historians have re-examined some of these patchwork arrangements, often drawing on new datasets or archival evidence unavailable to earlier scholars. Among the earliest of such mechanisms was the Gold Pool (1961–1968), through which advanced economies sought to stabilise the private gold price in the London market around the official US\$35 parity.³⁶ Another key instrument was the

2019): 824–51, doi:10.1057/s41308-019-00088-y.

³⁴ These developments created mounting difficulties for sustaining the Bretton Woods solution to the trilemma, as noted by Stefano Battilossi, 'International Money Markets: Eurocurrencies', in *Handbook of the History of Money and Currency*, ed. Stefano Battilossi, Youssef Cassis, and Kazuhiko Yago (Singapore: Springer, 2020), 269–314, doi:10.1007/978-981-13-0596-2_57.

³⁵ Michael D. Bordo, 'The Operation and Demise of the Bretton Woods System, 1958-1971', in *The Bretton Woods Agreements: Together with Scholarly Commentaries and Essential Historical Documents*, ed. Naomi R. Lamoreaux and Ian Shapiro (New Haven: Yale University Press, 2019), 217–35.

³⁶ Bordo et al. examined the impact of both the market interventions and the central bank's demand for American gold. See Michael D. Bordo, Eric Monnet, and Alain Naef, 'The Gold Pool (1961–1968) and the Fall of the Bretton Woods System: Lessons for Central Bank Cooperation', *The Journal of Economic History* 79,

network of bilateral swap agreements, used not only to manage exchange rate pressures but also to influence liquidity and interbank rates in the Eurodollar and London markets.

While these cooperative efforts helped prolong the BWS, they could not prevent its eventual collapse. Beyond the structural issues discussed above, a series of events in the late 1960s ended up giving the system its *coup de grâce*. Among them were the currency realignments of 1967 and 1969, the termination of the Gold Pool in 1968, and the worsening of the United States' external imbalance. In an attempt to contain America's balance of payments deficit, Washington, beginning in the early 1960s, experimented with a battery of measures, from the Interest Equalization Act and moral suasion to tighter monetary policy and efforts to attract long-term official investments.³⁷ Yet external financial commitments proved increasingly difficult to finance, like military expenditures due to the Vietnam War or aid towards developing countries via the Agency for International Development (AID) and the Export-Import Bank (EXIMBANK). The breaking point came on 15 August 1971, when President Nixon announced the New Economic Policy. Dollar convertibility was unilaterally suspended, and a 10% import surcharge was introduced. Although attempts were made to restore the system (e.g., the Smithsonian Agreement), by 1973 major currencies started to float.

As this brief literature overview distils, the G10 countries played a crucial role in the key turning points of the postwar monetary regime and, consequently, in the academic discussions surrounding the BWS. However, as previously noted, this thesis argues that Bretton Woods functioned as a global system in practice, even if most scholarly attention has focused on industrial Western economies. In this vein, the following chapters show how Southern Cone economies interacted with the BWS both through multilateral institutions and via their principal trading partners during the pre- and post-convertibility phases. Indeed, nearly all the countries, institutions, and mechanisms discussed in this section will reappear in subsequent chapters. Of particular relevance are the concepts of multilateralism and cooperation, which, though typically associated with intra-G10 relations, also shaped interactions with the Southern Cone (especially after 1955). Before turning to the thesis's structure and specific contributions, it is first necessary to establish the baseline conditions of Latin American economies in the era of industrialisation.

no. 4 (December 2019): 1027–59, doi:10.1017/S0022050719000548.

³⁷ See Barry Eichengreen, 'From Benign Neglect to Malignant Preoccupation: U.S. Balance-of-Payments Policy in the 1960s', Working Paper, Working Paper Series (National Bureau of Economic Research, March 2000), doi:10.3386/w7630. Bordo has underscored that the final collapse of the BWS was driven by American expansionary policies. See Michael D. Bordo, 'The Imbalances of the Bretton Woods System 1965 to 1973: U.S. Inflation, the Elephant in the Room', *Open Economies Review* 31, no. 1 (1 February 2020): 195–211, doi:10.1007/s11079-019-09574-2.

Postwar industrialisation in Latin America and the Southern Cone

Besides contributing to the literature on Bretton Woods, this thesis also engages with the history of postwar Latin America. This period, marked by an emphasis on the region's industrialisation efforts, has attracted sustained interest from contemporaneous observers as well as economic historians both within and outside Latin America.³⁸ Although the region had reaped the benefits of nineteenth-century globalisation, the literature recognises that disruptions in the global economy during the interwar period undermined the viability of doubling down on an export-led growth model. In that environment of scepticism, the Second World War led most governments in the region to rely increasingly on ISI policies and state-led development for over three decades.³⁹

The merits of Latin America's postwar industrialisation era remain one of the most heated debates in the region's economic historiography. A favourable interpretation highlights key indicators such as real GDP growth, which reached historically high levels, and a relative narrowing of the income gap with developed countries during this period (particularly contrasting with the difficult 1980s).⁴⁰ Critical assessments, on the other hand, highlight market distortions and inefficiencies, as well as persistent protectionism and an anti-export bias, which led Latin America to miss out on the benefits of the post-1950 boom in world trade. These arguments were constantly iterated by proponents of market-oriented reforms in the 1970s and 1980s, when Latin America abandoned the ISI model in favour, once again, of export-led growth.⁴¹ More recent scholarship offers a more balanced reappraisal, weighing both the gains of industrialisation and the region's missed opportunities.⁴²

Within this broader turn to domestic market development, economic historians note that postwar performance varied significantly across the region. Commonly, the Southern Cone is regarded as a distinct group in this period, sharing both economic and

³⁸ For a recent excellent summary focusing on key ideas and policies of the ISI era, see Colin Lewis, 'The Latin American Economies Since c. 1950: Ideas, Policy, and Structural Change', in *Setbacks and Advances in the Modern Latin American Economy* (Routledge, 2021).

³⁹ Leading accounts on Latin America's economic history use the concept of 'state-led industrialisation' instead of ISI to emphasise the central role of public agencies or the government in directing the development process. Nonetheless, this thesis retains the term ISI due to its widespread use across various strands of the literature.

⁴⁰ This argument is echoed in the region's leading handbook, see Luis Bértola and José Antonio Ocampo, *The Economic Development of Latin America since Independence*, 1st ed, Initiative for Policy Dialogue Series (Oxford: Oxford University Press, 2012), 139.

⁴¹ See, for instance, Sebastian Edwards, *Left Behind: Latin America and the False Promise of Populism* (University of Chicago Press, 2010), ch. 3.

⁴² Within this nuanced focus, a more critical view in Victor Bulmer-Thomas, *The Economic History of Latin America since Independence*, 3rd edn, Cambridge Latin American Studies (Cambridge: Cambridge University Press, 2014), 294, doi:10.1017/CBO9781139208710. A rather favourable assessment in Bértola and Ocampo, *The Economic Development of Latin America since Independence*, 189–91.

institutional features.⁴³ Although Argentina and Chile made notable gains in industrial output in the postwar years and kept their position among the more prosperous countries in the region, they lagged behind the region's large economies that benefited the most from industrial policy, like Brazil. Yet more critically, macroeconomic imbalances were particularly acute in the Southern Cone, where a web of controls failed to prevent recurrent inflationary outbursts. Between 1945 and 1970, average annual CPI reached 31% in Chile and 25% in Argentina, far exceeding the rates observed in their G10 trading partners. In trying to understand that subregional behaviour, Rosemary Thorp noted that government spending in these countries expanded rapidly, far outpacing fiscal revenues and resulting in growing financing needs.⁴⁴ To bridge the gap, governments relied heavily on central bank and commercial bank credit, a mechanism that contributed to inflationary pressures.⁴⁵

Domestic macroeconomic instability in the Southern Cone was accompanied by persistent external imbalances and a tightly regulated external sector. As the next chapters will show, these two features are central to understanding how these economies engaged with the postwar global economy and the BWS in particular. Both Argentina and Chile developed dense and bureaucratic systems of tariffs and non-tariff barriers (NTBs), like multiple exchange rates, import quotas, licensing, and bilateral payments agreements. Much of this regulatory framework was a legacy from the 1930s, when governments deployed their recently founded central banks to safeguard scarce foreign exchange reserves. In the postwar era, exchange controls took on a more strategic role in promoting domestic industrial development.⁴⁶ Under ISI policies, foreign exchange controls remained essential to secure key imports (e.g., fuel or capital goods) at a time when the main sources of hard currency were highly volatile.⁴⁷ Traditional exports were subject to unstable international prices, especially in metals and agricultural commodities, the latter also exposed to climatic variability.⁴⁸

⁴³ See Luis Bértola and José Antonio Ocampo, 'Latin American Economic History in the Light of the Recent Economic Cycles', in *Roots of Underdevelopment: A New Economic and Political History of Latin America and the Caribbean*, by Felipe Valencia Caicedo (Cham: Palgrave Macmillan, 2023), doi:10.1007/978-3-031-38723-4.

⁴⁴ Rosemary Thorp, *Progress, Poverty and Exclusion: An Economic History of Latin America in the 20th Century* (Washington, D.C. : Baltimore, MD: Inter-American Development Bank ; Distributed by The Johns Hopkins University Press for the Inter-American Development Bank and the European Union, 1998), 170–71.

⁴⁵ See a recent analysis on inflation drivers since the 1960s in Timothy Jerome Kehoe and Juan Pablo Nicolini, eds, *A Monetary and Fiscal History of Latin America, 1960-2017* (Minneapolis: University of Minnesota Press, 2021).

⁴⁶ Luis I. Jácome, 'Central Banking in Latin America: Past, Present and Challenges Ahead', in *Research Handbook on Central Banking*, ed. Peter Conti-Brown and Rosa María Lastra, Research Handbooks in Financial Law (Cheltenham, UK ; Northampton, MA, USA: Edward Elgar Publishing, 2018), 281.

⁴⁷ Bulmer-Thomas, *The Economic History of Latin America since Independence*, 305.

⁴⁸ Trade volatility and a secular decline in terms of trade were, in fact, one of the arguments advanced for 'accelerated industrialisation' in the region, promoted by Prebisch and ECLA. See Edgar J. Dosman, *The*

The evolution of the Southern Cone's external accounts and regulatory frameworks for trade and payments during the ISI period is relatively easy to trace. The most restrictive controls were in place during the early postwar years, when countries exhausted much of the foreign exchange accumulated during the Second World War. By the mid-1950s, Chile and Argentina launched stabilisation programmes which began to dismantle some of the more discriminatory elements of the regulatory system. After severe balance of payments crises in 1961-1962, both countries entered a period of industrial expansion by the mid-1960s at a time when international prices for commodities were rising. Trade balances, which previous governments had struggled to correct, finally turned into surplus and central banks accumulated record levels of international reserves. Against that background, Chile cautiously reduced current account restrictions while promoting greater regional integrations, whereas Argentina went further by eliminating virtually all restrictions on current and capital transactions. The early 1970s, however, witnessed mounting domestic political turmoil in both countries that backtracked some of these liberalisation efforts, even returning to 1940s-like controls.⁴⁹

Most leading historical accounts addressing the external sector and its regulations tend to explain their evolution primarily in terms of domestic policy shifts or trade conditions. Undeniably, the inward-looking model was closely shaped by new macroeconomic tools, development agencies and changing terms of trade. However, such an emphasis has largely sidelined the question of how (and which) global monetary developments, like the turning points of the BWS described above, may have influenced the trajectory of the ISI project. This omission is all the more significant when considering

Life and Times of Raúl Prebisch, 1901-1986 (Montreal: McGill-Queen's University Press, 2010); Margarita Fajardo, *The World That Latin America Created: The United Nations Economic Commission for Latin America in the Development Era*, Harvard Historical Studies 192 (Cambridge, Massachusetts: Harvard University Press, 2022).

⁴⁹ For Chile, the best account on the industrialisation years remains in Ricardo Ffrench-Davis et al., 'The Industrialization of Chile during Protectionism, 1940-82', in *An Economic History of Twentieth-Century Latin America*, ed. Enrique Cárdenas, José Antonio Ocampo, and Rosemary Thorp (Houdsmills, Basingstoke, Hampshire; New York; Oxford: Palgrave; in association with St. Antony's College, 2000), 114-53. A more recent summary can be found in Gert Wagner and José Díaz-Bahamonde, 'Dos Siglos de Política Comercial: Un Ensayo', in *Historia Económica de Chile Desde La Independencia*, ed. Manuel Llorca-Jaña and Rory M. Miller (Santiago: RIL Editores, 2021), 455-502. The succession of policies from the central bank is in Camilo Carrasco, *Banco Central de Chile 1925-1964. Una Historia Institucional. Tomo I* (Santiago, Chile: Banco Central de Chile, 2009); Camilo Carrasco, *Banco Central de Chile 1964-1989. Una Historia Institucional. Tomo II.1* (Santiago, Chile: Banco Central de Chile, 2020). Comparatively, Argentina has a much richer economic and financial historiography. Recent accounts include Claudio Belini and Juan Carlos Korol, *Historia económica de la Argentina en los siglos XX y XXI* (Buenos Aires, Argentina: Siglo XXI Editores, 2020); Roberto Cortés Conde, *The Political Economy of Argentina in the Twentieth Century*, Cambridge Latin American Studies 92 (New York: Cambridge University Press, 2009); Pablo Gerchunoff and Lucas Llach, *El Ciclo de La Ilusión y El Desencanto: Políticas Económicas Argentinas de 1880 a Nuestros Días*, Edición corregida y aumentada, Memoria Crítica (C.A.B.A: Crítica, 2018). For the central bank's vision, see Marcelo Rougier and Florencia Sember, eds, *Historia Necesaria Del Banco Central de La República Argentina: Entre La Búsqueda de La Estabilidad y La Promoción Del Desarrollo*, Primera edición (Ciudad de Buenos Aires, Argentina: Ediciones CICCUS, 2018).

that the persistent challenges faced by key G10 partners, such as Britain's difficult post-1945 management of sterling or the United States' balance of payments deficit in the late 1960s, are virtually absent from explanations of Chile's and Argentina's postwar trajectories.

Undercovering this 'missing link' between the complex postwar monetary architecture and the Southern Cone is one of the central objectives of this thesis. By tracing these connections and highlighting the evolving roles of the BWS, the IMF, and the G10, the project offers a broader framework for understanding how Argentina and Chile navigated the postwar decades. As the following chapters will show, developments such as the postwar dollar shortage, the push for multilateralism, and the cooperative monetary initiatives of the 1960s (together with domestic policy shifts and trade conditions) are all essential to grasp how the Southern Cone managed its external sector and adapted its regulatory frameworks over time.

In that vein, this project engages with a recent strand of literature examining relations between Latin American countries and multilateral institutions such as the IMF and IBRD. With a strong emphasis on political economy, these studies focus on episodes of negotiation between these agencies and Southern Cone economies. Distinctively, this scholarship portrays the IMF as a political actor that deployed its policy guidelines reflecting its own mandate, but also the interests of larger member countries, including Cold War considerations. Likewise, these historians pay special attention to the role of domestic agendas and the interplay between national bureaucracies, governments and central banks, and the Fund's staff and board.⁵⁰ Although benefiting from some important archival findings of this more novel literature, this thesis has a different approach. For one, as already mentioned, it zooms out from bilateral negotiations to examine the broader involvement of other members of the BWS, with special attention to key trading partners and G10 leading economies, the United States and Britain. Looking beyond IMF-country relations is also essential to get a fuller understanding of the BWS evolution, since, as noted, the Fund's influence over the system as a whole proved far less relevant

⁵⁰ See, especially, Claudia Kedar, *The International Monetary Fund and Latin America: The Argentine Puzzle in Context* (Philadelphia: Temple University Press, 2013); Noemí Brenta, *Historia de las relaciones entre Argentina y el FMI*, Temas economía (Ciudad de Buenos Aires: EUDEBA, 2013). García Heras' contributions also fall within this broader group, though his work places greater emphasis on carefully documenting the steps of negotiations and the strategic responses of the different Argentine governments. See Raúl García Heras, *El Fondo Monetario y el Banco Mundial en la Argentina: liberalismo, populismo y finanzas internacionales* (Buenos Aires; Tel Aviv: Lumiere; Universidad de Tel Aviv, Instituto de Historia y Cultura de América Latina, 2008); Raúl. García Heras, *Deuda Externa, Crisis y Política: Banqueros, Fondo Monetario y Banco Mundial en la Argentina: 1973-1983*, Historia Series (Montevideo: Biblos, Editorial, 2023). These historians reappraise a previous generation of scholars with a critical assessment of Fund's operations in Latin America and the Southern Cone. See, for instance, Jon V. Kofas, *Sword of Damocles: The IMF, the World Bank, and US Foreign Policy In Colombia And Chile, 1950-1970* (Westport, United States: Greenwood Publishing Group, Incorporated, 2002); Manuel Pastor, *The International Monetary Fund and Latin America: Economic Stabilization and Class Conflict* (Avalon Publishing, 1987).

than originally envisioned.

Second, this project also departs from this recent strand of literature on country-IMF relations (and Latin American economic history more broadly) at the conceptual level. To better frame the evolving relationship between the Southern Cone and the BWS, the thesis deliberately avoids relying on the conventional ‘centre-periphery’ framework, famously popularised by Raúl Prebisch.⁵¹ This choice does not deny the dual nature of the postwar monetary system, essentially composed of the dyad of commodity-exporters and advanced industrial economies, with the latter having a larger or asymmetrical voting power in multilateral institutions. Nor does it overlook some of the G10-led ad hoc mechanisms to help or delay adjustments between surplus and deficit countries. However, the episodes examined throughout this thesis indicate that the evolution of the BWS gave rise to multilateral relations and cooperative strategies (not only among the G10 but also with the Southern Cone) that are difficult to reconcile with static dualistic concepts. As will be noted, these dynamics were already apparent by the mid-1950s, when major trading partners coordinated their support in early liberalisation efforts, yet became more pronounced in the 1960s with the emergence of debt renegotiations arranged in a multilateral setting.

From a more historiographical viewpoint, the decision to avoid relying on conventional monolithic frameworks for analysing postwar international relations aligns with recent literature on Latin America’s Cold War. This scholarship challenges the classical views of the region as a mere object of influence by the great powers: the Soviet Union or the United States, the latter the ‘core’ country *par excellence*.⁵² Facilitated by the release of new archival material, researchers are portraying Cold War stories in a more multinational and multilayered fashion. These insights have shed new light on local conflicts in Latin America, but also prompt a reassessment of the Cold War’s international dimension. As Brands posits, “Latin American diplomacy during the Cold War cannot be reconciled with analyses that disregard or downplay the agency of actors within the region.”⁵³ Thornton’s recent monograph clearly reflects this new trend. It shows how inward-looking Mexico intelligently reaped the benefits of multilateral and American lending in the 1950s and 1960s, noting that “Bretton Woods fitted very nicely into

⁵¹ Theoretically underpinned by the Prebisch-Singer hypothesis, the centre-periphery paradigm posits that international exchange consistently benefits a group of industrial core nations to the detriment of commodity-exporter countries. See Cristóbal Kay, ‘Modernization and Dependency Theory’, in *The Routledge Handbook of Latin American Development*, ed. Julie Cupples, Marcela Palomino-Schalscha, and Manuel Prieto, 1st edn, Routledge International Handbooks (London: Routledge, 2018), 18, doi:10.4324/9781315162935.

⁵² William A. Booth, ‘Rethinking Latin America’s Cold War’, *The Historical Journal* 64, no. 4 (September 2021): 1128–50, doi:10.1017/S0018246X20000412.

⁵³ Brands, *Latin America’s Cold War*, 257.

Mexico's needs."⁵⁴ Taken together, these novel historiographical insights cast doubt on the structuralist dichotomies deeply rooted in Latin American economic history.

Sources

To review the argument thus far, this project presents the operation of the postwar monetary order on a truly global scale, showing how it particularly interacted with developing economies. Using Chile and Argentina as case studies, it offers a lens through which to analyse the broader architecture of the BWS. In doing so, the thesis brings together two strands of economic and financial history literature, contributing to each in specific ways: it addresses a gap in studies of the BWS, which have traditionally centred on G10 economies, and uncovers a link between Latin America's industrialisation era and the evolution of the international monetary system. To further both areas of research, this study draws upon a substantial and diverse array of historical sources from different archives in five countries. Significantly, this diversity of records allows for a multinational and multi-layered approach to reinterpret a series of key episodes along the way of the Southern Cone's navigation of the postwar monetary system.⁵⁵ Besides these primary sources and secondary literature, this thesis also employs the most updated historical databases for each country, although specific quantitative evidence (sometimes confidential at the time of production) is also extracted from the sources themselves.⁵⁶

The core set of historical records comes from archives from the IMF and the main trading partners. From the IMF archives, documents from the two main collections are consulted: Board Documents and the Institutional Archives, particularly the Country Files. Those collections contain board minutes, policy papers and reports of missions, and documents from staff missions to Chile and Argentina, respectively. While some of these materials have been used in recent historical scholarship (see section on IMF literature above), they remain underexplored. Indeed, throughout this research, the Fund digitally released over a hundred Chile-related files from the Institutional Archives at the

⁵⁴ Víctor Urquidí, as cited in Christy Thornton, *Revolution in Development: Mexico and the Governance of the Global Economy* (Oakland, California: University of California Press, 2021), 145.

⁵⁵ The emphasis of the dissertation, therefore, lies in examining the broader architecture of the BWS (e.g., how it functioned) rather than evaluating the specific consequences of its arrangements for individual countries, or assessing the extent to which it supported or hindered the ISI model.

⁵⁶ Unless otherwise stated, historical annual data for Chile and Argentina are drawn from Díaz et al. and Ferreres, respectively, and are typically expressed in nominal millions of US dollars. See José Díaz Bahamonde, Rolf Lüders, and Gert Wagner, eds, *Chile 1810-2010: la república en cifras: historical statistics*, Primera edición (Santiago, Chile: Ediciones UC, 2016); Orlando Ferreres, *Dos Siglos de Economía Argentina: 1810-2018* (Fundación Norte y Sur, 2020). The main exception concerns balance of payments statistics for the period 1950–1973. For these years, this thesis relies on data compiled by CEPAL due to its greater cross-country comparability. See CEPAL, *América Latina y El Caribe: Balance de Pagos 1950-1984*, Cuadernos Estadísticos de la CEPAL (Naciones Unidas Comisión Económica para América Latina y el Caribe (CEPAL), 1986).

author's request.

As for US sources, the majority were obtained from the National Archives II (College Park), especially Record Group 59 (Department of State) and Record Group 56 (Department of the Treasury). Although many of these NARA records, particularly RG 59, have been quoted in studies of US-Argentine or US-Chilean relations, they have not been systematically examined in connection with international monetary developments. Additional official papers were drawn from the Foreign Relations of the United States (FRUS).

In Britain, the most important collection is the Bank of England Archive (BoEA), specifically the Overseas Series (OV/102 for Argentina and OV/160 for Chile), which covers the period up to 1964, and the Overseas Files (4A102), available only for Argentina, which extend to June 1969. These files contain a curated selection of internal Bank documents, alongside key records from the Foreign Office and HM Treasury, offering insight into official assessments and discussions. To complement the Bank of England materials, this research also draws on documents from The National Archives (TNA), particularly from HM Treasury (T) across the entire period, the Foreign Office (FO) up to 1968, and the Foreign and Commonwealth Office (FCO) from 1968 onwards.

In addition to sources from the main trading partners, published documents from the Southern Cone are of central importance. Annual reports from various agencies, from ministries to central banks to national statistical institutes, offer contextual information and help compile time series. Where possible, however, IMF-published volumes such as International Financial Statistics (IFS) were preferred for their greater cross-country comparability. Concerning archival materials, only the Chilean central bank provides access to sources revealing internal deliberations among directors (Board Minutes), which were made publicly available only in 2018. Considerable effort was made to locate and request special access to the still-reserved Board Minutes of the Argentine central bank. However, contrasting with the information provided in the Chilean case, the Argentine Minutes contain comparatively less substantive discussion on international monetary affairs, focusing mainly on regulations for the domestic banking sector.

Thesis outline and main arguments

This thesis is structured in three main parts and six country-specific chapters, each covering approximately a decade. While this national division may seem to contrast with this thesis' emphasis on the Southern Cone as a subregional entity, it reflects a deliberate choice to situate Chile and Argentina within their distinct historiographies, institutional settings, and relationships with G10 partners. Key political developments, such as the rise and fall of populism or the succession of military coups in Argentina, had no parallel

in Chile's democratic and party-based political system (until 1973). Similarly, institutional arrangements differed: the mixed-owned Central Bank of Chile (CBCh) and the presence of large US-owned mining firms contrast with the nationalised Central Bank of the Argentine Republic (CBAR) and tighter public control over foreign trade. Lastly, post-war trading patterns continued the trends of the interwar period; Argentina maintained strong commercial ties with Europe, particularly Britain, whereas Chile's trade was more oriented towards the United States. These contrasts do not undermine the Southern Cone as a coherent basis for analysis, but rather offer valuable nuance for understanding the distinctive paths taken by two ISI economies in the postwar era.

To address the potential isolated treatment, each of the three parts of the thesis begins with a comparative overview that summarises and contrasts the main findings and the specific trajectories of Chile and Argentina. These overviews, together with cross-references throughout the chapters, help to maintain a unified Southern Cone perspective but also underscore specific ways in which each country navigated the different phases of the BWS. At this point, the concept of 'navigation' requires better clarification. It essentially encompasses two dimensions. First, it refers to how these ISI economies faced the specific challenges and opportunities opened by the main crises or shifts in the BWS, like the 1947 sterling crisis or larger multilateral facilities after the introduction of the IMF SBAs. Second, the idea of navigation also captures the way Chile and Argentina approached key multilateral institutions and G10 partners seeking support in the preparation and deployment of different stabilisation programmes (and their subsequent crises).⁵⁷

The First Part of this thesis, entitled 'The Southern Cone and the Postwar Dollar Shortage (1945-1950),' focuses on the immediate postwar period. The chapters begin by revisiting the wartime trade boom, which allowed the Southern Cone to accumulate record levels of international reserves. A crucial distinction in how the two countries navigated the postwar order was membership in the Bretton Woods institutions, with Argentina only joining in 1956. As a founding member of both the IMF and the IBRD, Chile developed a complex early relationship with the Fund. As Chapter 1 explores, the regulatory framework Chile inherited from the interwar period conflicted with the Fund's initial push for liberalisation prior to the 1947 sterling crisis. Long and often contentious negotiations followed between IMF missions and Chilean officials over the persistence of NTBs, particularly multiple exchange rate practices. Despite recurrent agreements and plans to unify the exchange rate system, these were repeatedly abandoned amid external payments constraints, symptomatic of both the constraints of ISI, the global dollar

⁵⁷ Note that some limitations arose from this framework. Perhaps the most important is that the thesis considers states and units of analysis instead of exploring the diversity of interests among ministries, central bankers or advisors in each country.

shortage, and the IMF's diminished powers. In sum, Chile's discriminatory regime remained in place until the mid-1950s, reflecting Bretton Woods' increasing tolerance for exclusive currency arrangements during its so-called 'regional turn.'

While Chile's postwar experience with exchange rate policy has received only marginal attention in the literature, Perón's Argentina (1944-1955) remains one of the most extensively studied by economic historians of Latin America. To uncover new dimensions, Chapter 2 offers a fresh perspective on Buenos Aires' integration into the postwar global economy. Rather than embracing multilateralism, Argentina pursued a 'bilateral-nationalistic' strategy characterised by the nationalisation of foreign-owned assets, the repatriation of public debt, and the extension of credit to both European and Latin American countries. This strategy, however, relied on the assumption that access to convertible sterling (secured in 1946) would remain stable. On that basis, Argentina embarked on an ambitious import programme from the dollar area, while directing exports primarily to soft-currency Europe. The 1947 sterling crisis dealt a significant blow to this approach, further complicated by Argentina's exclusion from the Marshall Plan's overseas purchases. By the end of the decade, the country's previously favourable external position had deteriorated into a severe balance of payments crisis. Its nationalist-bilateral strategy was ultimately abandoned. Instead, Buenos Aires started to increasingly rely on discriminatory mechanisms to face external payments difficulties, converging thus with the Chilean experience.

Fast forward to the mid-1950s, the second part of this study examines the 'Stabilisation Programmes in Chile and Argentina Against the Backdrop of G10 Convertibility (1955-1962).' At the outset of this period, both countries faced the exhaustion of the ISI model and embarked on their first comprehensive stabilisation programmes. Chapter 3 opens by exploring the long-term consequences of global inconvertibility and bilateralism for Chile's direction of international trade, underscoring its position vis-à-vis the dollar area, a theme largely overlooked in the historiography. While the policy packages adopted during these programmes are relatively well known, this chapter draws attention to neglected aspects related to the evolution of the BWS. It shows how regulatory overhauls, supported by short-term external assistance and cooperation from the G10 and commercial banks, helped Chile move toward core Bretton Woods principles, such as the reduction of exchange rate discrimination and the gradual phasing out of bilateral trade arrangements.

The year 1955 was not like any other year for Argentina's postwar political, economic, and financial trajectory. A military coup abruptly ended Perón's second term, and successive governments were eager to move away from his more isolationist policies, including applying for Bretton Woods membership. Like Chile, and almost simultaneously, Argentina's new authorities also implemented ambitious stabilisation

programmes. Chapter 4 explores Argentina's full reintegration into the international financial system. While historians have documented the main policy choices, their timing, and the reasons for their eventual failure, less attention has been paid to the mechanisms that enabled Argentina's shift toward multilateralism and the cooperative stance of its international partners. In that line, a key contribution of this chapter (and thesis at large) lies in uncovering the origins, operation and early evolution of the 'Paris Club,' an informal group of Western European creditor countries created to restructure Argentina's debt in 1956. The chapter also asserts the importance of continued international support towards the Southern Cone during Argentina's first post-Perón democratic government in 1958, as it involved key assistance from the IMF, G10 economies and their commercial banks.

Amid the severe balance of payments crises of the early 1960s, few observers would have anticipated that Chile and Argentina were about to experience their highest growth rates of the postwar period. Part Three of this thesis, entitled 'The Industrial Peak of the Southern Cone in the Last Decade of Bretton Woods (1964–1973),' explores this apparent paradox. Chapter 5 begins by analysing the 1965 debt negotiations between Chile and the Paris Club, mostly omitted from the historiography. In retrospect, this early debt relief proved essential for the Christian Democratic government's economic programme, which also benefited from improving trade conditions. The chapter contends that, thanks to a more comfortable international reserve position, Santiago was able to experiment with an innovative exchange rate regime, alongside a renewed push for regional and financial integration and moderate support towards the US balance of payments. The final years of the BWS, however, coincided with the rise of a Marxist government, more focused on nationalisations than raising concerns over a new Western economic governance. Yet support from capitalist nations remained relevant: amid renewed balance of payments difficulties, Santiago once again turned to its G10 creditors in 1972. That the venue for debt restructuring was none other than the Paris Club sheds light on the institutional legacy of the Bretton Woods era that this thesis seeks to bring to the fore.

The Paris Club reappears for the last time in the first part of Chapter 6, playing a key role in the reorganisation of Argentina's external liabilities at the outset of its so-called 'industrial spring.' Like Santiago, Buenos Aires benefited from favourable global trading conditions, and international reserves soared. Seeking to capitalise on this opportunity, the government turned to the IMF and key G10 partners for additional support, even when the balance of payments position did not yet demand it. As this chapter argues, the military (in power since a new coup in 1966) sought to demonstrate its commitment to restoring investor confidence: it declared the peso convertible and drawable from the Fund, dismantled all current and capital account restrictions, and issued expensive bonds in European and US markets, including the Eurodollar market. Investors reacted

with strong interest as Argentina appeared as a more stable venue than those of the G10, at that time menaced by currency realignments. From this strengthened position, Argentina even provided assistance to the US balance of payments, an episode largely absent from the historiography. Yet the stabilisation programme proved short-lived: by 1971, a severe balance of payments crisis had emerged. To bridge the external gap, Argentina once again called on G10 partners, with commercial banks providing vital assistance in 1972.

Taken together, in an effort to re-centre traditional accounts on the BWS, the episodes examined across this thesis support a central argument: throughout the postwar decades, the G10 economies did not navigate or reshape the monetary and financial system by themselves. Although the main shifts in the BWS were driven by reserve-currency countries and other industrial nations, these developments were also acutely perceived (and responded to) by developing nations. Phenomena such as the dollar shortage, bilateralism, the move toward multilateralism, cooperative arrangements, and ad hoc mechanisms were global in scope. Among the developing world, Latin American countries offer a valuable and fresh baseline from which to reassess the functioning and architecture of the postwar monetary order. In turn, the evolution of the BWS provides important insights into the systemic constraints (e.g., currency areas) and policy shifts that may have hindered, justified, or supported ISI or alternative development strategies. While this thesis contributes to uncovering such possibilities, providing a definitive answer lies beyond its scope.

Thanks to a wealth of new archival evidence, this thesis documents how Southern Cone nations, while following distinct domestic trajectories, shared a common path within the Bretton Woods framework. They contended with systemic crises and took advantage of new opportunities, and crucially, their post-1955 calls for assistance and cooperation were not ignored. Multilateral institutions and G10 governments repeatedly engaged with these countries not merely as a matter of generosity (PL 480 or America's Food for Peace programme being one of those cases), but more often due to shared and overlapping interests. For institutions like the IMF, the Southern Cone was instrumental in maintaining relevance on the international stage. For creditor governments, motivations ranged from Cold War strategic considerations and securing access to key commodities to preserving or expanding market opportunities. A crucial and lasting outcome of the interactions between the Southern Cone and the G10 was the Paris Club, a forum that this thesis argues is best understood as part of the Bretton Woods multilateral framework (Part II) and as an apparatus that supported the system in the 1960s (Part III). What emerged from engagements like the Paris Club (but also other short-lived arrangements) was a durable pattern of interactions embedded in multilateralism and cooperation, two concepts difficult to reconcile with a strict centre-periphery

framework (or Prebisch's remarks at the beginning of this chapter). Yet they became, arguably, the most enduring legacies of the postwar order. How these two pillars of global economic governance functioned during the 1980s Debt Crisis, and more broadly under the current non-system, remains to be properly documented.

PART I
The Southern Cone and the Postwar Dollar Shortage (1945-1950)

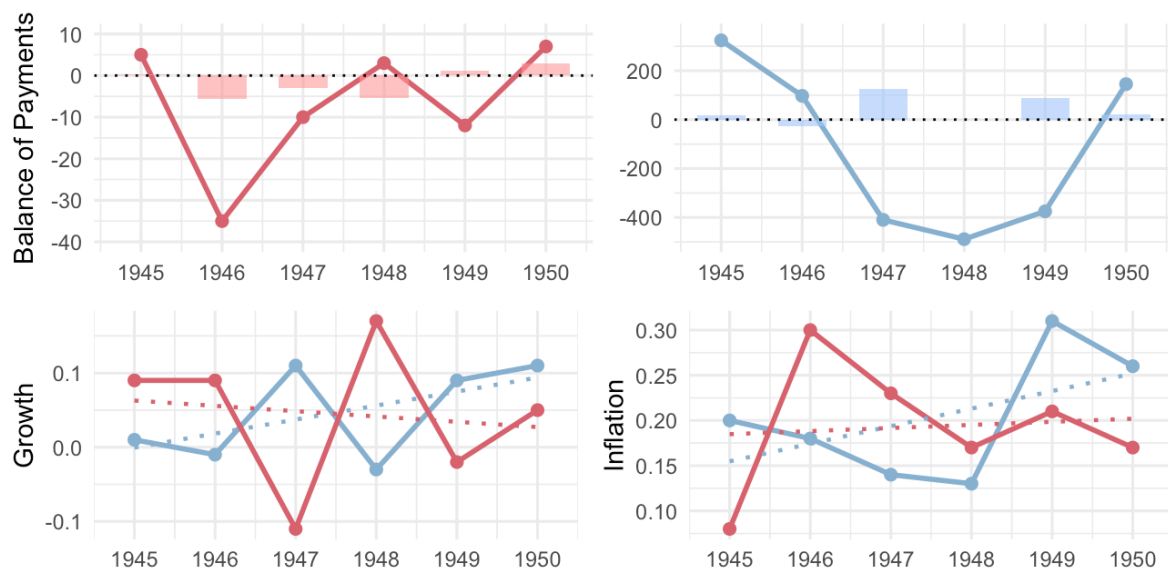
Macroeconomic evolution

The immediate postwar period brought a rapid reversal of fortunes for Latin America's international position, particularly in the Southern Cone. During the war, both Chile and Argentina experienced strong demand for their commodities from both sides of the Atlantic. As imports from the US remained limited due to America's strict trade controls, the resulting trade surpluses strengthened the balance sheets of their central banks (mostly in inconvertible sterling in the case of Argentina). When the war ended, the traditional markets for these two countries were in contrasting positions. Britain and Europe faced a huge reconstruction effort while the US emerged from the war as a major creditor in an economic boom with strong global demand for its capital goods and food needed for the postwar reconstruction of its allies. Dollars were scarce, but importers on both sides of the Andes were eager to resume purchases of consumer and producer goods.¹ In this, Chile was better placed with access to the US market for its copper and a large presence of American companies. However, while export growth kept pace with rising imports in both countries, these modest trade surpluses were insufficient to offset other components of the current account (e.g., profit repatriation to foreign companies) and a negative capital account (i.e., servicing debts accumulated before the war, mostly dollar-denominated). As early as 1946, Chile experienced its first balance of payments deficit as a member of the BWS, and a year later it was Argentina's turn (Figure I.1). Following this difficult immediate postwar phase, the Southern Cone was able to strengthen its external accounts by the turn of the decade.

¹ See Schenk, *International Economic Relations since 1945*, ch. 2.

Figure I

Key macroeconomic indicators for Chile (red) and Argentina (blue) in 1945-1950



Source: Díaz et al. for Chile and Ferreres for Argentina.² Note: Balance of Payments = lines: current + capital accounts in millions of US dollars, bars: errors and omissions (e.g., the residual between the sum of current and capital accounts and the observed change in official reserves); Growth = Real GDP rate; Inflation = Y-o-Y CPI rate.

In the immediate postwar years, the domestic economies of Chile and Argentina were characterised by rapid growth yet threatened by underlying imbalances. With only two years of negative growth, real GDP averaged 4.3% in Chile and 4.8% in Argentina between 1945 and 1950. Reflecting their state-led industrialisation strategies, growth was concentrated in government services and manufacturing, with the latter expanding at 6.0% in Chile and 4.9% in Argentina. By contrast, the traditional export sectors performed poorly: mining in Chile showed almost no real growth, while agricultural output in Argentina contracted. Output in these tradable sectors was shaped not only by domestic policies and labour dynamics but also by episodes of international price contraction. Moreover, the Southern Cone suffered from severe price disequilibria. Chile experienced a sharp inflationary surge in 1946, with the CPI rising nearly 30% year-on-year, followed by a downward trend over the rest of the period. Argentina, by contrast, initially brought inflation down from 20% in 1945 but saw a sharp rebound in 1949, with CPI more than doubling to exceed 30%. A range of factors contributed to these trends, including fiscal deficits monetised through central banks and the rapid expansion of cheap banking credit to support ISI efforts.

² Díaz Bahamonde, Lüders, and Wagner, *Chile 1810-2010*; Ferreres, *Dos Siglos de Economía Argentina: 1810-2018*.

Overview of Part I arguments

Amid this confluence of external and domestic pressures, Chile and Argentina chose divergent paths in navigating the emerging international monetary system. Archival sources allow for a detailed reconstruction of both trajectories, which, in spite of their differences, were deeply shaped by global developments and confronted similar challenges. Chapter 1 traces Santiago’s interactions with the Fund and the debates over exchange reform as a lens to examine the country’s navigation of the early BWS. It shows how Chile, as a founding member of the Bretton Woods institutions, initially signalled a willingness to phase out some of its discriminatory practices, particularly a complex system of multiple exchange rates that had become central to the ISI model (Table I.1). However, this early reform ultimately failed to materialise, in part because Fund authorities had not yet established a clear policy to address this form of NTB. After authorising Chile’s first dollar drawing and despite the expectations of early exchange rate unification, the IMF approved an even more intricate arrangement in 1948, known as the ‘mixing system.’ A second reform attempt, this time with direct IMF involvement, was launched in 1949 but was eventually abandoned following a political crisis in early 1950.

Table I

Some key events in the Southern Cone (1945-1950)

CHILE	ARGENTINA
1946 First Reform Attempt	1946 Access to Convertible Sterling
1947 First IMF Drawing	1947 Andes Treaty
1948 Chilean Mixing System	1948 Severe Dollar Shortage
1949 Dollar Shortage & Chile-IMF Plan	1949 Policy Adjustments
1950 Cabinet Reshuffle	1950 EXIMBANK Loan

Source: see Chapters 1 and 2

Because Argentina did not join the Bretton Woods institutions until 1956, Chapter 2 adopts a different focus to understand the country’s ‘independent’ navigation of the postwar system. Instead of following a specific set of policies that shed light on the general state of the external sector, like Chile’s multiple exchange rates, Chapter 2 focuses on Buenos Aires’s ambitious ‘bilateral-nationalistic strategy.’ It links Argentina’s key external policies to developments among its main trading partners, which were also central actors in the emerging BWS. Notably, the chapter highlights Argentina’s early access to convertible sterling through the Anglo-Argentine treaty of September 1946. This agreement enabled the relaunch of an interwar triangular trade and payments pattern (with Britain as a net surplus partner and the United States as a net deficit one), while also encouraging the nationalisation of foreign assets, repatriation of external debt, and

positioning of Argentina as a net creditor. However, the sterling convertibility crisis in 1947 dealt a severe blow to this strategy, leading to a series of policy adjustments and renewed efforts to improve ties with the US (see EXIMBANK loan in Table I.1).

Taken together, both chapters show how Chile and Argentina confronted global challenges linked to the evolving dynamics of the BWS. Despite its early IMF membership and closer alignment with the United States and dollar-denominated trade, Chile's postwar navigation proved complex. Rather than embracing Bretton Woods' multilateralism, the country reinforced interwar regulations during a period of greater global tolerance to discriminatory practices following the 1947 sterling crisis. For countries like Chile, struggling with slim export baskets and accustomed to relying on NTBs for dealing with external imbalances, the postwar order appeared a 'too late' solution (particularly in the absence of an international commodity agreement). On the other hand, Argentina's postwar trajectory began from a different baseline, shaped by both non-IMF membership and its stronger ties to Britain and sterling-denominated trade. Free from the immediate pressure to adopt non-discriminatory practices, Perón's bilateralism nonetheless hinged on some degree of global multilateralism (sterling convertibility). When the Bank of England re-imposed exchange controls in August 1947, Argentina was forced into a painful readjustment. The postwar dollar shortage, felt with some intensity in Chile in 1949, was arguably the most defining feature of Argentina's external sector in the late 1940s. These global and monetary adjustments, the chapters finally argue, had profound implications for the Southern Cone's ISI model yet to be examined by the historiography.

CHAPTER 1

Chile's Multiple Exchange Rates and the IMF (1946-1950)

“I am so terribly disgusted with the Chilean inflation and all this nonsense around multiple exchange rates...”¹

IMF's Jorge del Canto on Mission to Chile
28 October 1949

1.1 Introduction

On 29 December 1945, after three months of debate, the embattled Chilean Congress ratified the Bretton Woods Agreements, formally marking the country's entry into the post-war international order. The decision, which made Chile a founding member of the IMF and IBRD, carried high expectations. Until then, the country had never firmly adhered to an international monetary system. During the gold standard era, Chile only managed to maintain convertibility between 1895 and 1897, and again from 1926 to 1931. Unlike these previous haphazard attempts at participating in a global monetary order, Bretton Woods' promise of greater cooperation envisioned not only more fruitful but also more lasting engagement. These hopes were not unfounded: the core principles of the new system, multilateralism and non-discrimination, offered a promising future not only for the system's leaders but also for developing economies.² Furthermore, the July 1944 Conference had already featured a genuine 'North-South dialogue,' raising expectations of increased support for Latin America, as Helleiner had articulated.³ Behind this optimistic outlook, however, tensions soon began to surface between Chile and the new multilateral institutions.

Shortly after the beginning of the BWS, a fundamental mismatch emerged between the system's goals and those of the Chilean ISI model. While members were expected to progressively reduce restrictions on current international payments, Santiago was reluctant to dismantle the external controls inherited from the Great Depression and reinforced during the war years. Trade and monetary regulations were considered essential by Chilean officials to sustain domestic industrialisation and shield the domestic economy from external shocks. As the BWS literature shows, such tensions (although for different reasons) were common among most G10 countries struggling to

¹ IMF IA, Country Files, C/Chile/810 Mission - Bernstein - Del Canto, Airmail from Jorge del Canto to Edward M. Bernstein, 28 October 1949.

² Schenk, *International Economic Relations since 1945*, 21.

³ Eric Helleiner, *Forgotten Foundations of Bretton Woods: International Development and the Making of the Postwar Order* (Ithaca ; London: Cornell University Press, 2014), 156–57.

restore balance in the immediate postwar period.⁴ What is notable in the Chilean case is that its ‘discriminatory navigation’ of the early BWS became most visible in relation to the system’s core rule: the pegged exchange rate. Rather than adopting a single exchange rate, Santiago retained and strengthened its complex system of multiple exchange rates, a form of NTB that had started in 1931.⁵ Although the manipulation of rates was a widespread practice among developing country members (and France in 1948), this NTB took on considerable dimensions in Chile. Reflecting on this situation, the Fund’s staff noted that in 1947 the country operated “the most complex multiple rate system” among all 19 Latin American members.⁶

Multiple exchange rates thus became one of Chile’s primary tools for navigating a difficult postwar period marked by two severe balance of payments crises in 1946 and 1949. This chapter shows how increased reliance on multiple rates generated a complex relationship with the IMF during its formative years. Novel archival evidence reveals that the Fund made an early attempt (1946) to align Chile with the single-rate core rule of Bretton Woods, well before it had developed a comprehensive policy on multiple exchange rates (August 1947). Rather than complying, Santiago took additional steps to tighten administrative controls over foreign flows through the use of foreign exchange budgets. Interestingly, the persistence of multiple exchange rates did not prevent Chile from securing its first Fund drawing in the second half of 1947, despite warnings from officials of a ‘fundamental disequilibrium’ (a crucial yet undefined concept of the BWS). The following year, as Chile began to stabilise its external accounts, a provisional regime was authorised by the IMF and in late 1949 an exchange reform gained further momentum. However, political developments in early 1950 rendered those efforts ineffective, showing the limitations of the Fund’s technical assistance in the light of global tolerance to discriminatory arrangements.

Although these early interactions between Chile and the Fund may appear futile at first glance, they reveal key dimensions of the BWS and the Southern Cone’s industrialisation model. This largely overlooked episode in the global architecture of Bretton Woods illustrates how Chile managed to preserve its discriminatory multiple exchange rates just as the system began to shift away from its original commitment to economic multilateralism through global early convertibility. Secondly, the chapter highlights how the evolving structure of Bretton Woods, marked by the global dollar shortage and the system’s ‘regional turn,’ posed new challenges for economies pursuing ISI strategies. Indeed, the compartmentalisation of the international monetary system into discriminatory currency zones increasingly complicated efforts to reconcile

⁴ Eichengreen, *Globalizing Capital*, 93.

⁵ In a multiple exchange rate system, a country adopts different rates for specific types of transactions. The next section provides further details.

⁶ IMF Executive Board Special (henceforth, EBS) /49/117, Supplement 4, p. 2, 17 December 1949.

essential import needs with inconvertible export earnings. Finally, Chile's experience within the postwar framework offers a useful point of comparison with the Argentine case (Chapter 2), which faced a more challenging adaptation to the collapse of sterling convertibility in 1947.

In addition to this introduction, the chapter comprises four sections. The second section examines Chile's main economic trends at the end of the war and prior to joining the IMF, with particular emphasis on the 1946 balance of payments crisis. While the specialised literature has acknowledged these changes, little attention has been paid to how deeply rooted discriminatory regulations already anticipated a complex entry into the Bretton Woods regime. The third section analyses Chile's initial contacts with the International Monetary Fund, focusing on the country's difficult payments position and its first drawing in 1947. Finally, section four traces the developments that led to the establishment of a 'mixing system' (a particularly complex form of multiple exchange rates) and the first reform attempts undertaken with the Fund's assistance. The topics covered in these last two sections remain largely unexplored in the literature, with only occasional references in studies of IMF-country relations. Within that strand, Kofas addresses the topic in the context of the political economy of external financing but relegates the significance of multiple exchange rate regimes to the margins.⁷

1.2 A difficult entry into Bretton Woods: Chile's postwar trade and payments regime

To properly understand Chile's navigation of the early Bretton Woods years and its relations with the IMF, it is essential to first consider the country's development model at the time of the Second World War, particularly the lasting impact of the Great Depression on its regulatory framework. By the mid-1940s, the Chilean economy reflected both its historical reliance on commodity exports and the evolving dynamics of state-led development shaped by post-Depression institutions.⁸ During the 19th-century globalisation era, Chile had become a leading exporter of potassium nitrate from its northern provinces to the future G10 countries.⁹ Compared to much of Latin America, this commodity-led growth strategy proved relatively effective, yielding outcomes on par

⁷ Kofas describes the multiple exchange rates in terms of state control over foreign exchange, and that an overvalued peso helped domestic manufacturers, yet no reference to the evolution of Bretton Woods is made in this context. See Jon V. Kofas, 'The Politics of Foreign Debt: The IMF, the World Bank, and U.S. Foreign Policy in Chile, 1946-1952', *The Journal of Developing Areas* 31, no. 2 (1997): 167.

⁸ Although Chilean historiography has documented the existence of 1940s policies it has not framed them as structural obstacles to entry into the BWS, like this section aims at. See, among others, Jere R. Behrman, *Foreign Trade Regimes and Economic Development: Chile*, Foreign Trade Regimes and Economic Development (New York: National Bureau of Economic Research, 1976); Daniel Lederman, *The Political Economy of Protection: Theory and the Chilean Experience*, Social Science History (Stanford, Calif.: Stanford University Press, 2005).

⁹ Rory Miller, 'Chile Durante La Era Del Salitre', in *Historia Economica de Chile Desde La Independencia*, ed. Manuel Llorca-Jaña and Rory Miller (Santiago: RIL Editores, 2021), 97-104.

with Argentina and Uruguay, the region's strongest performers.¹⁰ However, the crisis of 1929 and its aftermath marked a turning point in domestic economic policy, ushering in a greater role for the state in economic affairs. Inward-looking development strategies began to take root during the 1930s and reached maturity by the end of the decade. In 1939, when a coalition led by the Radical Party came to power (and stayed until 1952), the country formally embraced a broader ISI model that would remain in place until 1975.

A key component in Chile's transition toward domestic industrialisation was its gradual abandonment of the interwar monetary system's rules. Having joined the gold exchange standard in 1926, following the recommendations of an American expert mission, the country's commitment to those rules began to falter with the onset of the Great Depression. For almost six years, however, Chilean authorities adhered to the principles of this international monetary system, centred on fixed exchange rates and free capital movements but offering extremely limited monetary policy tools. The gold exchange standard (along with the establishment of central banks in Latin America) formed part of a global effort to reconstruct the international monetary order after the First World War, as set out at the Genoa Conference of 1922.¹¹ Until the start of the crisis, Chile grew closer to the US capital market, floating several government bonds for more than US\$5 million in New York between 1926 and 1931.¹² Yet officials in Santiago could not maintain this course for long as the first signs of the crisis began to emerge.

A decisive turning point came in 1931, when Chile abandoned convertibility and declared default on its external obligations amid a massive collapse in international reserves. The magnitude of the crisis helps illustrate its lasting consequences for the country's regulatory framework. The League of Nations ranked Chile as the world's most affected economy, citing the dramatic contraction in its foreign trade. Between 1929 and 1932, the FOB price of exports fell by over 80%, while real GDP nearly halved, according to modern estimates. In both official and academic circles, this experience gave rise to a profound disillusionment with the interwar monetary order. The principles of non-discrimination and automatic adjustment in managing external imbalances were seen as especially damaging for Chile. In response, and consistent with the state's expanding role in other areas of economic life, new trade and exchange controls were introduced to shield the domestic economy from further external shocks.

Once off gold, like other countries, Chile began to construct a highly regulated and discriminatory framework for international trade and payments. Alongside tariffs, import

¹⁰ Bértola and Ocampo, *The Economic Development of Latin America since Independence*, 100.

¹¹ John Singleton, *Central Banking in the Twentieth Century* (Cambridge, UK; New York: Cambridge University Press, 2011), ch. 4.

¹² Uziel González Aliaga, 'De La Autonomía a La Cooperación. El Cambio de Targeting Del Banco Central de Chile En La Década de 1930', *Investigaciones de Historia Económica*, 26 January 2021, doi:10.33231/j.ihe.2021.01.003. Anuario Estadístico de la República de Chile 1935, Volúmen 6.

licences, and quotas, two instruments were central to Chile's regulatory approach: clearing agreements and multiple exchange rates. Regarding the former, Chile signed a series of those agreements between 1932 and 1934, beginning with France and later including other European partners and Brazil.¹³ Crucially for managing scarce foreign exchange, trade conducted via clearing did not involve cross-border currency flows. Instead, designated offices in each country provided exporters and importers with the local-currency equivalent of their transactions. This bilateralism was a payments solution for several countries, and as Irwin explains, by departing from convertibility and the multilateral payments framework of the gold standard, such agreements shielded countries' international reserves.¹⁴ In Chile's case, they were also vital for securing stable demand for its export products (e.g., natural nitrates, menaced by artificial alternatives) and for guaranteeing payments owed to foreign companies. By the late 1930s, roughly one-third of Chile's foreign trade operated under these agreements.¹⁵

While the use of clearing agreements declined after the Second World War, multiple exchange rates remained a defining feature of Chile's postwar external regulations, mirroring broader international trends.¹⁶ Despite efforts to phase them out, multiple rate systems persisted as a prominent non-tariff barrier, operating in 14 Latin American countries by the early 1950s, but also throughout the Sterling Area.¹⁷ In Chile, the origins of multiple rates can be traced to 1931, initially emerging as a dual exchange rate system and later becoming integral to a broader reorganisation of the country's foreign trade. The first appearance of a two-tiered market coincided with the suspension of foreign debt servicing in June 1931 and the introduction of import controls, when the official rate for authorised transactions began to coexist with a fluctuating black market.¹⁸ This regime underwent various transformations throughout the 1930s, gradually convincing Santiago officials of the merits of this NTB for managing external disequilibrium. Following a major reform in July 1942, it assumed its most distinctive configuration with three official pegged rates (ranging from 19.37 to 35 pesos per US dollar) alongside an unregulated floating market (Table 1.1).

¹³ Douglas A. Irwin, *Trade Policy Disaster: Lessons from the 1930s*, Ohlin Lectures (Cambridge, Mass.: The MIT Press, 2011), 75–77, doi:10.7551/mitpress/8886.001.0001.

¹⁴ See Mauricio Casanova, 'El Nitrato Como Estrategia de Compensación: Clearing Agreements y La Política Salitrera Durante La Gran Depresión (Chile, 1932-1938)', *Diálogo Andino*, no. 64 (March 2021): 243–54, doi:10.4067/S0719-26812021000100243.

¹⁵ Sebastián Sáez, *La economía política de una crisis. Chile 1929-1939*, Notas Técnicas (Corporación de Investigaciones Económicas para Latinoamérica, May 1989), 65.

¹⁶ In the postwar period, 'trade and payments agreements' replaced the 1930s clearing arrangements. See Chapter 3 and 4.

¹⁷ Wolfgang König, 'Multiple Exchange Rate Policies in Latin America', *Journal of Inter-American Studies* 10, no. 1 (1968): 39, doi:10.2307/165057; Strange, *Sterling and British policy*, 62–65.

¹⁸ Donald Baerresen, *The Multiple Exchange Rate System of Chile: 1931-1955*, Latin American Essay Series (The University of Wisconsin-Milwaukee, 1969), 59–60.

Table 1.1
Multiple exchange rates' system in Chile (1942)

RATE	Value (pesos per US dollar)	Use
SELLING (for importers)		
Government	19.47	Payment of tariff surcharges
Preferential	25.10	Imports of essential goods
Ordinary	31.10	Imports of most goods
BUYING (for exporters)		
Government	19.37	Proceeds of major mining companies
Preferential	25.00	Exports of specific goods
Ordinary	31.00	Exports of most goods
Gold	35.00	Exports of gold (produced domestically)
BUYING AND SELLING		
Free	33.30*	Unauthorised and invisible imports

Source: CBCh Annual Reports (1942-1944). All rates were fixed, but the 'free' rate. * refers to value of December 1942).

The logic behind Chile's multiple exchange rates becomes clearer when examining how different rates were assigned to key foreign trade operations. At the heart of this system were the large, mostly foreign-owned mining companies, the country's main source of foreign exchange. To obtain local currency for their domestic expenses, these producers of copper, iron ore, nitrates, and iodine were required to surrender their export earnings at the lowest official rate (19.37 pesos per US dollar).¹⁹ The government then redistributed this foreign exchange to authorised importers at higher rates, depending on the nature of the imports. Essential goods for mass consumption, such as sugar, or industrial inputs like cotton yarn, oilseeds, cellulose, and newsprint, were eligible for the intermediate 'preferential' rate (25 pesos). In contrast, importers of other non-essential yet authorised goods had to pay the highest 'ordinary' rate (31.10 pesos). Though smaller transactions (e.g., floating market) are not included here, the core structure is clear: the system taxed traditional exporters while subsidising critical imports, normally linked to the ISI efforts.²⁰ Moreover, by prompt manipulation of parities, exchange authorities believed they could effectively contain the impact of sudden shifts in international prices, thereby shielding domestic economies from external shocks.²¹

¹⁹ By law, these companies were obliged to sell to the CBCh an amount defined by the authorities from their proceeds. In Chilean parlance, these were the 'legal costs of production.' See IMF RD/47/293, p. 4, 20 June 1947.

²⁰ A comprehensive evolution of the changes in the multiple exchange rates can be found in Baerresen and in CBCh Annual Reports. See Baerresen, *The Multiple Exchange Rate System of Chile: 1931-1955*.

²¹ de Vries and Horsefield, *The International Monetary Fund, 1945-1965*, 126.

Chile's multiple exchange rate system served not only to regulate trade flows in a discriminatory manner and to cushion external shocks, but also functioned as a tool for taxation. As de Vries notes, such systems were attractive to policymakers in developing countries where direct taxes on commodity exports were politically difficult to implement.²² This was especially true in Chile, where the export sector was dominated by a handful of American corporations and successive governments lacked the legislative support to pass new tax regimes. Instead, the executive could rely on the central bank to adjust exchange regulations and indirectly tax copper firms as well as other import and export businesses. By maintaining control over virtually all foreign exchange transactions, the government used rate differentials as a steady and indeed crucial source of fiscal revenue: during the war years, an average of 15% of total fiscal income was derived from exchange rate manipulation alone (Table 1.2).

Table 1.2

Total exchange profits due to the multiple rates' system in Chile (1938-1945)

Year	Million Pesos	Million US Dollars	% Gov. Income
1938	100.5	3.2	16.7
1939	108.2	3.5	16.7
1940	113.1	3.7	18.4
1941	136.8	4.4	18.2
1942	251.8	8.1	11.7
1943	411.3	13.3	9.1
1944	313.9	10.1	13.0
1945	373.8	12.1	14.8

Source: IMF RD 47/239, p. 8, 19 June 1947 and Ministry of Finance (Estado de la Hacienda Pública vols. 1939-1946). Dollar figures obtained from conversions at the official exchange rate (31 pesos per US dollar).

In hindsight, the multiple purposes served by Chile's exchange rate system and its prolonged use since 1931 complicated adherence to the postwar rules against discrimination. By the mid-1940s, exchange officials and the government had become deeply accustomed to the flexibility afforded by multiple rates and their utility in addressing both external and domestic challenges. These factors made it all the more difficult for the IMF to persuade Chile to move toward exchange rate unification, as discussed later in this chapter.

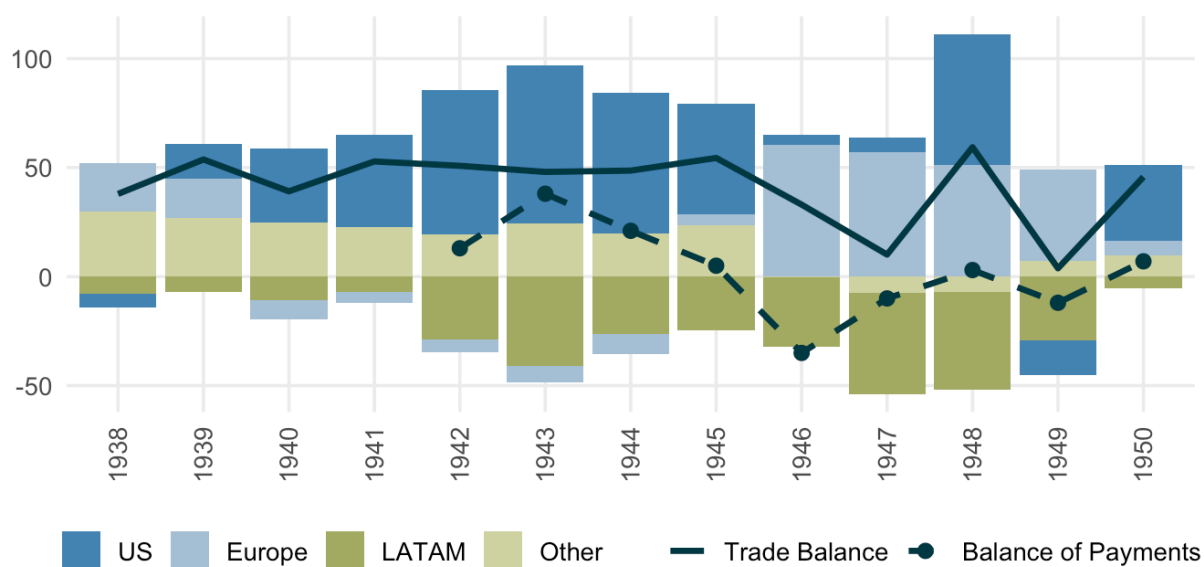
²² Margaret Garritsen de Vries, 'Multiple Exchange Rates: Expectations and Experiences', *IMF Staff Papers* 1965, no. 002 (1 January 1965): 285, doi:10.5089/9781451947212.024.A005.

The war and the postwar periods

Just like much of Latin America, Chile's historical foreign trade linkages were profoundly disrupted by the Second World War. European demand, which had traditionally been responsible for half of Chilean exports, collapsed to just 5% in 1940. This decline was partially offset by the entry of the United States into the war, which centralised Allied purchases and drove a sharp increase in copper exports and production.²³ American involvement was also reflected on the import side, though in this case, other Latin American countries, especially Peru and Argentina, became increasingly important sources of imports. As exports grew much more rapidly than imports, Chile recorded an average trade surplus of around US\$50 million per year, with intra-regional trade being the only area to show a net deficit (Figure 1.1). This favourable trade balance offset other current account outflows, such as profit repatriation, while capital movements remained virtually frozen following the suspension of debt repayments in 1939 after a major earthquake. Consequently, the war years saw a remarkable accumulation of international reserves (Figure 1.2).

Figure 1.1

Chile's trade balance by regions and balance of payments
in millions of US dollars (1938-1950)

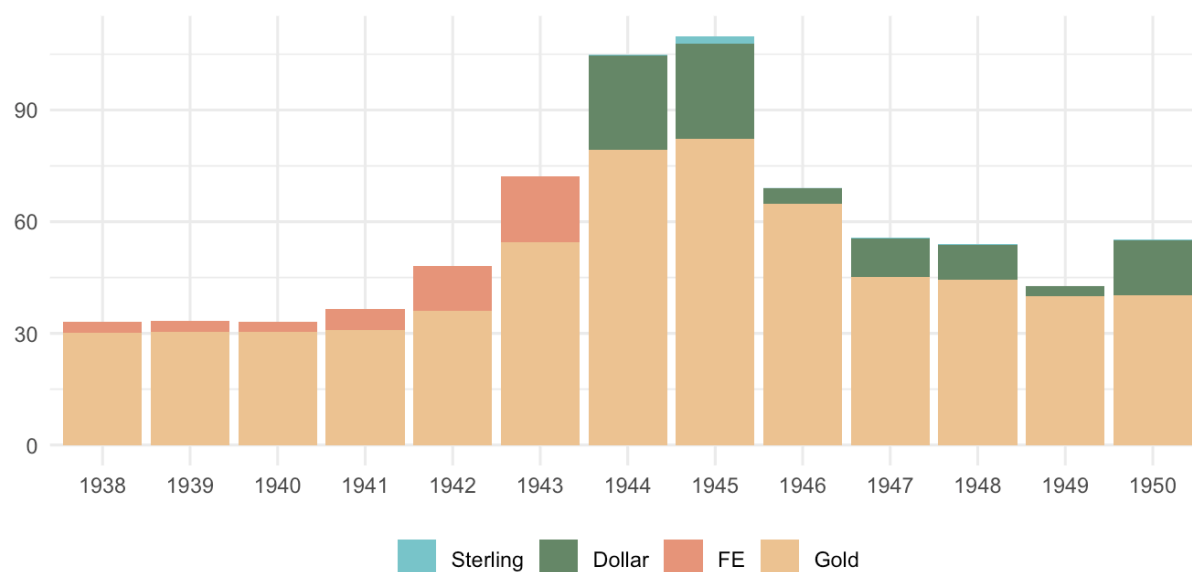


Source: Comercio Exterior 1935-1950 (Ministry of Economy and Commerce) and CBCh Balance of Payments 1942-1950. No reliable balance of payments data before 1942.

²³ José Díaz-Bahamonde, 'De La Gran Depresión Hasta La Segunda Guerra Mundial (c. 1930-1947)', in *Historia Económica de Chile Desde La Independencia*, ed. Manuel Llorca-Jaña and Rory M. Miller (Santiago: RIL Editores, 2021), 145–80.

Figure 1.2

CBCCh's international reserves in millions of US dollars (1938-1950)



Source: IMF (IFS) for 1938-1943; IMF (IA, Country Files, C/Chile/810 Mission - Bernstein - Del Canto, Preliminary Report on Chile) for 1944-1948; NARA II (RG 56, Entry UD UP 734 A1, Box 40, Chile Reference Book) for 1949; and CBCCh (Directory Minute 1342, 3 January 1951) for 1950.

A key feature of the wartime accumulation of international reserves was its distinctive currency composition. Thanks to Chile's sustained trade surplus with the United States, a steady inflow of convertible currency reached the vaults of the CBCCh (Figure 1.1).²⁴ Yet Chilean authorities did not simply accumulate US dollars. The central bank actively pursued a policy of converting part of these inflows into gold. Although the exact mechanisms for these purchases remain unclear (likely involving acquisitions from domestic producers), available records show that by December 1944, more than 75% of Chile's reserves were held in gold, 23% in US dollars, and 2% in inconvertible sterling. This preference for gold was rooted in the experience of the Great Depression, when Chile's sterling reserves had suffered a depreciation against gold following Britain's departure from the interwar standard. These concerns persisted through the war and help to explain Chile's reluctance to accumulate US dollars. In 1943, for instance, one US banker advised the Chilean president and finance minister to "save it [windfall income from copper] in gold rather than dollars," warning that the dollar "will be [of] doubtful value in the future."²⁵

By 1946, the country's comfortable wartime surplus gave way to a severe balance of payments deficit that the existing regulatory system proved unable to contain. The trade surplus was halved because labour unrest disrupted copper and nitrate shipments,

²⁴ This stood in stark contrast to the Argentine case, where most of the wartime exchange took the form of inconvertible sterling (see Chapter 2).

²⁵ NARA II, RG 56, Entry UD UP 734 A1, Box 40, Anti-U.S. views of U.S. Banker, 26 May 1943.

Chile's primary sources of foreign exchange. To make matters worse, the weakened export performance coincided with a 20% increase in imports, driven by the urgent need to replace industrial equipment after four years of intense use. Alongside the deterioration in the trade balance, the capital account recorded an even more significant shortfall of nearly US\$50 million. This deficit was explained partly by regular repayments to the US EXIMBANK's trade finance loans, but most importantly by the resumption in 1946 of both interest and amortisation payments on Chile's defaulted external debt.²⁶ To bridge this external gap in 1946, the CBCh saw its international reserves fall by 37%, particularly US dollars and sterling (Figure 1.2).

The 1946 balance of payments deficit reflects a structural feature of Chile's external position in the postwar period. In the absence of capital inflows, the overall balance depended not only on achieving a trade surplus but on maintaining one of considerable size. In both the 1946 and 1949 crises, the trade account recorded only modest surpluses, but insufficient to offset other current account (profit repatriation) and capital outflows (foreign debt). To compensate for these outflows, Santiago officials recognised that a strong trade surplus was essential. This was a particularly difficult task when those officials tried to accommodate import demands from the industrial sector (e.g., fuel, capital goods) at times of labour unrest (1946) or, more frequently, price contraction of key commodities (1949). The sustainability of industrialisation thus ultimately hinged on a fragile external equilibrium, with international reserves acting as a vital but often insufficient buffer against external shocks.

To recapitulate, like many other countries Chile's highly regulated and discriminatory external regime was firmly in place by the time of the 1944 Bretton Woods Conference. Instruments such as multiple exchange rates and other non-tariff barriers anticipated the difficulties Chile would later encounter in adjusting to a system based on the gradual removal of current account restrictions. These challenges were compounded by the country's fragile postwar external position, which not only limited its ability to respond to the Fund's early calls for liberalisation (as examined in the next section), but also provided a rationale for the continued use of such discriminatory controls. In hindsight, after more than a decade of experimenting with tight external regulations on which Chile and other BWS members increasingly relied, the postwar order appears as, if not 'too little,' then certainly 'too late.'

²⁶ This was mostly the external debt accumulated in the 1920s (see above). In the 1930s, Chile defaulted twice: in 1931, during the crisis, and in 1939, after a severe earthquake which forced the government to redirect resources to reconstruction. NARA II RG, RG 56, Entry UD UP 734 A1, Box 41, Chile File, 28 August 1947. See also CBCh Balance of Payments 1946, p. 74.

1.3 Chile and the early BWS (1946-1947)

Against the backdrop of the payments deficit of 1946, this section examines two early and contrasting episodes in the relationship between the newly established IMF and the Chilean authorities. After paying its IBRD and IMF quotas on time and defining its official parity at 31 pesos per US dollar, Chile engaged in two consequential interactions with the Fund, as archival records now make it possible to reconstruct.²⁷ The first was an early (though ultimately unsuccessful) attempt to reform the exchange rate system, undertaken at the Fund's request as early as September 1946. Notably, while discussions over this proposal unfolded, the IMF began a broader analysis into multiple exchange rate practices, culminating in a general policy of tolerance agreed in August 1947, the same month as the sterling crisis. The second interaction occurred almost concurrently and concerned Chile's first purchase of US dollars from the Fund. This relatively straightforward access to IMF resources, despite clear signs that Chile's par value was overvalued, was made possible by several factors, including strong support from the United States.

Taken together, these interactions offer a fresh baseline for understanding the broader functioning of Bretton Woods in its early evolution. Unfolding in parallel with the IMF's more familiar engagements (such as its support for European countries like France and the Netherlands), Chile's experience illustrates how a developing member could benefit from the Fund's multilateral facilities without fully adhering to its emerging rules.²⁸ In this way, these cases provide a valuable lens for examining the limits of Bretton Woods' non-discriminatory paradigm beyond the G10: despite facing different postwar challenges, both developed and developing members were allowed to maintain discriminatory policies. Chile, and Latin American members more broadly, continued operating with discriminatory exchange practices or unrealistic par values with little resistance (a situation comparable to the persistence of currency inconvertibility in industrial countries).

'Complying' with the system's rules

The literature on the BWS has shown that, prior to its regional turn, multilateral authorities initially expected new members to dismantle discriminatory practices inherited from the interwar period. This early push towards multilateralism is well

²⁷ The IMF quota amounted to US\$8.9 million, paid in February 1947. IBRD's contribution was US\$700,000. See CBCh 1946 Annual Report, p. 23.

²⁸ For the French and Netherlands cases, see Horsefield, *The International Monetary Fund 1945-1965*, 190; Kazuhiko Yago, 'The IMF and France (1944-1960): A "Cooperative Game" in the Bretton Woods System', in *History of the IMF: Organization, Policy, and Market*, ed. Kazuhiko Yago, Yoshio Asai, and Masanao Itō, Studies in Economic History (Tokyo: Springer, 2015), 152.

documented in the case of the 1946 Anglo-American loan, which ultimately compelled Britain to declare sterling convertible for just five weeks in July 1947.²⁹ Beyond the general accounts provided by the Fund's official histories concerning developing countries' use of discriminatory measures, less is known about how IMF authorities handled specific national cases.³⁰ Yet archival records from both the IMF and the CBCh reveal when and how Fund officials approached their Chilean counterparts to call for exchange reform (one of the earliest cases in which the IMF examined a member's exchange rate policy).³¹ The details of Chile's response are particularly revealing, offering valuable insight into the country's difficult navigation of the immediate postwar period and the Fund's official stance on multiple rates. Although this initial engagement did not succeed, it marked the beginning of a dialogue that would lay the groundwork for more comprehensive efforts after 1947.

Interestingly, this episode unfolded even before the IMF officially began operations in March 1947. During the first joint meeting of IMF and IBRD Governors in the summer of 1946, CBCh records indicate that IMF Director Francisco Alves dos Santos-Filho (a former Brazilian banker elected by eight Latin American countries) informally raised concerns about Santiago's discriminatory policies with Chile's Alternate Governor. In discussions about par values, Alves dos Santos-Filho explicitly acknowledged that "one of the problems that Chile would have to face with the Fund is the diversity of exchange rates," according to a confidential document of the CBCh.³² While Chilean authorities had publicly endorsed the new system, stating that the benefits of international monetary stabilisation "completely justified the obligations of the new system," the central bank offered no response to Santos-Filho's warning.³³ The Fund, however, continued to press the matter. A month later, the CBCh received an urgent cable from both the IMF and the IBRD, emphasising Chile's "duty to abolish, as soon as possible, its differentiated exchange rates."³⁴ More critically, in December 1946, the IMF Board even postponed its decision on Chile's proposed par value, making its approval conditional on a satisfactory commitment to eliminate the multiple exchange rate system.³⁵

Faced with mounting pressure from the IMF, but at the same time still assessing the true extent of the 1946 payments deficit, the Chilean government turned to the IMF with

²⁹ Alain Naef, *An Exchange Rate History of the United Kingdom: 1945–1992*, Studies in Macroeconomic History (Cambridge: Cambridge University Press, 2022), 10–15, doi:10.1017/9781108878333.

³⁰ de Vries and Horsefield, *The International Monetary Fund, 1945-1965*, 135.

³¹ Previous references to multiple regimes found in the IMF Archives also include an analysis on the case of Venezuela, recorded in September 1946. See IMF ED/47/22, 6 September 1946.

³² CBCh Board Minute 1001, 6 November 1946. Own translation from Spanish. This applies to all future textual quotes from CBCh documents.

³³ The quote is from the Annual Message of the President of the Republic before Congress in May 1946.

³⁴ CBCh Board Minute 1003, 27 November 1946. Carrasco provides more details of the discussion at the Board level. See Carrasco, *Banco Central de Chile 1925-1964. Una Historia Institucional. Tomo I*, 316.

³⁵ IMF Executive Board Minute (henceforth, EBM) 30, 17 December 1946.

a set of emergency measures aimed at stabilising the external accounts. These included strict import controls and, to appease the Fund's non-discriminatory concerns, adjustments to the multiple exchange rate regime in the direction of eventual unification. Although hastily assembled, the December 1946 plan already reflected what would become the core of Chile's negotiating stance in the years ahead: temporary compensatory measures to offset the apparent benefits lost from dismantling the multiple exchange rate system (such as its roles in maintaining external equilibrium, generating fiscal revenue, and providing import and export subsidies). Notably, the IMF Research Department appeared aware of this underlying concern when evaluating Chile's initial par value proposal. In an internal report addressing the complexities of Chile's exchange rates, Fund officials observed that "the paradox of the Chilean exchange problem is that the adoption of any intermediate, uniform rate—if not offset by new taxation designed to produce the same effect as the present multiple rate system—would, at the moment, undervalue the currency with respect to export, while aggravating existing overvaluation with respect to imports."³⁶

As for foreign exchange management, the Chilean plan proposed a dual market featuring pegged and fluctuating rates. The primary component was an official market, to be tightly controlled by the national monetary authorities and operate at the official rate of 31 pesos per US dollar.³⁷ A foreign exchange budget was to allocate resources at this rate to cover the most pressing payment commitments. Table 1.3 presents the main components of this budget, as submitted to the IMF in mid-December 1946. By outlining estimated payments and receipts for 1947, the budget provided key insights into Chile's external challenges. For instance, despite efforts to restrict imports to essential goods and to continue servicing foreign debt, both to bondholders and the EXIMBANK, a deficit of USD 12 million remained. The foreign exchange budget also underscored the vulnerability of Chile's external position to price volatility in mining exports. Large mining companies were expected to account for nearly two-thirds of visible trade, with American copper producers alone representing almost half. As the government admitted to Anaconda and Kennecott Copper companies, the major American copper producers operating in Chile, during meetings in New York in May 1947, "the current dependence of the Chilean economy on copper exports, especially in terms of the balance of payments, is dangerous, both for the country and the companies."³⁸

³⁶ IMF IA, Country Files, C/Chile/1000 Par Value and Exchange Rates, Executive Board Document 11, Initial Par Values, p. 10.7 November 1946.

³⁷ Second market for non-essential goods of US\$29 million in size and with a freely fluctuating rate. See CBCh Board Minute 1004, 28 November 1946.

³⁸ This was known as the "del Pedregal Mission" (headed by the Ministry of Finance, Guillermo del Pedregal), sent with the purpose of strengthening relations with the US and eventually securing access to loans. See Andrew Barnard, 'Chile', in *Latin America between the Second World War and the Cold War: Crisis and Containment, 1944–1948*, ed. Ian Roxborough and Leslie Bethell (Cambridge: Cambridge University Press,

Table 1.3

Estimated foreign exchange budget for 1947 in millions of US dollars (Chile)

PAYMENTS		RECEIPTS	
Trade			
Imports	189.8	Exports (large mining)	126.1
		Exports (other min., agr., & ind.)	59.5
Invisibles	11.4	Invisibles	18.7
Capital services			
Amortisations	9.0		
Interest	6.8		
Total	216.9	Total	204.3

Source: IMF EBM 30/17, attachment 1, 17 December 1946.³⁹ This was the first of many foreign exchange budgets in the postwar years.

The key significance of this plan was that it substantially simplified Chile's system of multiple exchange rates. Had it been approved and implemented in a timely manner, both the government's selling rate (19.37 pesos) and the preferential buying rate (25.10 pesos), shown in Table 1.1, would have become obsolete. While it did not amount to full convergence with Bretton Woods principles, it offered a transitional framework towards eventual unification. Notably, a dual-market solution was also advocated by economist Robert Triffin in the 1940s as a practical approach for commodity-exporting countries in Latin America.⁴⁰ However, debate over other aspects of the proposal slowed progress. Internal IMF staff reports raised concerns about the risk of overvaluation in the proposed free market for non-essential items.⁴¹ These criticisms were later echoed by the Executive Board when it revisited the issue in mid-January 1947. IMF Directors emphasised that the fluctuating market would need to be managed by the government or the CBCh, instead of automatically adjusting as the Chilean proposal had planned. Without strict oversight, the IMF staff warned, the rate could "fluctuate, perhaps widely" and increasingly attract

1993), 86, doi:10.1017/CBO9780511665295.004. The quote is from IMF IA, Country Files, C/Chile/810 Mission - Bernstein - Del Canto, The Exchange Problem, 19 November 1949.

³⁹ The final version, published by the BCCh in its Balance of Payments for 1946 (pp. 80-90), was US\$341.45 million in total. The major differences were in visible trade (over US\$220 million on both sides of the balance sheet), potential foreign loans on the receipts side (US\$20 million) and the inclusion of a carry-forward deficit from 1946, amounting to US\$80 million.

⁴⁰ Triffin played a key role in postwar international economic debates (see Introduction). He was not directly involved in the Chilean December 1946 proposal, but his ideas must have resonated among Chilean officials. Triffin had proposed a dual exchange market as a suitable solution for Latin American economies, arguing that the cyclical nature of commodity prices did not justify an across-the-board currency devaluation. See de Vries and Horsefield, *The International Monetary Fund, 1945-1965*, 125-26.

⁴¹ IMF Staff Memorandum (henceforth, SM) /47/10, 10 January 1947, p. 6, and RD/47/141, 23 January 1947, pp. 1-2.

exporters seeking access to a presumably more favourable rate than the official one.⁴²

These shortcomings, which underscored the potential use of multiple rates as competitive devices, ultimately postponed any substantive exchange rate reform, and no significant changes were implemented in 1947. On the Chilean side, interest in the proposal “waned after a Fund Mission suggested gradual elimination of the curb market,” while rising export volumes and prices for copper and nitrate temporarily eased the foreign exchange crisis.⁴³ For its part, the IMF delayed a decision on Chile as it worked to formulate a broader policy framework for addressing multiple exchange rate practices. In January 1947, the Board realised that the extent of the issue among members required a more systematic approach. Indeed, after almost a year of operation, over one-quarter of Fund members, including ten in Latin America, were operating under some form of multiple exchange rate system.⁴⁴ This point deserves further development.

Reflecting broader debates over the inconvertibility of most G10 currencies, the central question concerning multiple exchange rates was whether the Fund should treat these practices as violations of Article IV, Section 3 of the Articles of Agreement, or tolerate them under the transitional provisions of Article XIV. As one Executive Board Memorandum acknowledged, there was “a conflict between the rights of members during the transitional period and the fundamental obligations of the Fund Agreement relating to [the] par value.”⁴⁵ To address this tension, the Executive Board appointed an ad hoc Committee on Spreads and Multiple Currency Practices, which went on to examine 13 other cases among Latin American members, plus Italy and Iran.⁴⁶ The Committee’s early conclusions played a key role in shaping the Executive Board’s stance on multiple exchange rate practices, shedding light on the evolving relationship between the Fund and its member countries, including Chile.

In essence, the Board resolved to tolerate the continued use of multiple rates, but only if there were plans for their gradual elimination. Members were expected to begin by dismantling those aspects deemed non-essential for balance of payments management.⁴⁷ In addition to fixed official rates, the Board paid particular attention to fluctuating commodity markets (such as in Chile’s proposal), seeking to confine their use

⁴² IMF EBM/47/120, 13 January 1947.

⁴³ IMF Research Department (henceforth, RD) /47/293, p. 1, 19 June 1947, and EBM/47/203, 12 August 1947. Indeed, according to the US statistics, electrolytic copper prices skyrocketed from an average of 14.8 cents per pound in 1946 to 23.6 cents in May. See US Bureau of Mines, *Mineral Yearbook 1947*, p. 466.

⁴⁴ IMF EBM/47/29, pp. 1 and 5. In addition to Chile, analysis of specific cases included Ecuador, Iran, Belgium-Luxembourg (solely spreads), Bolivia and even non-member Argentina. See SM/47/13, 14, 18, 19, and RD/47/192, respectively (all drafted in January 1947).

⁴⁵ IMF EBM/47/37, p. 1, 30 January 1947.

⁴⁶ IMF RD/47/292, 20 June 1947.

⁴⁷ IMF EBM/47/203, 12 August 1947.

to capital transactions and, in the case of trade, to less essential imports.⁴⁸ The Fund's decision to accommodate these discriminatory measures had long-lasting implications, notably its subsequent difficulty in enforcing its own phasing-out directives (see next section). More broadly, the August 1947 ruling on multiple rates signalled a shift in the postwar international monetary system. It coincided with the sterling crisis of that month, after which the earlier global push for multilateralism (whether in the form of convertibility or unified exchange rates) began to falter, ultimately prompting the BWS's regional turn.

Chile's first dollar purchase and the 'fundamental disequilibrium'

Not all early engagements between the Fund and Chile were as inconclusive as those involving discriminatory NTBs. The following paragraphs instead show how the new multilateral facilities helped Chile address a worsening payments position that developed over the course of 1947 (without requiring an adjustment to its overvalued official parity, as shall be seen).

The first signs of external strain appeared as early as May 1947, when customs warehouses began to fill with imports that payment authorities had blocked. The Standard Oil Company, a crucial provider of fuel, complained directly to the CBCh about delays in foreign payments, even threatening to halt new shipments.⁴⁹ In response, the government was forced to 'borrow' US\$12 million from the Central Bank's reserves, distributing the funds among local commercial banks and public institutions with outstanding foreign currency obligations.⁵⁰ Yet these mid-year efforts proved insufficient: by August, the foreign exchange budget shown in Figure 1.3 was nearly exhausted. Preliminary estimates suggested that an additional US\$35 million would be required to meet import needs through the end of the year.⁵¹ Beyond regular demand, part of the pressure likely stemmed from efforts to hedge against inflation, which had entered a new cycle and peaked at 40% by mid-1947. In this critical context, the government of Radical President Gabriel González Videla (1946-1952) moved to reorient economic policy by appointing a new cabinet.

In August 1947, businessman and future President Jorge Alessandri, sworn in as the new Minister of Finance, fostered a closer relationship between Chile and the Fund. His initial months in office were devoted to stabilising the country's worsening external accounts. As the British Embassy reported to Foreign Secretary Ernest Bevin, "by the end

⁴⁸ Horsefield, *The International Monetary Fund 1945-1965*, 176–78.

⁴⁹ CBCh Board Minute 1030, 19 May 1947.

⁵⁰ CBCh Board Minute 1033, 4 July 1947.

⁵¹ CBCh Board Minute 1052, 10 October 1947.

of December all her [Chile's] reserves were virtually exhausted, and the Customs houses were bulging with goods which could not be withdrawn."⁵² In response, the new Minister wasted no time in presenting an economic programme that, for the first time, included a request for IMF financial assistance. The government's plan rested on two pillars: an austerity programme aimed at curbing inflation and boosting fiscal revenues, and a drawing of dollars from the Fund to address mounting external difficulties.⁵³ According to US records, the latter request was intended to cover payments for agricultural, textile, and other machinery already shipped from the United States.⁵⁴

Fortunately for the Minister, the first request for IMF resources proved relatively straightforward, owing to a combination of factors. At the time, the Fund had not yet developed restrictive policies or formal conditionality arrangements, such as those introduced in the 1950s. Requirements were minimal: the member country needed to have had its par value accepted before March 1947 and to demonstrate that the requested currency was needed for international payments due to a temporary disequilibrium (in Chile's case, rising imports).⁵⁵ Moreover, the Fund had already approved drawings for other members, such as France, which received three instalments of US\$25 million to address its own '1947 crisis.'⁵⁶ In that context, Chile's request did not represent a financial milestone. Archival records also suggest that the United States supported Alessandri's application to the Fund. Until August 1947, Chile and other Latin American countries were included on the Fund's so-called 'Grey List,' which effectively barred them from purchasing exchange. Both the US Treasury and the Department of State opposed this discriminatory treatment. An internal memorandum outlining US policy stated that "any member country should be free to come into the Fund and present an application for purchase of exchange, as France did," and emphasised that there should be no such "things as a "Grey List" or other such form of differentiation between member countries or groups of member countries."⁵⁷

Thanks to those factors, Chile's first dollar purchase was authorised by the Executive Board on 17 September 1947. The total sum of US\$8.9 million was divided into four tranches, to be disbursed monthly through December.⁵⁸ The September and October

⁵² Confidential Print, Further Correspondence Respecting Other South American Countries, part 2, January to December 1948. p. 53.

⁵³ Carrasco, *Banco Central de Chile 1925-1964. Una Historia Institucional. Tomo I*, 288–89.

⁵⁴ Foreign Relations of the US (henceforth, FRUS) Vol. VIII, p. 544. The Ambassador in Chile (Bowers) to the Assistant Secretary of State for Political Affairs (Armour), 2 October 1947.

⁵⁵ Horsefield, *The International Monetary Fund 1945-1965*, 187–89.

⁵⁶ Yago, 'The IMF and France (1944–1960): A "Cooperative Game" in the Bretton Woods System', 152.

⁵⁷ Unfortunately, records do not provide further details on the 'Grey List.' It is not unreasonable to think that other G10 members sought to prevent these countries from conducting transactions with the Fund. The quote is from NARA II RG 46, Entry UD UP 734 A1, Box 41, Memorandum from James Saxon to A. N. Overby, 20 August 1947.

⁵⁸ IMF EBM 214, 17 September 1947.

disbursements proceeded promptly, and the Fund acknowledged the “comprehensive plan for fiscal and monetary reform” led by Minister Alessandri.⁵⁹ However, by November, the first criticisms began to emerge. Although Chile took steps to curb new imports by granting the Central Bank expanded authority over foreign exchange authorisations, the Fund considered these measures inadequate. Continued credit expansion was seen as fuelling inflation (still above 20%) and, more significantly, as undermining the credibility of Chile’s par value. According to Central Bank records, at the November 1947 Governors’ meeting in London, Managing Director Camille Gutt informed the Chilean Governor that Fund staff believed Chile was facing a “non-temporary disequilibrium.”⁶⁰ In response, and with the aim of assisting the country in addressing its external imbalances, Gutt offered to dispatch a technical mission to assess Chile’s policies on site.

The Fund’s mission arrived in Santiago at the end of 1947 and was led by Robert Triffin himself. While it recommended approval of the final US\$1.3 million tranche in December, the mission reaffirmed concerns already raised by the Board, casting doubt on whether Chile was “taking steps designed to establish equilibrium in its balance of payments in a manner which will make its need for recourse to the Fund’s resources a temporary one”; on the contrary, Triffin argued that the Chilean situation would “probably justify a change in the par value.”⁶¹ By late 1947, for instance, the rate in the free fluctuating market had reached 51.5 pesos per US dollar, roughly 40% above the official parity of 31 pesos declared a year earlier.⁶² When the mission’s findings reached the Executive Board, the Directors concurred with the need to revise the peso parity assessment, but fell short of demanding any specific commitments from Chile. The same (weakened) Fund that only months earlier had tolerated the continuation of multiple exchange rates in August now seemed unprepared to insist on adherence to the core principles of the BWS. Instead of pressing for an adjustment in Chile’s parity, the Fund merely informed Chilean authorities that no further drawings would be authorised unless there was a demonstrable improvement in the exchange rate situation.⁶³

To recapitulate, Chile’s experience during its first two years as a member of the IMF offers important clues into the early evolution and pitfalls of the postwar monetary system. First, at a time when global multilateralism was already under strain following the 1947 sterling crisis, it is not hard to understand the Fund’s endorsement of discriminatory exchange arrangements among Latin American members as interim measures (but with lasting consequences). In this sense, the prolonged inconvertibility among G10 currencies and the persistence of multiple exchange practices in developing

⁵⁹ IMF EBM 217, 16 October 1947.

⁶⁰ CBCh Board Minute 1056, 12 November 1947.

⁶¹ IMF SM/47/149, 22 December 1947, p. 3.

⁶² CBCh Annual Report 1947, p. 31.

⁶³ IMF EBM/47/240, 23 December 1947.

economies may be considered the two sides of the same (global) coin. Second, and closely related, the Chilean case offers further evidence on the Fund's limited capacity to enforce core Bretton Woods principles: the country maintained an overvalued official parity despite clear indications of a 'fundamental disequilibrium.' Under such conditions, the prospects for meaningful exchange reform in Chile, much like the path toward G10 currency convertibility, seemed remote.

A note of international comparison should be added here. *Prima facie*, Chile and other Latin American economies appeared in a far better position to comply with BWS rules in the immediate postwar period. Compared with war-torn European economies and even developing countries that had suffered physical destruction (Egypt, India, China), Chile's reluctance to comply with the rules may seem puzzling. The argument advanced so far, given the embedded nature of post-Depression arrangements within the ISI strategy, discriminatory tools were considered essential, with domestic interest groups pressing for their retention. Although beyond the scope of this dissertation, an additional factor may lie in the design flaws of the postwar order itself. The failure to secure an international arrangement on commodity prices, a central demand of Latin American countries at the Bretton Woods Conference, may have discouraged countries like Chile from embracing an early liberalisation programme.

1.4 Further exchange reforms and the dollar shortage (1948-1950)

Once the IMF had asserted its authority over members' multiple exchange rate systems, a series of unsuccessful efforts to simplify Chile's regime unfolded between 1948 and 1950. This final section examines how the Fund failed to bring its southernmost member into alignment with the single-rate principle. Archival records reveal that the Fund uncovered a proliferation of unofficial exchange rates, stemming from the peso's persistent overvaluation (due to high domestic inflation). Unable to initiate Chile's transition towards unification, the Fund authorised an interim mixing regime, a solution that, paradoxically, marked a further departure from the par value system envisioned under Bretton Woods. This arrangement coincided with a renewed balance of payments crisis in 1949, revealing both the global consequences of the dollar shortage and the persistence of bilateralism after the 1947 sterling crisis. At the same time, it highlights Chile's efforts to adapt to a discriminatory trade and payments environment while advancing its own ISI objectives. The last subsection includes a reference to the first attempt at a comprehensive exchange reform under Fund technical assistance in early 1950. Although this initiative ultimately failed, it offers further evidence of the limited reach of multilateral influence in a world dominated by discriminatory arrangements.

The main events and policy shifts discussed in this section have already been described in domestic accounts of Chile's monetary policy. Carrasco's official history of the CBCh, for instance, describes how the Bank's board debated the problems surrounding foreign exchange in 1949 and the related changes to the exchange budget.⁶⁴ Kofas focuses on Chile's relations with the IMF, particularly the anti-inflationary measures and the reasons for the failure of the government's reform plans to 'placate' foreign interests.⁶⁵ From the domestic point of view, other historians offer political insights into the pressures that followed the implementation of the 1950 exchange reform.⁶⁶ Yet none of these works considers the wider international context, nor how the dollar shortage and global inconvertibility ultimately shaped Chilean responses and policy choices.

The Chilean 'mixing system' and the 1948 trade surplus

By early 1948, Chile's exchange system had evolved in increasingly complex ways, further diverging from Santiago's earlier commitments to eventual unification. In examining the country's multiple rates, the IMF staff uncovered important but previously unreported developments. Most relevant, the Fund discovered the proliferation of private trade offsets, commonly referred to as 'matching transactions,' operating alongside the pegged rates since April 1947. These transactions emerged in response to the undervaluation of the peso due to domestic inflation, which rendered non-traditional or minor exports (such as wine or small-scale mining) unprofitable under the prevailing rates. Because of that, authorities permitted these exporters to use their proceeds to obtain import licences for semi-luxury goods, which could then be sold through commercial banks to importers willing to pay a premium. This mechanism gave rise to two new special rates (the 'mining' and 'wine' dollars), both at least 21% above the ordinary rate, effectively functioning as an escape valve within Chile's increasingly fragmented exchange rate regime.⁶⁷ More worryingly, as one IMF official put it, the country's exchange system was not only "complex" but also "confusing and virtually incapable of effective administration."⁶⁸

When the Fund's Board met to consider the staff's new findings, it reiterated the need

⁶⁴ Carrasco, *Banco Central de Chile 1925-1964. Una Historia Institucional. Tomo I*, 321.

⁶⁵ Kofas, 'The Politics of Foreign Debt', 166–67.

⁶⁶ John L. Pisciotta, 'Development Policy, Inflation, and Politics in Chile, 1938-1958 : An Essay in Political Economy', *South American and Latin American Economic History* (Garland Pub. / Thesis (Ph. D.)–University of Texas at Austin, 1971., 1987), 89.

⁶⁷ Although staff analyses do not mention it, these transactions originated in the 1930s. These had ceased to operate in 1942 due to favourable wartime conditions. See Baerresen, *The Multiple Exchange Rate System of Chile: 1931-1955*, 3.

⁶⁸ IMF SM/48/163, pp. 16-17, 5 January 1948.

to overhaul Chile's exchange and regulatory systems. In addition to anti-inflationary and import-control measures, the Board deemed it appropriate to devalue the official par value from 31 to either 42 or 50 pesos.⁶⁹ According to Fund Directors, a revised par value was the most straightforward way not only to move toward exchange rate unification but also to eliminate the recently introduced 'mining' and 'wine' rates.⁷⁰ While recognising the importance of simplifying the system, the Chilean representative invited to the meeting firmly ruled out any formal devaluation. Such a move required congressional approval, which was politically unfeasible at a time when the government lacked a clear majority in both chambers. A second argument was the potential inflationary effects of an across-the-board devaluation, as key consumption goods were imported (i.e., sugar). Instead, Chile proposed a new floating rate within the 42-50 peso range that could be introduced administratively. More distinctively, this rate would not replace existing ones but be applied in combination with them, with its relative weight to be determined by the CBCh or the government.⁷¹ This was the origin of the so-called Chilean 'mixing system.'

The Chilean 'mixing system' thus offered a 'hidden,' flexible devaluation aimed at supporting non-traditional exports and containing imports without undermining efforts to control domestic prices. This new rate was to serve as a central instrument in the 1948 foreign exchange budget. Unlike the previous year's plan (Table 1.3), the 1948 version divided all payments and receipts into two categories: those settled at the existing rates of 25 and 31 pesos per dollar, and those covered by the new, administratively determined 45-50 pesos rate. Accordingly, Budget A and Budget B were introduced, as shown in Table 1.4. The main purpose of the new rate was to offer a more competitive return to non-traditional exporters, particularly in agriculture and small-scale mining. In contrast, the regime for large American-owned mining firms remained unchanged, thus sanctioning its central role as a source of foreign exchange and fiscal income. On the payments side, the authorities' determination to contain spending while protecting strategic imports was evident. Under Budget A (lower rates), essential goods such as foodstuffs (US\$17 million), agricultural products (US\$13 million), and chemicals were prioritised. Meanwhile, less critical imports were included in Budget B, amounting to US\$120 million and subject to the higher exchange rate of 45-50 pesos per dollar.

⁶⁹ IMF EBM/48/243, 9 January 1948.

⁷⁰ The problem with multiple exchange rates, especially those set outside government control, was the emergence of misaligned or 'broken' cross-rates. These arose when unofficial market quotations, particularly between the dollar and sterling, diverged from the official parity relationships, posing a threat to the stability of pegged exchange rates. See Margaret Garritsen de Vries, 'Twenty Years with Par Values, 1946-66', *Finance & Development* 3, no. 004 (1 December 1966): 283-84, doi:10.5089/9781616352844.022.A006.

⁷¹ IMF SM48/172, p. 6, 26 January 1948.

Table 1.4

Proposed foreign exchange budget for 1948 in millions of US dollars (Chile)

PAYMENTS			RECEIPTS		
	Bud A	Bud B		Bud A	Bud B
Trade			Trade		
Imports	100.4	120.6	Large mining	105.4	10.0
			Other		85.0
Invisibles	0.6	2.0	Invisibles	8.2	28.3
Capital services	9.3	5.0			
Other	4.6	0.1			
TOTAL	114.9	127.7	TOTAL	113.5	123.3

Source: IMF SM/48/163, 5 January 1948, Annexe 1.

At the Board level, not all Directors were convinced of the merits of the Chilean ‘mixing system.’ The clearest criticism was that this reform would, in fact, push the country’s exchange regime even further away from the principle of a unified system. In response, Santiago officials insisted that the new regime was only temporary, intended to familiarise the public (and political parties) with a higher exchange rate ahead of an eventual official devaluation. A more critical concern, touching on the core principles of the BWS system, was raised by the American Executive Directors. They not only reiterated the United States’ general opposition to fluctuating rates but also warned that Chile was proposing “the introduction of a fluctuating rate for exports which could easily develop into a powerful competitive device.”⁷² Fortunately for the Chileans, the US representatives found themselves ultimately isolated in their concerns over the system’s principles, not least because other G10 members were simultaneously engaged in discriminatory practices. France, for instance, had introduced a dual exchange rate system that same month, in January 1948.⁷³ With the support of the Fund’s Chairman, the Chilean ‘mixing system’ was ultimately authorised as a temporary measure, especially in light of the country’s long-standing reliance on multiple rates.⁷⁴

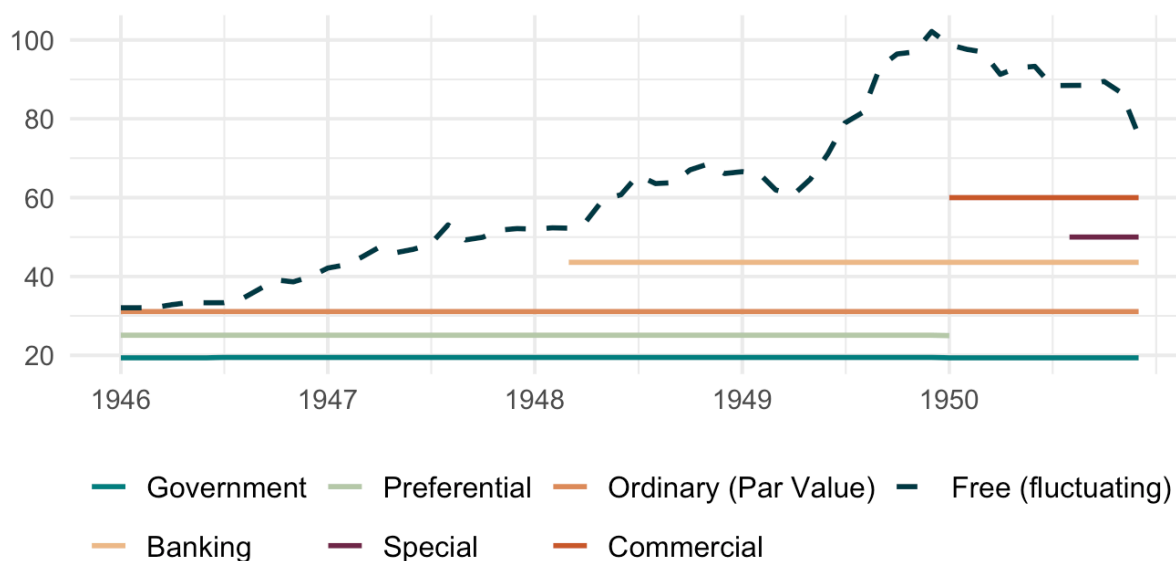
⁷² IMF EBM/48/263, 29 January 1948.

⁷³ Dominique Simard, Michael D. Bordo, and Eugene Nelson White, ‘France and the Breakdown of the Bretton Woods International Monetary System’, *IMF Working Papers* 1994, no. 128 (1 October 1994): 7, doi:10.5089/9781451935363.001.A001.

⁷⁴ IMF EBM/48/265, 30 January 1948. For the full agreement, see IMF EBS 6, Revision 1, 30 January 1948. See also CBCh Board Minute 1080, 3 March 1948. See Carrasco, *Banco Central de Chile 1925-1964. Una Historia Institucional. Tomo I*, 318.

Figure 1.3

Chile's multiple exchange rates in pesos per US dollar (1946-1950)



Source: IMF IFS (July 1946 onwards), except Free rate (from CBCh Monthly Bulletins). Prior to July 1946 CBCh Annual Reports. Except for the government rate (applied to large mining exporters), all other rates were offered to importers (i.e., selling rates). Selling rates had a ten-cent peso (0.1 pesos) surcharge. Besides these rates, since 1949, there was a final 'gold rate' for local producers of gold, fluctuating around two times the value of the 'free rate'.

The new rate was established in March 1948 and became known as the 'banking rate,' as commercial banks were responsible for its quotation and transfers. Although it was initially intended to float, Figure 1.3 shows that it remained stable at 43 pesos throughout the year, with the Central Bank instructing commercial banks to sell currency at that parity.⁷⁵

At first glance, the results of the new policy appeared encouraging. The mixing system introduced three new effective exchange rates, ranging between 38.20 and 40.6 pesos per dollar, calculated based on varying combinations of the preferential (31 pesos) and banking rates.⁷⁶ Minor exports appear to have benefited from this currency stimulus: FOB exports rose by 22% year-on-year (an annual increase not seen since the mid-1930s), reaching \$344 million, of which 12% came from agricultural products. Meanwhile, CIF imports were successfully restrained, increasing only slightly by 3% to US\$275 million. Still, these results should not be attributed solely to the new exchange rate or stricter import controls. Weather conditions helped crops, labour unrest in the northern mines eased, and improving global prices provided a major boost to Chile's foreign trade accounts.⁷⁷ In sum, both domestic and external conditions contributed to the

⁷⁵ It is not entirely clear why the authorities ultimately decided that the banking rate remained fixed. See CBCh, Annual Report 1948, p. 30, and Balance of Payments of Chile in 1947, p. 50.

⁷⁶ IMF EBS/48/38, Supplement 4, 1 November 1948, p. 2.

⁷⁷ CBCh Annual Report 1948, p. 10; IMF EBS/48/38, supplement 4, 1 November 1948. Copper prices averaged 23 cents per pound in the second half of 1948, 8% higher than during the same period in 1947,

unprecedented trade surplus of 1948, which surpassed even the peak years of the Second World War in nominal terms (Figure 1.1).

Improved external conditions and a more favourable payments position enabled Santiago to implement several policy adjustments aligned with the Fund's recommendations. Over the course of 1948, Finance Minister Alessandri expressed his satisfaction with the progress of these policies: no central bank financing was needed, the foreign exchange budget closed with a surplus, and 'matching transactions' were eliminated.⁷⁸ Nevertheless, officials in Santiago viewed these gains as insufficient and sought to extend the 'mixing' regime for another full year, hoping that continued favourable trade conditions would allow for the replenishment of international reserves. To support this request, they capitalised on a planned visit by the Fund's Chairman, Camille Gutt, who toured several Latin American capitals, including Santiago, in late 1948. Discussions between Chilean officials and the IMF Chairman appear to have borne fruit. When Gutt reported back on his Latin American mission to the Board in January 1949, he praised Chile's progress, highlighting "several remarkable achievements," including balanced budgets and "improvements in exchange control and production [that] had enabled pending obligations with New York to be cut in half."⁷⁹ Two months later, the Board formally approved the continuation of Chile's mixing system for the remainder of 1949.⁸⁰

The 1949 dollar deficit and the first Chile-IMF plan

After securing an extension to the complex and discriminatory 'mixing system,' Santiago officials placed their hopes on continued favourable trade conditions. Yet, as this subsection shows, such expectations were soon proved wrong. The resulting payments deficit of 1949 reveals, in turn, two central issues for Chile's postwar navigation of the international monetary order. First, the global impact of the dollar shortage and the BWS regional turn, marked by the continued inconvertibility of major currencies and the proliferation of currency areas and discriminatory arrangements. Second, a nearly simultaneous initiative by the IMF to promote exchange rate unification. Notably, this effort was the first postwar reform attempt in which Fund officials were involved from the outset. Its ultimate failure, precipitated by domestic political upheaval and a cabinet reshuffle, highlights the limits of multilateral influence in the Southern Cone's deeply entrenched ISI project.

and 36% above the second half of 1946. See US Mineral Yearbook 1948, Copper prices, pp. 489-490.

⁷⁸ IMF EBS/49/118, pp. 2-3, 9 December 1949.

⁷⁹ IMF EBM/49/390, 5 January 1949.

⁸⁰ IMF EBM/49/408, 11 March 1949.

The temporary regime authorised by the Fund in March 1949 quickly revealed its limitations as Chile faced considerable external shocks later that year. Copper prices fell sharply, mining output declined, and non-traditional exports were hit by rising domestic prices, which reached 19% year-on-year. In addition, the September devaluation of European currencies affected nitrate exports (Chile's second major export), half of which were traded against those inconvertible currencies. The resulting more expensive nitrate made artificial alternatives more attractive, especially those from European factories. While Chile's major export was not directly impacted by the 1949 European currency realignment, as copper was almost exclusively sold against dollars, the devaluations potentially gave producers in Rhodesia and the Belgian Congo a competitive advantage. Taken together, Chile's exports fell by 20% in 1949. Meanwhile, imports rose by 11%, driven in particular by purchases of capital goods and machinery, which, alongside raw materials and fuels, were essential to sustaining Chile's ISI strategy.⁸¹ The resulting trade imbalance quickly translated into an overall balance of payments deficit of -US\$12 million (Figure 1.3).

To understand the nature of Chile's external deficit in 1949, it is first necessary to situate it within the global context of the late 1940s, when the distinction between hard currencies and inconvertible European currencies had increasingly significant implications for the entire Southern Cone (see also Part II). Owing to strict exchange controls across Europe, Chile's growing trade surplus with the region (approximately US\$50 million in 1949) was largely settled in non-transferable or blocked currencies under bilateral arrangements.⁸² In practice, this meant that Chile could not use its net surplus with Europe to finance imports from the United States. Any deficit with the US, in the absence of capital inflows, had to be financed by drawing down convertible international reserves.⁸³ While Chile had previously managed to operate within this framework thanks to the international reserves accumulated during the war years, the contraction in copper prices in 1949 (and the corresponding fall in dollar earnings) brought the global 'dollar shortage' to the forefront of concern in Santiago. Indeed, Chile's payments crisis of 1949 reflected a broader trend within the BWS following its regional turn, a shift that scholars have linked to the persistent dollar shortage and the continued failure to re-establish multilateral trade and payments relations after the sterling crisis of 1947.⁸⁴

Although the specialised literature includes scarce references to how non-G10

⁸¹ The September devaluations also had a role in larger imports in 1949. See CBCh Balance of Payments 1949, p. 65. A more detailed analysis of the effects of this devaluation on the Chilean external sector, however, remains to be done.

⁸² Bordo, 'The Bretton Woods International Monetary System: A Historical Overview', 37–38.

⁸³ CBCh Balance of Payments 1949, p. 45.

⁸⁴ For additional references and discussions on the dollar shortage, see Harris Dellas and George Tavlas, 'The Great Dollar Shortage Debate: A Modern Perspective' (SSRN, 2025), 5–6, doi:10.2139/ssrn.5220741.

countries perceived and responded to the challenge of this post-1947 global bilateralism, archival records provide valuable evidence in the Chilean case. Officials in Santiago, already concerned about the country’s fragile external position and diminishing international reserves since 1946, clearly recognised the emerging fragmentation of the international payments system and the need to adopt new tools to navigate it. In response, the 1949 foreign exchange budget introduced an important innovation: for the first time, both projected receipts and payments were broken down by currency, distinguishing between US dollars and other (inconvertible) currencies (see Table 1.5). This disaggregation helps to understand that the dilemma Chile faced in the postwar period arose mainly from larger commitments to the so-called ‘dollar area,’ which included the United States and Canada, but also some Latin American countries like Venezuela.⁸⁵ As Table 1.5 clearly shows, the deficit was much more prominent in the dollar section (-US\$34.2 million) than with non-dollar areas (-US\$6.3 million), most importantly Europe, followed by Latin American neighbours.

Table 1.5

Estimated distribution of the 1949 foreign exchange budget in millions of US dollars (Chile) (December Estimate)

RECEIPTS	PAYMENTS			RECEIPTS	PAYMENTS		
	US Dollar	Other	Total		US Dollar	Other	Total
Exports				Imports			
Copper	99	-	99	General Imports	132	86	218
Other	21	80	101	Development Corp*	41	-	41
Services	15	10	25	Services	18	7	25
Capital				Capital			
EXIMBANK	30	-	30	Government debt	6	3	9
IBRD	4	-	4	Development Corp*	10	-	10
Others	10	5	15	Brazil & Argentina	2	5	7
				Investment income	4	1	5
TOTAL	179	95	274	TOTAL	213	102	314

Source: IMF EBS/49/118, 9 December 1949, Table 6. Balance in the US dollar segment: -US\$34.2 million; in the ‘other currencies’ segment (including Sterling and Swiss francs): -US\$6.3 million.

The unequal relationship that Chile maintained with the dollar area and other soft currency zones stemmed from a combination of structural forces and administrative discriminatory tools. Chile’s larger commitments to the dollar area reflected, in part, the

⁸⁵ de Looper, ‘Recent Latin American Experience with Bilateral Trade and Payments Agreements’.

greater appeal of American manufactures to Chilean importers: goods from the US were generally regarded as both higher in quality and more competitively priced than their European counterparts. In addition, key expenses such as freight, insurance, and various services had to be settled in dollars.⁸⁶ Dollar needs were also driven by the resumption of external debt service (54% of outstanding bonds were denominated in US dollars) as well as by critical imports required for the country's industrialisation programme under the auspices of the Chilean Development Corporation.⁸⁷ Some of these imports were even financed directly by the US EXIMBANK and only in American dollars. In contrast, a more balanced relationship with the 'other currencies' group was achieved through administrative efforts. Chief among these were a series of bilateral trade and payments agreements with G10 European countries. Between mid-1948 and early 1949, Santiago signed agreements with its principal European trading partners: Britain (June 1948), France (November 1948), West Germany (February 1949), and Spain followed in 1950.⁸⁸

Against this complex trade and payments backdrop, the government experimented with various measures to address the dollar deficit of 1949, relying first and foremost on the flexibility provided by Chile's multiple exchange rate system. To curb imports from the dollar area, such as fuel, tin plate, and lead, authorities removed these goods from the 31-peso rate list and reassigned them to the less favourable banking rate.⁸⁹ Simultaneously, to stimulate exports, the government granted agricultural and industrial exporters more competitive rates, closer to the banking rate, and briefly reintroduced the 'matching transactions' scheme, which offered effective rates ranging from 60 to 120 pesos per US dollar.⁹⁰ In addition, a new 140-peso rate was introduced for domestic gold producers, which incentivised a threefold increase in local output (this gold was immediately exported to the United States in exchange for dollars).⁹¹ With few domestic mechanisms remaining, Chile ultimately turned to extraordinary American balance of payments assistance for the first time in the postwar era. In December 1949, the EXIMBANK extended a US\$25 million loan granted to the Development Corporation.⁹² Part of the loan proceeds was used to bridge the dollar gap, supplemented by a further drawing down of the CBCh's international reserves.⁹³

While officials at the CBCh and the Ministry of Finance rushed to contain the 1949

⁸⁶ IMF EBS/49/118, 9 December 1949.

⁸⁷ Confidential Print, Further Correspondence Respecting Other South American Countries, part 1, January to December 1948. p. 77.

⁸⁸ These agreements are referenced in more detail in Chapter 3.

⁸⁹ IMF SM/50/530, p. 12, 31 October 1950.

⁹⁰ CBCh Annual Report for 1949, p. 20. For the lists of commodities benefiting from these measures, see IMF Executive Board Documents (henceforth, EBD) /49/495, pp. 2-3, 28 July 1949. IMF EBS/50/117, Supplement 6, p. 5, 7 January 1950.

⁹¹ CBCh Annual Report 1949, p. 27-8.

⁹² NARA II, RG 59, Entry A1 687-A, Box 4622, Chilean Foreign Exchange Budget for 1950, 11 January 1950.

⁹³ FRUS 1949, Vol. II, p. 602, Memorandum of Conversation, 13 September 1949.

deficit, they simultaneously engaged in a new attempt to reform the exchange system. Unlike previous proposals, this time Chile formally requested technical assistance from the IMF. A mission led by Jorge del Canto arrived in Santiago in October 1949 for this purpose.⁹⁴ After reviewing the regulatory framework and the various combinations of rates operating under the ‘mixing system,’ del Canto reported to Washington that he was “so terribly disgusted with Chilean inflation and all this nonsense about multiple exchange rates.”⁹⁵ Yet he also recognised in this complex scenario a chance to demonstrate the Fund’s practical relevance among its Latin American members. As he put it, “if we manage to put Chile into a unified system, we would have achieved a miracle and the Fund should capitalize heavily on this.”⁹⁶ Fortunately for the Fund’s staff, the desire for rapid exchange rate unification was increasingly shared by politicians from both the government and opposition, many of whom viewed the 1949 payments crisis as a window of opportunity for reform.⁹⁷

Essentially, the agreement represented a middle ground in an effort to meet the Fund’s standards while appeasing domestic critics. To satisfy the former, the plan proposed establishing a unified exchange rate between 60 and 65 pesos per dollar for most commercial transactions, including key exports such as copper and nitrates. In addition, the proposal included reforms to the system of gold sales and a redefinition of the legal status of the previously illicit, yet unenforced, free rate. Meanwhile, to accommodate domestic concerns, the government and the main political parties agreed to a set of safeguards. Without formally contravening Fund principles, these aimed to mitigate the potential economic costs of dismantling the multiple exchange rate regime. For instance, to offset the impact of the new rate on essential imports, the authorities proposed reductions in certain customs duties or targeted subsidies.⁹⁸ Despite some caveats, the Fund staff appeared to be content enough with this proposal, confidently forecasting to the Board that “there is no reason to doubt that a uniform exchange system be established by the first of the year [1950].”⁹⁹

Yet this wide-ranging proposal never reached the Fund’s headquarters in Washington. Under mounting pressure from the worsening balance of payments situation in 1949, Chilean authorities instead requested authorisation to introduce yet another exchange

⁹⁴ Del Canto was a Chilean economist and University of California graduate who specialised in Latin American economies. He joined the Fund’s Research Department in 1946 and, two decades later, became the head of the Western Hemisphere Department.

⁹⁵ IMF IA, Country Files, C/Chile/810 Mission - Bernstein - Del Canto, Airmail from Jorge del Canto to Edward M. Bernstein, 28 October 1949.

⁹⁶ IMF IA, Country Files, C/Chile/810 Mission - Bernstein - Del Canto, Airmail from Jorge del Canto to Edward M. Bernstein, 19 November 1949.

⁹⁷ This was part of an inter-party agreement agreed by almost all political parties on 7 December 1949. See, IMF EBS/49/117, Supplement 3, p. 1, 15 December 1949.

⁹⁸ IMF EBS/49/117, Supplement 3, pp. 1-4, 15 December 1949.

⁹⁹ IMF EBS/49/117, Supplement 4, p. 3, 16 December 1949.

rate on a temporary basis. Faced with a virtual paralysis of foreign trade in early 1950 as exporters started to withhold shipments in anticipation of a devaluation (e.g., a new rate), the IMF approved the interim agreement.¹⁰⁰ Following the Fund's approval, Chile swiftly established yet a new rate in mid-January 1950, fixed at 60 pesos per dollar (see 'commercial rate' in Figure 1.3). The following month, a wage freeze aimed at containing domestic prices provoked a major backlash, culminating in a political crisis. In February 1950, President González Videla announced a cabinet reshuffle that replaced the entire economic team, including Minister Alessandri.¹⁰¹ The new authorities, acutely aware of the lack of political support for far-reaching reforms, abandoned efforts to pursue exchange rate unification. In sum, contrary to the Fund's expectations, the January authorisation of an interim rate merely deepened the reliance on multiple exchange rates: by August, a new 50-peso rate had also been introduced.

The failed 1949-50 reform effort, negotiated between Chilean authorities and the IMF, foreshadowed a recurring pattern in their subsequent interactions. In retrospect, this episode (like the earlier 'hidden devaluation' of 1948) highlights the limits of multilateral influence in Chile. As with their G10 counterparts, Chilean officials relied heavily on discriminatory instruments to navigate the inconvertible phase of the BWS. Facilitated by global tolerance for such practices, these tools allowed the government to direct international trade flows administratively, address balance of payments imbalances with the hard currency area, support key sectors through export and import subsidies (in line with ISI goals), and raise fiscal revenue from exchange rate differentials. In short, multiple exchange rates (particularly in their extreme formulation under the 'mixing system') stood at the core of Chile's policy equipment, alongside bilateral trade and payments agreements, in confronting the challenges posed by the dollar shortage and the regional turn of Bretton Woods. It was only with the gradual easing of the dollar shortage, and with sustained multilateral support from the IMF and key trading partners, that Chile and the Southern Cone in general began dismantling their discriminatory NTBs (Chapters 3 and 4).

1.5 Conclusions

The postwar evolution of the international monetary system greatly diverged from the expectations of its architects. A primary disappointment was the failure to achieve a rapid transition to current account convertibility as a foundation for the early restoration of multilateral trade and payments. The unsuccessful experiment with sterling convertibility in 1947 discouraged the system's leaders from pursuing global solutions,

¹⁰⁰ IMF EBM/50/518, 9 January 1950.

¹⁰¹ William F. Sater and Simon Collier, *A History of Chile 1808–2018*, 3rd edn, Cambridge Latin American Studies (Cambridge: Cambridge University Press, 2022), 268, doi:10.1017/9781009170222.

leading them instead to favour regional arrangements such as the Sterling Area and the EPU. These developments, along with the prolonged transition to current account convertibility throughout the 1950s, are well documented in the literature. Comparatively less attention has been paid to how countries outside the G10 or Sterling Area responded to Bretton Woods' regional turn and to the broader effects of the dollar shortage and global bilateralism. To shed light on the global reach of this particular evolution of the postwar monetary order, this chapter has focused on the Chilean experience up to 1950.

As a founding member of the BWS, Chile was expected to align with its core principles of multilateralism and non-discrimination. Yet the country's heavily regulated external sector and its myriad of discriminatory NTBs, many inherited from the Great Depression and strengthened during the war, made a swift transition highly challenging. While common to many countries, a brief survey of trade and payments arrangements at the end of the Second World War reveals how deeply bilateral practices were embedded in Chile due its ISI development strategy. Particularly relevant to postwar negotiations was the regime of multiple exchange rates, which established different parities for exporters and importers. While Chilean officials regarded this discriminatory NTB as essential for managing foreign trade, multiple rates also served key domestic purposes, from generating fiscal revenue to offering preferential treatment to the industrial sector. Against this backdrop, it is unsurprising that early calls for reform by multilateral bodies in late 1946 went largely unanswered; after almost fifteen years of relying on discriminatory devices, it was probably too late for a swift application of Bretton Woods rules. Additionally, the absence of an international arrangement on commodity prices (ITO) may also have discouraged countries like Chile from complying with BWS rules earlier. In fact, it was only the exhaustion of Chile's traditional ISI that convinced Santiago to converge with global norms in the postwar era (Chapter 3).

Although a key factor, the persistence of discriminatory practices in Chile cannot be attributed solely to their deep entrenchment in the immediate postwar period. This chapter argues that Chile's use of NTBs endured into the second half of the decade also due to the global tolerance for discrimination following the BWS regional turn. It was no coincidence, for example, that the IMF permitted multiple exchange rates as interim measures just as the August 1947 sterling crisis was unfolding. The parallel between G10 inconvertibility and the developing world's use of multiple exchange rates suggests that they were, in effect, two sides of the same coin. Indeed, just as extra-European payment restrictions were intensified by several G10 members after 1947, Chile's already complex multiple exchange rate regime evolved into a 'mixing regime' whereby effective rates were obtained by combining fixed rates at different proportions. Whether appealing to political or economic considerations, Chilean officials met little resistance in preserving this discriminatory arrangement, even as these measures took the country further from a

unified exchange rate (or an outright devaluation in the clear presence of a ‘fundamental disequilibrium’).

That Chile resorted to multiple exchange rates to navigate the complex postwar environment did not spare the country from the challenges posed by the dollar shortage. The fragility of the country’s external equilibrium (dependent on the maintenance of a sustained and sizeable trade surplus) was exposed in 1949, when a sharp decline in international copper prices forced the authorities to tighten administrative controls, with particular emphasis on transactions with different currency areas. An updated foreign exchange budget that distinguished between receipts and payments in dollars and other currencies revealed the scale of the problem. Although bilateral trade and payments agreements with Western Europe could have reduced dependence on convertible currency, dollars remained essential. They were not only needed for high-priority American imports, but also to service external debt (resumed in 1946), repay multilateral loans, and maintain access to US financing via the EXIMBANK, an increasingly critical component of the ISI strategy. In this way, the consolidation of currency areas after 1947 also highlights the growing external constraints faced by economies pursuing ISI (an issue that has received limited attention in Latin American historiography). While Chile could partially mitigate this constraint by securing dollars through its strategic copper exports, the limitations of global inconvertibility for the ISI model were even more evident in the Argentine case (Chapter 2).

CHAPTER 2

Argentina's Postwar Bilateral-Nationalist Strategy (1944-1950)

“Evidently, in this matter [convertible foreign exchange] we have gone too far... we have overspent. I would say that we have spent in a year what corresponds to three.”¹

CBAR's President Alfredo Gómez Morales
31 January 1949

2.1 Introduction

In the immediate postwar period, the Southern Cone countries navigated the global economy and the new international monetary system in seemingly contrasting ways. While Chile became a founding member of the Bretton Woods institutions, neighbouring Argentina opted for a more independent course, remaining outside the BWS in terms of IMF-IBRD membership until 1956. Capitalising on this apparent autonomy and the sizeable international reserves accumulated during the war, Buenos Aires deepened its discriminatory regulations in the immediate postwar period. Domestic political dynamics were central to this shift, particularly the rise of General Juan Domingo Perón (1946-1955), a populist figure who cast a long shadow over Argentine politics and development strategy.² Backed by a congressional majority and a nationalist platform, Perón and his economic advisers saw little merit in Bretton Woods multilateralism as a path to Argentine prosperity. This chapter shows how, instead, Buenos Aires retained much of the country's interwar policies and pursued a bilateral strategy to navigate the early postwar years. In hindsight, however, this alternative course ultimately did not shield Argentina from global events contributing to the breakdown of Perón's postwar economic strategy. The same shocks that affected Chile in the late 1940s were suffered, and on a larger scale, by Argentina.

Argentina's postwar trajectory was deeply rooted in the dynamics that had shaped the country since the decline of nineteenth-century globalisation. Mirroring developments in

¹ CBAR Board Minute 28, 31 January 1949. Own translation from the original Spanish.

² Perón, a colonel later promoted to general, rose to prominence as part of the military government that took power after the 1943 coup d'état. He was elected president on a charismatic platform that appealed to the working class and emphasised popular sovereignty over the traditional political establishment, agricultural landowners and powerful foreigners (e.g., populism). Economically, his administration promoted rapid industrialisation, unionisation, and sought greater independence from foreign powers. See Paula Biglieri, 'Peronism and Its Legacy', in *Research Handbook on Populism*, ed. Yannis Stavrakakis and Giorgos Katsambekis (Edward Elgar Publishing, 2024), 84–87, doi:10.4337/9781800379695.00016.

Chile, inward-oriented forces and ISI policies gained ground during the interwar period. This move entailed not only an expansion of discriminatory measures but also a significant reorientation of Argentina's trade and payments flows. While agricultural exports to traditional European markets continued, Buenos Aires increasingly relied on American-manufactured imports to sustain its ISI efforts. These arrangements gave rise to a triangular payments pattern in the 1920s, whereby deficits with the United States were offset by surpluses with Europe, an arrangement in which currency convertibility played a vital role.³ Wartime disruptions and the concurrent rise in currency restrictions dealt a severe blow to this trade and payments model. Starting in 1939, European partners paid for Argentine exports in inconvertible currencies, which remained blocked and could not be used for critically needed purchases of capital goods and industrial inputs from the United States. The continuation of the entire ISI model was therefore at risk.

Facing internal industrialisation demands and external inconvertibility, the Perón administration concluded that multilateralism offered few guarantees for the Argentine economy. Instead, Buenos Aires deliberately embraced what this chapter terms a 'nationalistic-bilateral' strategy for engaging with the postwar global economy. Such a strategy refers to conventional country-to-country arrangements, repurposed to serve specific national interests that, in Perón's words, aimed to achieve 'economic independence.' Within this framework, the following sections examine how Argentina's privileged postwar position enabled the government to attempt a revival of its prewar triangular trade and payments system with Britain and the United States. While negotiating privileged access to convertible sterling through the 1946 Anglo-Argentine agreement, Buenos Aires also moved to reorganise its broader external relations. Foreign assets were nationalised, external debt was repatriated, and (albeit briefly) Argentina became a net exporter of capital to war-ravaged Europe and parts of Latin America. Ultimately, however, this bilateral-nationalist strategy proved unsustainable once G10 currency inconvertibility became a permanent global condition. By the end of the decade, Latin America's wealthiest country found itself facing the same international payments constraints afflicting the rest of the region.

Argentina's postwar trajectory outside Bretton Woods offers valuable insights into the system's early evolution. Most notably, it shows how a major capitalist economy pursued an ambitious bilateral strategy even before the BWS regional turn and the consolidation

³ Prior to the First World War, Britain was both the main buyer of Argentine produce and the leading source of capital investment in the country. In the 1920s, the United States showed interest in increasing its investments in Argentina, but without a corresponding demand for agricultural exports, this led to a persistent trade deficit. See Paul Cooney, *Paths of Development in the Southern Cone: Deindustrialization and Reprimarization and Their Social and Environmental Consequences*, Palgrave Insights into Apocalypse Economics (Cham: Springer International Publishing, 2021), 39–43, doi:10.1007/978-3-030-67673-5.

of currency areas. The Argentine case also highlights how the postwar dollar shortage and the regional solutions that consolidated after August 1947 worked against this type of early bilateral push. In effect, global inconvertibility dealt a severe blow to Argentina, which had spent most of its wartime reserves on sizeable imports from convertible currency areas and in reducing its exposure to payments in hard currency. With efforts to regain special access to convertible sterling after August 1947 going unanswered, the exclusion of Latin American countries from Marshall Plan offshore purchases further illustrates how Argentina was affected by the BWS abandonment of early multilateralism (an agenda, in any case, that Perón and his advisors had never sought to join).

Since many of the events analysed in this chapter have already been examined in the literature, a final historiographical note is warranted. Indeed, postwar Argentina has arguably received more scholarly attention than any other period in the country's economic history.⁴ Of particular relevance to this chapter are studies on Argentina's postwar international relations and Perón's so-called 'third position,' a corporatist stance that contested the global rigid division between capitalism and socialism (and the United States leadership in the Western Hemisphere).⁵ As this body of scholarship highlights, Perón's pronounced economic nationalism contributed to the formation of an Anglo-American bloc that, in turn, played a role in Argentina's relative decline in the late 1940s.⁶ A key expression of such a bloc was US pressure to limit Argentine demands during negotiations with Britain, or its exclusion from Marshall Plan dollars at moments of hard currency shortage.⁷ While this literature remains essential for understanding the multi-layered character of Argentina's postwar trajectory, this chapter argues that global

⁴ Indeed, this period marked the definitive divergence from developed countries. Of special relevance are the works of Díaz-Alejandro, Colin Lewis and Cortés Conde, which, with different emphasis, stress macroeconomic instability, policy inconsistency, institutional weaknesses and structural bottlenecks. See Carlos Federico Díaz Díaz-Alejandro, *Essays on the economic history of the Argentine Republic* (New Haven, 1970); Paul H. Lewis, *The Crisis of Argentine Capitalism* (Chapel Hill ; London: University of North Carolina Press, 1990); Roberto Cortés Conde, 'Introducción. Preludio a Perón', in *La economía de Perón: Una historia económica (1946-1955)*, ed. Roberto Cortés et al. (EDHASA, 2020), 15–38.

⁵ This thesis is clearly presented in David M. K. Sheinin, *Argentina and the United States: An Alliance Contained* (University of Georgia Press, 2010), 98.

⁶ For a classical narrative of 'economic boycott,' see Carlos Escudé, 'US Political Destabilisation and Economic Boycott of Argentina during the 1940s', in *Argentina between the Great Powers, 1939–46*, ed. Guido Di Tella and D. Cameron Watt (London: Palgrave Macmillan UK, 1989), 56–57, doi:10.1007/978-1-349-10977-7_4; C. A. MacDonald, 'The United States, Britain and Argentina in the Years Immediately after the Second World War', in *The Political Economy of Argentina, 1880–1946*, ed. Guido di Tella and D. C. M. Platt (London: Palgrave Macmillan UK, 1986), 183–200, doi:10.1007/978-1-349-08041-0_9. Later, Dorn revised these arguments, concluding that US participation took place behind a façade of 'non-intervention.' See Glenn J. Dorn, "'Bruce Plan" and Marshall Plan: The United States's Disguised Intervention against Peronism in Argentina, 1947–1950', *The International History Review*, 1999, 351.

⁷ These arguments appear in Carlos Escudé, *Gran Bretaña, Estados Unidos y la declinación argentina, 1942-1949*, 2a ed, Colección Conflictos y armonías en la historia argentina (Buenos Aires, República Argentina: Editorial de Belgrano, 1983), 328–29., and Mario Rapoport and Claudio Spiguel, 'La Argentina y el Plan Marshall: promesas y realidades', *Revista Brasileira de Política Internacional* 52 (June 2009): 25–28.

monetary developments also played a critical (if less intentional) role. These shifts were not directed at Argentina per se, as Chapter 1 illustrates, but global in scope and with their effects magnified by specific domestic policy choices and export structure (e.g., trade in soft and/or hard currencies).

Besides this introduction, the chapter comprises four main sections. Section two outlines the evolution of Argentina's trade and payments system at the end of the Second World War, including references to the country's initial reception of the BWS, suggesting that applying for membership was a real possibility before 1946. This supports the argument developed in section three, which analyses how Argentina deliberately pursued a policy at odds with the multilateral principles the postwar system initially endorsed. This section also explores the scope of Perón's bilateral-nationalistic strategy, starting with the Anglo-Argentine negotiations of 1945-46. Finally, section four examines the main developments that undermined Argentina's postwar strategy amid the BWS regional turn. The chapter concludes by highlighting the common challenges faced by the Southern Cone in the late 1940s.

2.2 Argentina's wartime payments realignment and the BWS

The Argentine postwar bilateral-nationalistic strategy was deeply intertwined with the events that reshaped the economy in the interwar period. As in the Chilean case, the Great Depression catalysed several shifts in Argentina's economic architecture. Most importantly, the country's growth engine moved from exports to the domestic economy. The export-led strategy of the First Globalisation began to be challenged as prospects for traditional exports dimmed. Meanwhile, domestic manufacturing gained prominence throughout the 1930s under the conservative governments of the '*Concordancia*' alliance (1931-1943). The closure of markets during the Second World War further boosted domestic industry, accelerating import substitution. As a result, manufacturing flourished, and in 1943 the industrial sector's share of GDP overtook that of agriculture.⁸ Political developments then reinforced this trend. The final stages of the war coincided with the rise of Juan Domingo Perón, the most influential Argentine political figure of the postwar period. His first administration (1946-1952) intensified the state's role in buttressing the domestic economy. Unlike the industrialisation of the 1930s, as will be seen, Perón's strategy involved an initial retreat from international markets.⁹

Global monetary developments in the interwar period facilitated Argentina's shift toward a more inward-looking economy. In the 1930s, Buenos Aires officials started to manipulate the exchange rate system and impose increasing restrictions on imports. In

⁸ See Belini and Korol, *Historia económica de la Argentina en los siglos XX y XXI*, 86.

⁹ Cortés Conde, 'Introducción. Preludio a Perón', 29.

1933, the government established a system of multiple exchange rates, dividing the foreign exchange market into official and free rates, a system later administered by the CBAR, founded in 1935.¹⁰ Alongside these exchange rate measures, Argentina secured bilateral trade agreements with several European countries, most notably the Roca-Runciman Treaty with Britain (1933).¹¹ While these arrangements were designed to shield the economy from external shocks, they also helped Argentina navigate the interwar period and laid the groundwork for the early stages of ISI policies. Even before the Great Depression, Argentina had developed a triangular trade and payments system in which export receipts from Europe (settled in convertible currencies) were used to finance imports from the United States. Although the 1929 crisis disrupted this triangular pattern, owing to the aforementioned selective tariffs, US imports remained relevant for capital goods, such as agricultural and industrial machinery.¹²

The outbreak of the Second World War created new trade opportunities for Argentina but also brought unforeseen complications in managing the payment arrangements established in the interwar period. From 1940 onwards, the country's trade balance became increasingly positive, and by 1942 Argentina was a net exporter to virtually all regions of the world (Figure 2.1). Although exports to continental Europe declined due to the wartime blockade, British demand remained strong, with London requesting Buenos Aires to supply the entire output of canned beef.¹³ The United States also significantly increased its purchases, more than doubling prewar levels. However, American security concerns restricted exports to Argentina after it refused to sever ties with the Axis powers. With imports rising more slowly than exports and capital outflows remaining minimal, the CBAR began to accumulate substantial reserves (Figure 2.2).¹⁴ Despite efforts to convert foreign exchange into gold, nearly a quarter of these reserves were held in inconvertible currencies. By December 1945, Argentina had become the largest British creditor outside the Sterling Area, with claims totalling £105 million, equivalent to almost 60% of Argentina's annual exports.¹⁵ For officials in Buenos Aires, inconvertibility posed a serious challenge to their expectation of restoring the triangular trade pattern of the 1920s, in

¹⁰ Gerchunoff and Llach, *El Ciclo de La Ilusión y El Desencanto*, 135–36., and Florencia Sember, 'El Banco Mixto', in *Historia Necesaria Del Banco Central de La República Argentina* (Ciudad de Buenos Aires, Argentina: Ediciones CICCUS, 2018), 92.

¹¹ Under this agreement, signed in 1933, Britain received preferential treatment (tariffs, exchange rates) in return for greater access to the British market for Argentine beef, which had suffered serious setbacks after the Ottawa Conference (1932).

¹² See Irene Brambilla, Sebastian Galiani, and Guido Porto, 'Argentine Trade Policies in the XX Century: 60 Years of Solitude', *Latin American Economic Review* 27, no. 1 (December 2018): 11–12, doi:10.1007/s40503-017-0050-9.

¹³ Jorge Fodor, 'The Origin of Argentina's Sterling Balances, 1939–43', in *The Political Economy of Argentina, 1880–1946*, ed. Guido di Tella and D. C. M. Platt (London: Palgrave Macmillan UK, 1986), 154, doi:10.1007/978-1-349-08041-0_9.

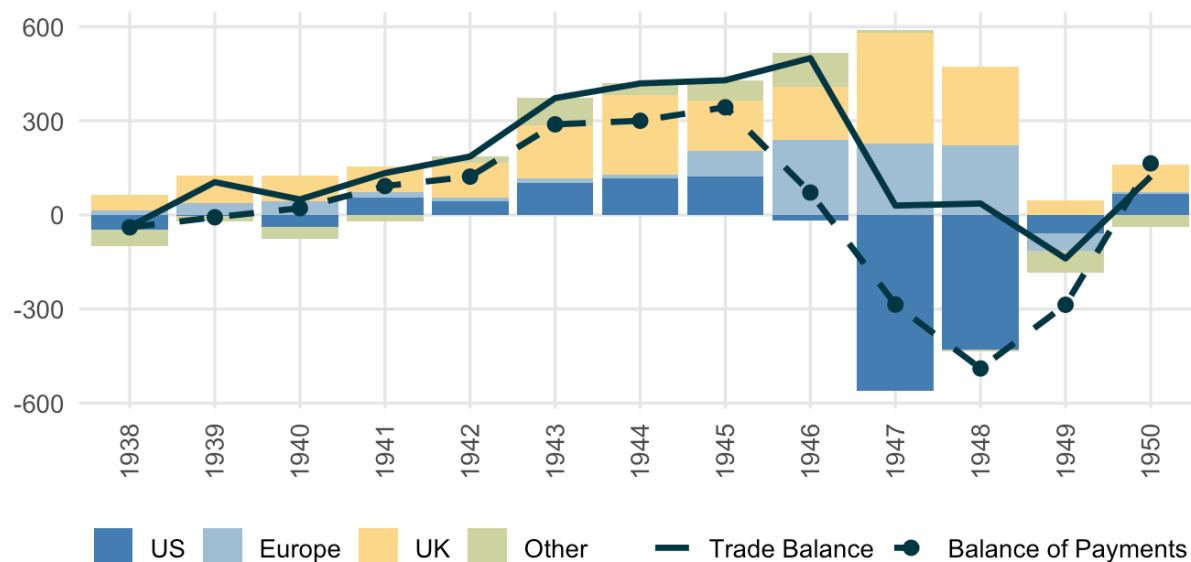
¹⁴ Belini and Korol, *Historia económica de la Argentina en los siglos XX y XXI*, 85.

¹⁵ This represented just 3% of Britain's total gross external liabilities, far less than India's 37%. See Schenk, *The Decline of Sterling*, 38–39.

which American exporters (as the sole providers in the immediate postwar period) were seen as essential to the expansion of the ISI project.

Figure 2.1

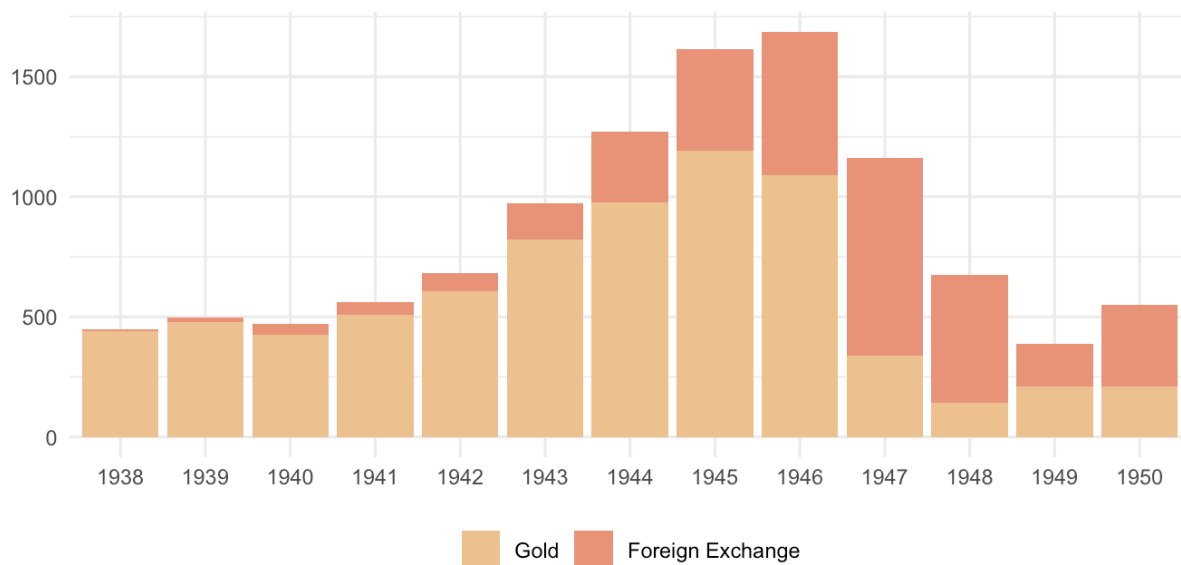
Argentina's trade balance by regions and balance of payments in millions of US dollars (1938-1950)



Source: Ferreres.¹⁶ Europe = Netherlands, Belgium, Germany, France, Italy and Spain.

Figure 2.2

CBAR's international reserves in millions of US dollars (1938-1950)



Source: Ferreres.¹⁷ Foreign exchange includes both convertible and inconvertible currencies.

Besides changes in trade and payments trends, the war years also brought political

¹⁶ Ferreres, *Dos Siglos de Economía Argentina: 1810-2018*.

¹⁷ *Ibid.*

developments that reshaped Argentina's relations with traditional partners and had lasting consequences for its postwar trajectory. While the conservative coalition of the 1930s had maintained cautious yet pragmatic ties with the United States, the governments that followed a coup d'état in June 1943 adopted a more isolationist stance.¹⁸ The military leadership rejected early American calls to join the Allied camp, and Argentina only declared war as late as March 1945. This prolonged neutrality came at a high cost: Argentina was the only one of the twenty Latin American countries not invited to the Bretton Woods Conference in 1944.¹⁹ Yet, as the following paragraphs suggest, the multilateral solution actually addressed several of the challenges Argentina was facing in the later stages of the war. Domestic voices and specialised publications at the time also recognised the benefits of multilateralism, reinforcing the idea that Argentina's bilateral-nationalistic strategy was primarily the result of policy choice and the conviction among government circles that multilateralism was not the best-fitting alternative for navigating the postwar era.

It is worth noting that many of the themes addressed at the Bretton Woods Conference closely aligned with the challenges Buenos Aires would soon face in the postwar period. At its core, the system envisaged a gradual reduction of trade barriers via non-discriminatory regulations, supported by the newly created multilateral institutions.²⁰ From Argentina's perspective, this promised better access to new export markets in a hungry postwar world and the long-awaited possibility of importing key industrial and capital goods. The Conference also proposed multilateral payments and currency convertibility for current account transactions, both of which could have offered Argentina a pathway to address its accumulating sterling balances, much as India originally sought to do.²¹ Although the Conference ultimately excluded a solution for the outstanding balances, Argentina's crucial role as a food supplier in the immediate postwar period (vital for the UK) could, in principle, have bolstered the position of Britain's creditors. While full convertibility was unrealistic, a partial release or limited transfers

¹⁸ This coup was organised by a military nationalistic organisation against the conservative government of Ramón Castillo (1940-1943). Among the ranks of this group was Juan Domingo Perón, who was promoted to the Secretary of Labour and Social Security in 1943. See Juan Carlos Torre, 'Argentina since 1946', in *Argentina since Independence*, ed. Leslie Bethell (Cambridge: Cambridge University Press, 1993), 249, doi:10.1017/CBO9780511609480.008.

¹⁹ For Kedar, Argentina's neutrality excluded the country from the Conference and IMF and IBRD membership during their formative years. While this chapter does not contend that, it advances the idea that the alternative to multilateralism (bilateralism) was indeed a policy choice and not. See Claudia Kedar, 'The Beginning of a Controversial Relationship: The IMF, the World Bank, and Argentina, 1943-46', *Canadian Journal of Latin American and Caribbean Studies / Revue Canadienne Des Études Latino-Américaines et Caraïbes* 35, no. 69 (2010): 203.

²⁰ See Bordo, 'The Bretton Woods International Monetary System: A Historical Overview', 34-35; Schenk, *International Economic Relations since 1945*, 23-29.

²¹ See Aditya Balasubramanian and Srinath Raghavan, 'Present at the Creation: India, the Global Economy, and the Bretton Woods Conference', *Journal of World History* 29, no. 1 (2018): 86, doi:10.1353/jwh.2018.0002.

(what Argentina eventually secured, see below) might have been arranged on a multilateral basis and, in turn, served as a useful regional test before the failed experiment of July-August 1947.

Contemporaneous evidence confirms Argentina's interest in understanding and adapting to postwar initiatives. For example, during the latter years of the war, the CBAR closely monitored international monetary planning. Between May 1944 and January 1945, its Department of Economic Research produced five internal bulletins analysing postwar proposals, with detailed discussions of the American and British plans. These drew on views from US academics and bankers, British officials and newspapers, and representatives from several Latin American countries, including Mexico, Brazil, Venezuela, and Chile. In August 1943, the department compiled these perspectives into a 180-page confidential report for the Board.²² Six months later, the CBAR's 1945 Annual Report emphasised the importance of international trade for Argentina's postwar development. While recognising that the BWS would benefit the global economy, it also urged the Ministry of Finance to approve the agreements.²³

Besides public agencies, Argentine economic and industrial opinion, as presented in specialised economic publications, called for engaging the new monetary order. Interestingly, both liberal and industry-oriented (e.g., protectionist) publications alike called for accelerating economic studies and the country's participation in international programmes. An example of the former was the weekly bulletin *Economic Survey* (ES), edited by German-Argentine journalist Rodolfo Katz.²⁴ According to the ES, the aim of the country's postwar integration was twofold: it would allow access to much-needed imports, whose shortage endangered the future of domestic production, and enable Argentina to take advantage of international economic initiatives such as the United Nations Relief and Rehabilitation Administration (UNRRA) to be a key food supplier for European reconstruction.²⁵ On the other hand, more staunchly industrialist journals also advocated a greater Argentine international prominence. Despite its scepticism of multilateralism, as it (correctly) foresaw the emergence of regional trade blocs after the war, one of these publications underlined the need to include Argentina's voice in international conferences.²⁶

²² CBAR Prebisch Library, *Los Acuerdos Monetarios y Financieros de Bretton Woods, 1945*. Annexe seven includes the five mentioned Bulletins.

²³ CBAR Annual Report 1945, p. 10.

²⁴ A racially motivated émigré, Katz managed to position his independent and bilingual ES (1941-1951; 1955-1982) as an influential contribution to the opinion formation of the Argentine economic elite. Because of the Economic Survey's opposition to Perón's policies, Katz suffered persecution and came close to losing his Argentine citizenship.

²⁵ ES 161, 27 January 1944, p. 2.

²⁶ *Revista de Economía Argentina* 310, April 1944, Anteproyecto de plan económico argentino para la posguerra (part one), p. 104, and 311, May 1944, Bis (part two), p. 137.

Naturally, there were voices of criticism within the country, though not of outright rejection. The most notable of these was that of Raúl Prebisch, who served as CBAR's general manager at the time. While Prebisch did not oppose international monetary reforms per se, he questioned certain policy constraints of the proposed multilateral order, particularly regarding exchange controls. As Caldentey and Vernengo recently argued, Prebisch viewed such controls as essential for 'peripheral' economies to pursue expansionary domestic policies while maintaining external equilibrium.²⁷ Due to the high income elasticity of imports, the absence of exchange controls would lead expansionary policies to increase import demand before achieving full employment. Prebisch contended that exchange controls were necessary to prevent this outcome by reducing additional pressures on countries' international reserves and balance of payments.²⁸ Although central to his critique, this did not translate into a rejection of the BWS or Argentina's membership, which Prebisch took for granted in a January 1945 publication. He saw the compromise reached at Bretton Woods optimistically, particularly the greater flexibility in exchange rates compared to earlier proposals. Prebisch believed that if the IMF refrained from imposing unilateral measures on exchange controls (as it did, as Chapter 1 shows), the BWS could be useful in restoring some degree of monetary policy autonomy.²⁹

Despite the relatively positive internal assessments of the BWS and the multilateral alternative for navigating the postwar years, isolationist forces within the government ultimately prevailed. Just a month after the Bretton Woods Conference, the Argentine government established a consultative body in August 1944: the National Post-war Council, chaired by the soon-to-be president Juan Domingo Perón. Among its various responsibilities, the Council was tasked with laying the groundwork for an expanded economic role for the state in the postwar period.³⁰ Fears that trade liberalisation and the lifting of import restrictions could severely affect industrial employment (estimated losses reached 17%) led the Council to adopt a strongly protectionist stance.³¹ At the same time, it remained silent on proposals for external development finance that other Latin American countries were actively advancing.³² Perón's electoral victory in February

²⁷ Esteban Pérez Caldentey and Matías Vernengo, 'Prebisch's Critique of Bretton Woods Plans: Its Relation to Kalecki's and Williams' Ideas', in *International Equilibrium and Bretton Woods: Kalecki's Alternative to Keynes and White and Its Consequences*, ed. Jerzy Osiatynski and Jan Toporowski (Oxford University Press, 2022), 79–86, doi:10.1093/oso/9780192856401.003.0005.

²⁸ This argument echoed Robert Triffin's double exchange market (see Chapter 1).

²⁹ For Prebisch's view on the Bretton Woods Conference, see Raúl Prebisch, *Obras 1919-1949, Tomo IV: Cursos universitarios e indagaciones teóricas (II)* (Buenos Aires: Fundación Raúl Prebisch, 1993), 110–12.

³⁰ See Instituto Argentino de Investigaciones Económicas, *Los Proyectos Del Ministerio de Hacienda Para El Consejo de Post-Guerra. Observaciones, Críticas y Sugerencias* (Buenos Aires, 1945).

³¹ See Gustavo J. De la Vega, *Planificar la Argentina justa, libre y soberana: el Consejo Nacional de Posguerra (1944-1946)*, Colección Convergencia (Bernal: Universidad Nacional de Quilmes Editorial, 2017), ch. 3.

³² This is discussed in J. Lloyd Mecham, *The United States and Inter-American Security, 1889–1960, The*

1946 ultimately ratified this scepticism toward freer trade and foreign financial support, both elements that stood in direct opposition to his administration's protectionist and nationalist political-economic project.

To recapitulate, this section has traced the transformation of Argentina's economic development model during the interwar years. It has shown how the triangular trade and payments system established in the 1920s was severely disrupted by wartime restrictions imposed by the future G10 powers. In particular, sterling inconvertibility during the war created a complex scenario for both Argentine exchange authorities and the continuation of the ISI model, which relied heavily on inputs from the United States. Although the Bretton Woods Conference, with its emphasis on non-discrimination and currency convertibility, offered a viable framework for addressing the sterling balances in a multilateral setting, the newly elected government opted for a different path. While much of the literature attributes Argentina's absence from Bretton Woods to its wartime neutrality, this chapter highlights that Juan Domingo Perón's administration deliberately pursued a bold, bilateral, and nationalistic strategy as a matter of policy choice. The next sections examine the origins and eventual breakdown of that strategy.

2.3 Perón's postwar bilateral-nationalist strategy

As noted above, nationalist voices within government circles led by General Perón ultimately prevailed by 1946. Even before taking office in June, these forces pushed through major economic reforms that rapidly expanded the state's capacity to steer the economy and extend the ISI project to its limits.³³ In this context, the government introduced the first Five-Year Plan (1947-1951), partially drafted by the Technical Secretariat of the Presidency, the successor to the National Post-war Council mentioned above. Grounded in a nationalist discourse, Buenos Aires planners sought to consolidate the economic expansion achieved during the war years, aiming at full employment, industrialisation via subsidised credit, tariffs and NTBs, and improved income distribution.³⁴ In the external sector, the Plan established the Argentine Institute for the Promotion of Trade (known as IAPI) that operated as an export monopsony that discriminated against agricultural producers.³⁵ IAPI also served as a key instrument in a

United States and Inter-American Security, 1889–1960 (University of Texas Press, 1961), 258, doi:10.7560/734210.

³³ Marcelo Rougier, *La economía del Peronismo: Una perspectiva histórica* (Penguin Random House Grupo Editorial Argentina, 2012), 18–19. For example, in order to have greater control over the banking sector, the government nationalised all banking deposits under the CBAR (also nationalised in March 1946)

³⁴ Teresita Gómez, *Los planes quinquenales del peronismo: Objetivos, prioridades y financiación* (Lenguaje claro Editora, 2020), 206–7.

³⁵ IAPI purchased all agricultural output from rural producers at depressed prices and sold it abroad at higher international prices, using the resulting surplus to finance industrialisation. In effect, it functioned as a large-scale transfer of income from the rural sector to urban areas. See Susana Novick, *IAPI: Auge y*

broader strategy of bilateralism, conducting trade and payments through special agreements on a two-partner basis.³⁶

Although the specialised literature has examined Argentina's new postwar institutions, the policy instruments of the Perón administration, and its negotiations with Britain, this section adopts a different approach.³⁷ First, it places greater emphasis on financial arrangements and the role of early access to convertibility, achieved through the Anglo-Argentine negotiations of 1946-1947. Second, by framing the analysis within the broader evolution of the BWS and its postwar challenges, it presents elements of Perón's programme, such as trade policy, capital flows, nationalisations, and public debt, under what this chapter describes as a 'bilateral-nationalist strategy.' Third, in contrast to previous studies that have primarily drawn on Foreign Office records from The National Archives, this section makes more extensive use of materials from the Bank of England, whose concerns with monetary developments, particularly the management of sterling balances, make it a valuable source for understanding the financial dimension of Anglo-Argentine relations.

A final note must be added regarding the concept of the bilateral-nationalist strategy. As mentioned in the introduction, this term refers to conventional country-to-country arrangements repurposed to achieve 'economic independence' from leading powers. Postwar bilateralism in Argentina may be interpreted as a means to reaffirm Perón's third position, normally defined as a corporatist-national project that sought to avoid subordination to socialism or liberalism (the latter more clearly portrayed in the BWS multilateral framework).³⁸ Interestingly, Argentina's approach contrasted with that of Western European states, which saw internationalism and multilateralism as means of reinforcing their own national projects.³⁹ Rather, Perón and his government deeply mistrusted supranational solutions, particularly those involving former investors (UK) or hemispheric leaders (US), a stance that was also shaped by their expectations of a new global war.

Decadencia. El Comercio Exterior Durante El Primer Peronismo, 3rd edn (Ciudad Autónoma de Buenos Aires: Universidad de Buenos Aires, Instituto de Investigaciones Gino Germani, 2022), 54–57.

³⁶ Cortés Conde, 'Introducción. Preludio a Perón', 20.

³⁷ Rock and especially Escudé have described the Argentine negotiation with Britain in greater detail. See David Rock, *The British in Argentina: Commerce, Settlers and Power, 1800–2000* (Cham: Springer International Publishing, 2019), 312–34, doi:10.1007/978-3-319-97855-0; Escudé, *Gran Bretaña, Estados Unidos y la declinación argentina, 1942-1949*.

³⁸ IPE literature remarks the linkages between national-populist governments and political economy. See Thomas Fetzer, 'Beyond "Economic Nationalism": Towards a New Research Agenda for the Study of Nationalism in Political Economy', *Journal of International Relations and Development* 25, no. 1 (1 March 2022): 249–50, doi:10.1057/s41268-021-00227-x.

³⁹ Alan S. Milward, *The European Rescue of the Nation-State*, 2nd ed. (London ; Routledge, 2000), ch. 1, doi:10.4324/9780203982150.

Setting up the strategy: the 1946-1947 Anglo-Argentine talks

Among Argentina's new postwar external economic policies, bilateralism stood out as the most distinctive feature. While the major global powers were moving toward a multilateral trading and payments system, Argentina pursued a series of trade and financial agreements with key commercial partners and neighbouring Latin American countries. Given the close interdependence between the British and Argentine economies, the accumulation of sterling balances, and Argentina's early access to convertible currency (almost a year before the July-August experiment with convertibility), the agreements with Britain were by far the most significant of the period. The following paragraphs analyse the various stages and outcomes of the Anglo-Argentine negotiations of 1946-1947.

Although for different reasons, both sides were eager to resolve their outstanding issues at the end of the war. For Argentina, the problem centred on stranded assets: the government wanted prompt access to the rapidly accumulating sterling balances held at the Bank of England, which by mid-1946 amounted to over £100 million (US\$403 million). Originally, Buenos Aires expected to draw on these funds to finance imports needed by the domestic industry, particularly from America.⁴⁰ For Britain, the issue was twofold. Beyond the desire to protect its foreign assets in the face of Argentina's growing nationalism, London also sought to ensure a steady flow of foodstuffs from Argentina to meet the pressing needs of a hungry postwar population.⁴¹ The complex negotiations of 1946-1947, which are commonly known because they concluded with the nationalisation of the British-owned railways, were also central to the launch of Argentina's bilateral-nationalistic strategy by getting Buenos Aires early access to convertible sterling.

Even before President Perón took office in June 1946, the British embassy in Buenos Aires was actively studying and reporting on the new administration's economic reform package. British officials already anticipated that the negotiations would be complex, particularly as the proposed reforms posed serious threats to British interests in Argentina, ranging from railway fare regulations to changes in the insurance market.⁴² In response to these developments and in an effort to expedite the search for solutions, London agreed to send a financial mission to Buenos Aires. Totalling seven representatives, it was led by Sir Wilfrid Eady, a senior official who had taken part in the Bretton Woods Conference and later participated in the Anglo-American loan negotiations. The mission also included Montague Eddy, who represented the British

⁴⁰ ES 273, 9 April 1946, p. 4.

⁴¹ There was a third, more general preoccupation for Britain: how to deal with the sterling balances in the postwar period. This was a major challenge for UK authorities, the BWS and the Sterling Area. See Naef, *An Exchange Rate History of the United Kingdom*, 7-8.

⁴² BoEA, OV102/23, f. 2, Buenos Aires to Foreign Office, 1 June 1946.

railways in Argentina, the UK's largest asset in the country.⁴³

The three-month Eady Mission is key to understanding the early positions of Argentina and Britain on the issue of sterling balances. Archival records indicate that the British strategy aimed to resolve the sterling balance problem by using the railways as a *quid pro quo*. A lengthy document, revised by senior officials including Sir Otto Niemeyer and known as the 'second statement,' outlined this approach.⁴⁴ Carefully drafted, it described the complex situation facing British railways due to state intervention under a 1907 law, which had prevented fare increases and steadily eroded dividends since the late 1930s. After addressing the railway question, the statement reviewed the origins of the sterling balances and emphasised that prompt access to them was only feasible in one scenario: if Perón decided to purchase the railways, the wartime balances could be put to immediate use.⁴⁵ The British proposal concluded by suggesting a 'just valuation' of £210 million (within an internal Bank of England estimate ranging from £168 to £259 million), of which £100 million would be paid from the sterling balances and the remainder converted into Argentine government bonds.⁴⁶ Should Argentina accept, the statement concluded, the Eady Mission could offer additional inducements such as British goods, equipment, and even convertible sterling for future trade.

When the Eady Mission arrived in Buenos Aires in early July 1946, it encountered a notably unyielding Argentine stance that would characterise the entire negotiation. Much of this intransigence stemmed from the head of the Argentine delegation, Miguel Miranda, a hardline businessman and the regime's so-called economic czar.⁴⁷ Miranda's negotiating approach was marked by minimal concessions and a near-systematic rejection of British proposals. In the opening meetings, for instance, he made it clear that the commission would not address any other issue until the sterling balance question was resolved.⁴⁸ Contrary to Britain's preference to begin with the railways, Miranda insisted that all accumulated sterling to date be treated as a loan to the UK at 2.5% interest, a gesture he described as a sign of 'real friendship' to Argentina. Unsurprisingly, both London officials and Eady rejected these terms outright, as the notion of paying

⁴³ By mid-1946, Railways encompassed 64% of all British investments in the UK (£394 million). In second and third place were private investments by British subjects (13%) and Public Debt (6%). See BoEA OV102/178, f. 84, 23 July 1946.

⁴⁴ Niemeyer was Director of the Bank of England and BIS, and had had a key role in the return of Britain to the gold standard in the interwar period. See Susan Howson, *Niemeyer, Sir Otto Ernst (1883–1971), Civil Servant and Banker*, vol. 1 (Oxford University Press, 2004), doi:10.1093/ref:odnb/31501.

⁴⁵ BoEA OV102/178, f. 28, Second Statement Final Draft, n/d, probably late June 1946.

⁴⁶ BoEA OV102/178, f. 16, Basis of Price Fixing. Confidential. 12 June 1946.

⁴⁷ Miguel Miranda was Perón's most trusted confidant. He served as president of the CBAR from March 1946 to July 1947, before becoming chairman of the National Economic Council and president of the IAPI until early 1949. In these roles, Perón appointed him as Argentina's chief negotiator with the British throughout those years. See Lewis, *The Crisis of Argentine Capitalism*, 179.

⁴⁸ BoEA OV102/178, f. 56, 11 July 1946, Telegram from Buenos Aires to Foreign Office.

interest and amortisation was politically unacceptable in the UK. Moreover, they argued, a loan implied repayment, whereas all indications suggested the balance would continue to grow in the years ahead.⁴⁹ Despite Miranda's inflexibility, Eady chose to proceed with the talks, assuring the Foreign Office that Britain would not agree to terms that could set a dangerous precedent for future negotiations elsewhere.⁵⁰

Eady and the British ambassador sought alternative ways to break the deadlock. Their first approach was to offer further concessions. Since the loan option had been definitively ruled out for the reasons noted above, London authorised the mission to propose a 0.5% interest on the balances, provided that satisfactory agreements were reached on the administration of the railways (i.e., ensuring a minimum profit) and the pricing of meat export contracts. Even these offers, including £25 million from the balances earmarked for railway recapitalisation, failed to persuade Miranda. At this point, records show that in early September the US ambassador lent support to the British position, speaking directly with Perón to emphasise the importance of reaching a prompt agreement.⁵¹ Faced with this dual pressure, the negotiations became more manageable. After several meetings to finalise the details of the agreement, Eady telegraphed London on 15 September with a brief message: we have done it.⁵² Signed two days later, the UK-Argentina Economic Agreement included provisions on international payments, the formation of a British-Argentine railway consortium, and meat export quotas.

The 1946 Anglo-Argentine talks were crucial for Buenos Aires' postwar trajectory, particularly in advancing the government's bilateral-nationalist strategy. Although often overlooked in the literature, the treaty ensured Argentina steady access to convertible currency in the postwar period, effectively reviving the 1920s triangular trade and payments system in support of the ISI model. Specifically, the treaty established that "[t]rade and financial payments between Argentina and the sterling area to continue to be settled in sterling," but more importantly that "[a]s for the date of this Agreement [17 September 1946] all sterling received [i.e., trade balances] by Argentina to be freely available for payments for current transaction anywhere... this free availability can be exercised by transfer to American Account or, at the option of the Bank of England, into gold."⁵³ With regard to previously accumulated balances, the agreement permitted their use for repatriating debt or acquiring British assets. A minimum reserve was to remain in London, bearing 0.5% interest, and could be freely used for current transactions. Finally,

⁴⁹ BoEA OV102/178, f. 101, Foreign Office to Buenos Aires, 26 July 1946. The future trade surplus of Argentina is also reported on 13 August 1946, Annual Economic Report for Argentina by Ambassador R.A. Leeper, BoEA OV102/23, f. 133.

⁵⁰ BoEA, OV102/178, f. 71, Eady to Waley, 17 July 1946.

⁵¹ BoEA OV102/178, f. 155, Buenos Aires to Foreign Office, 2 September 1946.

⁵² BoEA OV102/178, f. 180, Buenos Aires to Foreign Office, 15 September 1946.

⁵³ BoEA OV102/120 f. 2A, Full Text of the Agreement, 17 September 1946.

the deal allowed Argentina to draw up to £5 million annually from its balance over the subsequent four years.

It is noteworthy that the 1946 Anglo-Argentine agreement was closely linked to the broader evolution of the BWS. Not only did it preclude sterling convertibility (which, according to the Anglo-American Loan Agreement signed two months earlier, was supposed to become a global reality), but it also provoked a brief yet revealing dispute between British and American officials. Just days after the Anglo-Argentine agreement was signed, the US Treasury expressed reservations about Section B(6) of Section I of the agreement, which allowed Argentina, in the event of a deficit with the Sterling Area, to freely draw from its sterling balances in London up to the amount of the deficit. American officials viewed this provision as a potential incentive for Argentina to increase imports from the Sterling Area. Although the scenario remained hypothetical for the British mission, the Americans were quick to point out its incompatibility with Section 10(ii) of the Anglo-American Loan (i.e., discriminatory treatment).⁵⁴ The motivation behind the US Treasury's criticism was clear and was later spelt out by Eady himself: "what frightens the Americans... is that we may tie the markets to us for war debts."⁵⁵ This concern applied not only to Argentina but also set a troubling precedent for negotiations with countries such as Egypt or India, which held even larger sterling balances. Although requiring further research, the Argentine talks might have even played an important role as a template for later negotiations with more crucial creditors, as Eady had explicitly noted in July 1946 (see above).

Fortunately for the Anglo-American relationship, the dispute proved short-lived, as the agreement with Argentina was never fully implemented: the sterling balances were almost immediately used to purchase the railways. Argentina's complex domestic politics prevented the conflict between Washington and London from further escalating.⁵⁶ Unable to secure support within their own party for establishing the bi-national railway consortium, Perón and Miranda reverted to the original proposal and declared their intention to purchase the British asset outright. On 13 February 1948, both sides signed an agreement for the cash sale of the railways and associated, subsidiary, and collateral companies for £150 million, to be paid out of sterling balances.⁵⁷ The need for ratification by British companies and IAPI's board, as well as the declaration of sterling inconvertibility (discussed in the next sub-section), delayed the actual transfer until

⁵⁴ See Gardner, *Sterling-Dollar Diplomacy in Current Perspective*, 319–20.

⁵⁵ BoEA OV102/178, f. 218A, Eady to Powell, 17 January 1947.

⁵⁶ For Wright, who relied on US sources, the US-British over the 1946 Anglo-Argentine treaty actually resulted in the outright purchase. However, the Bank of England's sources do not allow confirming this hypothesis. See Winthrop R. Wright, 'British-Owned Railways in Argentina: Their Effect on the Growth of Economic Nationalism, 1854-1948', in *British-Owned Railways in Argentina* (University of Texas Press, 1974), 255–57, doi:10.7560/707108.

⁵⁷ BoEA 102/187 f. 14B, Exchange of Notes, Treaty Series 27, 13 February 1948.

March 1948. As the potential use of the balances in a discriminatory manner was now off the table, Bank of England records on the Argentine negotiations show no further criticism from American officials.

The bilateral-nationalistic strategy in operation

The previous paragraphs have shown how the negotiations with Britain, although troublesome, paved the way for Argentina's navigation of the postwar period. Having established the basis of its future relationship with its main trading partner, the Perón government focused on reaping the fruits of the agreement. Even if free access to the sterling balances remained off the table, future trade surplus with the UK would guarantee a steady flow of convertible sterling for the foreseeable future. From that point, Argentina's bilateral-nationalist strategy unfolded in the following ways: restarting the triangular payment scheme of the 1920s, in which convertible sterling served as the basis for purchasing American goods, nationalising public services and repatriating foreign debt under the government's banner of 'economic independence' and exporting capital to secure future markets for Argentine produce.

While diverse in appearance, these measures may be seen as responses to the structure of the postwar international monetary system. Triangular trade and payments, as discussed, were shaped by the domestic need for a reliable partner to be able to provide the ISI effort with critical imports (in the immediate postwar period, only the United States could fulfil that role). Nationalisation and the repatriation of foreign debt aimed to assert control over external payments and reduce exposure to claims, particularly in convertible currencies. Meanwhile, capital exports could strengthen bilateral ties in a world where multilateralism was expected to falter. As will be seen, taken together, these strategies shaped Argentina's external payments position in ways that left the country increasingly vulnerable to the global consequences of the BWS regional turn.

Arguably, the most visible feature of Argentina's bilateral strategy was the revival of the triangular trade and payments framework, which enabled commerce with the United States to flourish. Once Britain offered convertibility for freshly earned sterling, Argentina moved swiftly to capitalise on its favourable trading position in a postwar world marked by acute shortages. In 1947, Argentine exports surpassed US\$1.6 billion, with nearly a third directed to the United Kingdom alone as part of the Anglo-Argentine leg of the triangle (US\$484 million). This trade, however, remained largely unidirectional: British exports to Argentina amounted to just US\$132 million, resulting in a record bilateral trade surplus that Argentina critically needed to get access to convertible sterling (see Figure 2.1). A similarly unidirectional pattern (re)emerged in Argentina's trade with the United

States, though in the opposite direction. Imports from the US exceeded US\$720 million in 1947, nearly ten times the average during the war years (1939-1945) and greater than the total value of all US imports to Argentina between 1935 and 1944 combined. Given the limited scope for Argentine exports to the US, owing to the lack of economic complementarity between the two countries, this led to a trade deficit of nearly US\$600 million in 1947 (Figure 2.1).⁵⁸

As mentioned, Buenos Aires's appetite for American imports was closely tied to the requirements of Argentina's ISI agenda. After five years of intensive use, domestic factories were in urgent need of repairs, spare parts, and new equipment. Addressing this was one of the central objectives of Argentina's Five-Year Plan, which aimed to leverage US productive capacity. As one of the *chargés* of the American embassy reported, President Perón had personally informed him that Buenos Aires "placed great emphasis on Argentina's need for industrialization and his realization that such industrialization could not take place without the assistance of the United States," stressing that this assistance meant "furnishing technical help and knowledge and shipping machinery from the United States to the Argentina."⁵⁹ At the same time, private American actors also saw Argentina as a promising postwar market. This was evident in the activities of the New York-based World-Wide Development Corporation, which sent a technical mission to assess Argentine projects under the Five-Year Plan.⁶⁰ The overall figures confirm this dynamic: in 1947, up to 70% of all American imports consisted of intermediate and capital goods. Combined with subsidies and cheap domestic credit, this influx of equipment and materials supported a 15% increase in industrial output that year, an achievement the government celebrated as a major success.⁶¹

A second pillar of the bilateral programme (and its most nationalist dimension) was the acquisition of foreign companies and the repatriation of public debt. This section argues that, while traditionally framed in terms of 'economic independence,' these measures also served as pragmatic tools for Buenos Aires to navigate the uncertainties of the postwar period. With the expectation that the triangular payments system would ensure a steady flow of convertible currency, and that global food demand would keep Argentina's ports active (particularly as no specific policy measures for European agricultural protectionism had yet emerged), nationalisations and debt repatriations

⁵⁸ The triangular scheme was already taking shape in 1946, once convertible sterling became available in September, as seen in the emerging deficit with the United States (Figure 1.1). However, it was in 1947 that the framework assumed its most evident and fully developed form.

⁵⁹ FRUS 1947, Vol. VIII, p. 205, The *Chargé* in Argentina (Ray) to the Secretary of State, 13 August 1947.

⁶⁰ The mission landed in December 1946, for projects developed in 1947, see Ronald C. Newton, 'The Neutralization of Fritz Mandl: Notes on Wartime Journalism, the Arms Trade, and Anglo-American Rivalry in Argentina during World War II*', *Hispanic American Historical Review* 66, no. 3 (1 August 1986): 574, doi:10.1215/00182168-66.3.541.

⁶¹ Belini and Korol, *Historia económica de la Argentina en los siglos XX y XXI*, ch. 3.

appeared strategically sound. Nationalisations, for instance, allowed Argentina to avoid the kind of recurrent outflows seen in Chile, where American copper companies repatriated profits, forcing the government to maintain a permanent and sizeable trade surplus by moderating import policies (see exchange budgets in Chapter 1). Similarly, eliminating foreign debt payments reinforced Argentina's external position, especially in a country that had not defaulted since the 1890s during the Baring Crisis.

Table 2.1

Argentina's external transfers by currency in millions of US dollars (1946-1948)

	1946	1947	1948	Total
<i>Nationalisations</i>				
In dollars	98.6			98.6
In sterling			613.1	613.1
In other currencies		12.8	3.5	16.3
Total	98.6	12.8	616.6	728.0
<i>Public Debt Repatriation</i>				
In dollars	121.5	49.1		170.6
In sterling		48.2		48.2
In other currencies	10.1	2.1		12.2
Total	131.6	99.4		231.0
Total	230.2	112.2	616.6	959.0

Source: Adapted from CEPAL.⁶² Figures do not include annual contractual amortisation payments.

A more detailed way of examining nationalisations and foreign debt repatriation is through Argentina's external transfers, as shown in Table 2.1. Regarding the nationalisation of public services, which absorbed most of the sterling balances, the former British assets included not only the 1948 railway transfer (US\$604.5 million), but also the Buenos Aires trams, gas companies, and docks. In parallel, the Argentine government also took over American-owned assets, particularly the River Plate Telephone Company and electricity firms. Yet even before the railway transfer and alongside the British negotiations, one of the first steps taken by the Perón government was to repatriate the foreign debt. By 1945, federal, provincial, and municipal foreign debt totalled US\$331 million, of which 33% was sterling-denominated and 61% dollar-denominated. By 1949, only US\$16.8 million in sterling bonds remained in circulation, as they could not be redeemed prematurely.⁶³ Federal loans were addressed first, with early

⁶² CEPAL, 'El desarrollo económico de la Argentina', 1959.

⁶³ See *Ibid.*

redemption notices issued soon after Perón's rise to power. The Province of Buenos Aires followed, with approximately £8 million (US\$32.3 million) remitted to London in 1947. On the American side, the redemption of US-held issues was fully completed by July 1947.⁶⁴

Finally, the third pillar of Argentina's bilateral-nationalist strategy was its attempt to position itself as a capital exporter. The objective was clear: the government aimed to extend credit in order to secure future markets, particularly in postwar Europe (which may explain the particularly low interest rates). Beyond its immediate commercial rationale, however, this policy is most significant in terms of Argentina's navigation of the evolving international monetary system. Notably, it took place before the BWS regional turn or at a time when the system's leaders still publicly upheld multilateral principles. In this sense, it anticipated the eventual consolidation of regional blocs in a form of 'bilateralism before post-1947, global bilateralism' (see Part II). It also marked a major shift in Argentina's international role: thanks to its strong postwar position, Buenos Aires could act as the dominant partner in these bilateral treaties, setting the terms, trade volumes and payment schedule. As Chapter 3 will show, this dynamic would reverse in the 1950s, when Argentina entered such agreements from a position of relative weakness.

For a more detailed view of the bilateral agreements that provided credit facilities, Table 2.2 presents a breakdown by country. These agreements included revolving credits, overdrafts on current accounts, investments in capital goods and public works abroad, and the creation of joint development corporations. The programme began in 1946 with a credit of approximately 200 million Argentine pesos to France and soon expanded to include several European and South American countries. By early May 1947, Argentina had extended close to £200 million in credit, a figure even exceeding the cost of the railway nationalisation (see Table 2.1). Before the scale of the imbalances became evident, British officials in the Foreign Office described this financial policy as "admirable" and "the sort of thing we at least should like to see the United States do"; these credits were essential for enabling European countries to "buy foodstuffs and raw materials to re-establish their disrupted economies."⁶⁵ Miranda did not miss the opportunity to praise Argentina's role in European reconstruction, clearly positioning it as a forerunner to the not-yet-implemented Marshall Plan. In South America, less closely monitored by British observers, Argentina's credit lines provided essential supplies and helped mitigate the massive 1946 balance of payments crisis in neighbouring Chile (see Chapter 1).

Table 2.2

⁶⁴ Economic and Commercial Conditions in the Argentine Republic, Overseas Series Surveys, Board of Trade, by J. L. Lomax, pp. 5 and 12-13. The author thanks Eduardo Posada-Carbo for the original document.

⁶⁵ BoEA OV102/25, ff. 19 and 20, Financial Policy by Overseas and Foreign Office, 2 May 1947.

Argentine postwar credits in millions of pesos (1945-1947)

Country	Date	Revolving Credit or CA Overdraft	Capital Goods & Pub. Works	Joint Dev. Corp.	Total
France	Oct-45		142		142
Belgium	Apr-46		26		26
Spain	Oct-46	350 (2.75%)	*400 (3.75%)		500
Czechoslovakia	Dec-46		35		35
Chile	Dec-46	100 (2.75%)	300 (3.75%)	300 (4%)	165
Finland	Feb-47		14		14
Italy	Feb-47	59	250 (3.75%)		118
Bolivia	Mar-47	50 (3.5%)	100 (3.75%)	100 (4%)	59
Total					2,870

Source: Adapted from BoEA OV102/25, f. 20. Interest rates between brackets. *Approximately \$ 250 million was to consolidate existing debt. Total \$2,870 = £200.

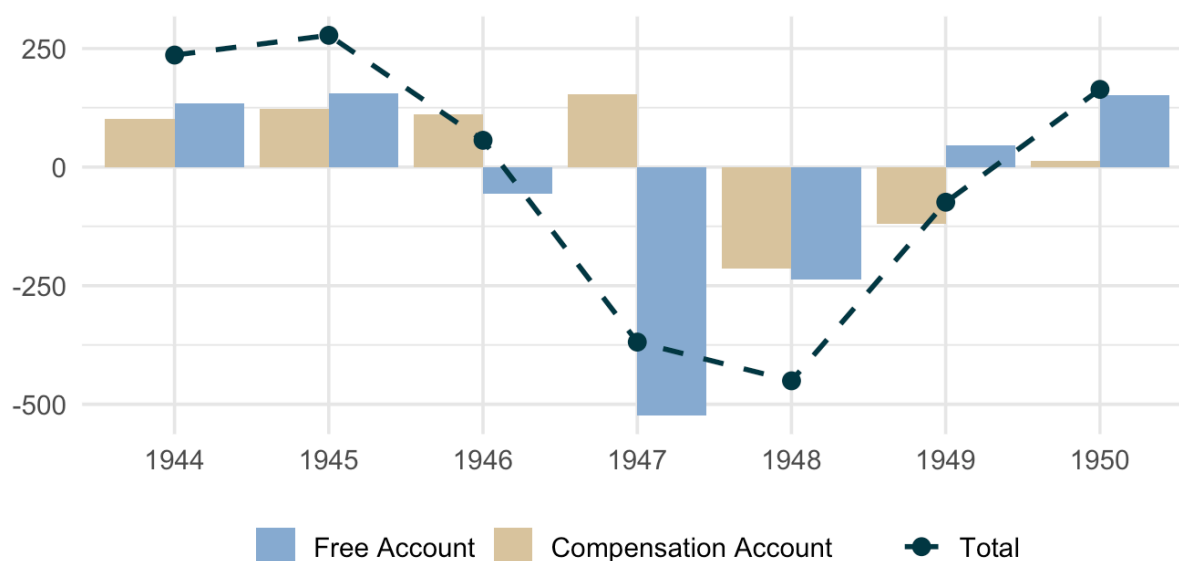
In sum, this section has examined the key features of Argentina's postwar negotiations and the implementation of a bold bilateral-nationalistic strategy. While the Anglo-Argentine talks of 1946-1947 were crucial in securing access to convertible sterling, Buenos Aires pursued an ambitious import policy with the United States, nationalised foreign assets, repatriated external debt, and launched an early experiment in bilateralism from the position of a stronger partner. This strategy, however, proved short-lived not only due to its inherently risky nature, but also as a result of the specific trajectory of the BWS and the global repercussions of its regional turn.

2.4 The crisis of the bilateral-nationalist strategy

This section examines how Argentina's bilateral-nationalistic strategy entered a terminal crisis in the final years of the 1940s. Rather than attributing the outcome solely to an overestimation of the country's postwar capabilities or the result of an 'Anglo-American boycott,' the argument here stresses the critical role played by the evolving structure of the BWS. In particular, it is argued that the suspension of sterling convertibility dealt a severe blow to the short-lived revival of a 1920s-style triangular trade and payments system with the United States and Britain. With the extension of the system's 'transitional period' into the indefinite future, there was no prospect of eventually using French francs or Italian lira, to mention other Argentina's key European partners, as a meaningful replacement for sterling. The absence of complementarity with the US or access to Marshall dollars (like much of Latin America) further worsened Argentina's position. Before examining how Buenos Aires navigated the late 1940s and how global developments contributed to the collapse of its bilateral-nationalistic strategy, it is useful to first present a general overview of Argentina's payments disequilibrium and the acute dollar shortage the country faced as a result.

Figure 2.3

Argentina's balance of payments by main accounts in millions of US dollars (1944-1950)



Source: CBAR Annual Report 1944-1950, preliminary data. The Compensation Account is mainly the sterling area but includes continental Europe partners and some Latin American neighbours. The Free Account is mainly the balance of payments with the US. Figures were converted into dollars at the official rate (US\$1 = \$4.23). Note that the total figure for 1949 does not coincide with the balance of payments figures compiled by Ferrer (Figure I.1).

The three pillars of Perón's bilateral-nationalistic strategy for navigating the postwar order generated a serious external imbalance. Although aggregate trade figures showed a surplus, Argentina's project had uneven consequences depending on its interaction with convertible and inconvertible currencies. Significantly, Buenos Aires officials were well aware of these differences, as they recorded external accounts separately: free account (US dollars) and compensation account, including Britain and Continental Europe.⁶⁶ This distinction makes it possible to reconstruct divergent patterns between the two accounts (Figure 2.3). During the war years, both accounts showed similar behaviour, each posting a surplus of around US\$100 million. The compensation account remained in surplus until 1948, when a sizeable deficit emerged, primarily due to the nationalisation of foreign assets, such as the British railways (Table 2.1). While trade with Britain continued to yield a surplus throughout the rest of the decade, commerce with other European countries and some Latin American partners contributed to the compensation account's deficit by 1949. On the other hand, the Free account was largely responsible for the postwar balance of payments deficit of 1947, when most of the accumulated imports took place and a third of the dollar-denominated debt was

⁶⁶ This unfolded at the same time Chilean officials were drafting their foreign exchange budget, which accounted for the general currency composition of external transactions (Chapter 1).

repatriated.

The imbalance between Argentina's two main trading areas in the postwar period and the severe dollar shortage the country was experiencing was no secret. Indeed, records reveal that the postwar payments dilemmas were quickly recognised by both British observers and Argentine officials. According to internal UK Treasury communications, by March 1947, Argentine banks had already opened import credits exceeding US\$200 million, in addition to the US\$300 million authorised by the IAPI. As one Bank of England official remarked, "money is in fact being thrown about with such prodigality, that one is tempted to wonder whether Miranda has ever stopped to count up and see whether he has not already spent more than he has got."⁶⁷ In May, the British ambassador confirmed reports of a major setback in the CBA's international reserves: around 1 billion pesos (US\$250 million at the official rate), shipped the previous year to Buenos Aires, had already begun flowing back to New York to settle payments with the US (see the contraction in gold reserves in Figure 1.2).⁶⁸ Later that year, in private communications, Miranda himself admitted that the country no longer "felt fluid" in terms of foreign exchange and that a "famine of dollars" was threatening American-Argentine trade. The ramifications of this famine struck at the heart of the government's ISI programme. Under current conditions, Miranda declared, the much-lauded Five-Year Plan "had better go to sleep."⁶⁹

Global shocks: the sterling crisis and Marshall Plan

The following paragraphs analyse how global monetary developments offered little relief to Argentina's postwar payments predicament. In fact, the regional evolution of the BWS arguably worked against Argentina's bilateral strategy. This became particularly evident in two defining events of the late 1940s: the August 1947 sterling crisis and Argentina's exclusion from overseas purchases under the Marshall Plan that started in April 1948. Bank of England records show that, for Argentina, the suspension of sterling convertibility marked a breach of the 1946 Anglo-Argentine agreement, prompting efforts to secure compensatory measures. These, however, fell short of the substantial volume of convertible currency required to sustain both the Five-Year Plan and the broader ISI model. Although Marshall dollars were initially seen as a potential solution, US State Department records suggest that the United States had different priorities for European Cooperation Administration (ECA) overseas purchases.

The first of these external shocks was the suspension of sterling convertibility in

⁶⁷ BoEA OV102/25 f. 39A/B, Crick to Phillimore, 20 May 1947.

⁶⁸ BoEA OV102/25, f. 39B, Phillimore to Powell, 26 May 1947.

⁶⁹ BoEA OV102/25 ff. 95/A, Powell to Playfair, 26 August 1947.

August 1947, when the Bank of England was forced to reimpose strict exchange restrictions. For Argentina, inconvertibility meant the abandonment of a key commitment made under the Anglo-Argentine Agreement of 1946: the assurance that sterling balances arising from net current transactions would remain freely convertible. More crucially, it undermined the very foundation of Argentina's strategy to rebuild a triangular payments system with Britain and the dollar area, the cornerstone of its bilateral-nationalistic approach. Indeed, just before the official suspension, British officials complained that Argentina, ever since September 1946, had gone "on turning every pound she earns into dollars."⁷⁰ News of the restrictions thus landed as a 'bombshell' in Buenos Aires, prompting the government to suspend all import licences, remittances, and the official market quotation for sterling in an attempt to bargain for convertible currency.⁷¹ The restrictions were so severe that even the British ambassador was unable to cash embassy bills of exchange without personal intervention from the Argentine Minister of Commerce.⁷² To increase pressure, the Argentine government also suspended exports of canned meat to Britain long enough to prompt a new round of payments negotiations between the two countries.

In the middle of the sterling crisis, the Argentines sought ways to readjust their bilateral strategy. Well aware that convertible sterling was off the table, Argentine officials demanded some kind of compensation for the breach of the 1946 agreement. They mainly wanted security for additional imports from Britain and to prevent the unconditional accumulation of further non-convertible sterling.⁷³ With the first request, Buenos Aires sought to adjust its bilateralism by increasing its reliance on Sterling Area providers, specifically of raw materials. Meanwhile, the second request attempted to secure a gold guarantee clause on future sterling accruals as a hedge against potential devaluation. Because the transaction on the railways had not yet been concluded at that point, Buenos Aires included both the gold guarantee and export commitments from the UK as preconditions for the railway transaction. Using this asset as a 'bargaining chip' and after three long months of negotiation, Buenos Aires scored a small victory. As a Bank of England official put it, "much against the grain, we have had to offer the Argentine a revaluation guarantee, more or less on the old lines, based on the sterling price of gold"⁷⁴. This clause and general lines of bilateral trade were finally agreed upon in the 'Andes Agreement' of 18 February 1948, providing trade arrangements for 12 months.

Although Buenos Aires secured nearly all its objectives in the 'Andes Agreement,' it was evident that partial sterling convertibility would be insufficient to address the

⁷⁰ BoEA OV102/121, f. 94A, Foreign Office to Buenos Aires, 20 August 1947.

⁷¹ BoEA OV102/25 f. 94, Powell to Playfair, 22 August 1947. Also see CBAR Board Minute 36, 28 August 1947.

⁷² BoEA OV102/121, f. 117, Buenos Aires to Foreign Office, 2 September 1947.

⁷³ BoEA OV102/121, f. 96, Buenos Aires to Foreign Office, 21 August 1947.

⁷⁴ BoEA OV102/122, f. 79, Crick to Eggers, Argentina Revaluation Guarantee, 12 November 1947.

payments deficit with the dollar area or to sustain the broader continuation of the ISI model. Indeed, by the time of the railway transfer in March 1948, the situation regarding the dollar area had markedly deteriorated. A study prepared by the US National Foreign Trade Council bore witness to the declining state of Argentine-American relations because of the lack of convertible currency. After criticising Argentina's foreign trade reforms and the commercial monopsony run by IAPI, the report acknowledged that the rapid depletion of Argentina's foreign assets, "perhaps without precedent in the international financial history of Latin American countries," had inevitably harmed "the commercial interests of the Argentine-United States trading community."⁷⁵ These concerns were soon reflected in new exchange controls introduced by the CBAR in mid-May, which, except for a few essential items such as medicines, suspended all transfers in dollars and other free currencies, including payments from Argentine firms to American banks. All these trade and exchange disruptions, the American embassy submitted, were affecting the government's own ISI project: "[m]any of the projects included in the Five-Year Plan have been abandoned, at least temporarily... and if the acute shortage of dollars continues, many of these projects will undoubtedly be abandoned entirely."⁷⁶

Confidential documentation held at the CBAR shows that the government was entirely aware of the critical situation. These records reveal the findings of an emergency trip to Washington and New York taken by the central bank's president, Domingo Maroglio, between September and October 1947 to discuss with American authorities and bankers. The mission's main conclusions were presented to Perón in a lengthy confidential report.⁷⁷ In addition to acknowledging the default of US banks in the amount of US\$152 million, it revealed that Argentina's total requirements from the dollar area could easily reach US\$1 billion (Table 1.3). This figure also included other outstanding payments for financial services (US\$74 million), payments made for essential imports (US\$298 million) and potential purchases by Argentine companies (US\$554 million). According to Maroglio, the only way to solve the deficit was to increase exports by some US\$650 million to the dollar area or payable in dollars. For the latter, he suggested that Argentina should benefit from offshore purchases for the European reconstruction programme, later known as the Marshall Plan. However, the CBAR President overlooked that American authorities had already ruled out Argentina's participation.

Table 2.3

Estimated Argentine payments with the dollar area in millions of US dollars (October 1948)

⁷⁵ BoEA OV102/26, f. 64, Extracts from a study on Argentina's international and financial position by the US National Foreign Trade Council 12 May 1948.

⁷⁶ FRUS 1948, Vol IX, p. 290, The Chargé in Argentina (Ray) to the Secretary of State, 13 September 1948.

⁷⁷ CBAR Board Minute 26, 9 November 1948.

Made	
Essential imports	298
Outstanding	
Overdue payments to American firms (defaulted)*	152
Unpaid financial services (remittances, dividends)	74
Other	
Pending exchange permits (received but not authorised)	554
Total	1,077

Source: CBAR Directory Minute 26, 9 November 1948. Dollar area: US, Canada, Venezuela, Mexico, Colombia, Ecuador, Cuba and several Central American countries. * According to BoEA documents, the volume of defaulted loans was US\$250-275 million, whereas US sources even mention US\$300 million.⁷⁸

Indeed, if sterling inconvertibility severely affected Argentina's payments position, its exclusion as a supplier under the European Recovery Program (ERP) further deepened the crisis. This marked the second major external shock to Argentina's bilateral strategy. Despite the confidence of some Buenos Aires officials in Argentina's prospective role within the Marshall Plan as a way out of dollar scarcity, the United States decided otherwise. In October 1947, Miranda confidently claimed that the Americans would buy "all cereals, hides and linseed for which they will pay in dollars" during a US mission to Buenos Aires.⁷⁹ However, Argentina's trade policies aroused enough suspicion to ensure its exclusion from the Marshall Plan. Months before the Plan's official approval, a January 1948 memorandum from the US Department of State's Division of River Plate Affairs had already anticipated Argentina's disqualification. It warned that "large amounts of dollar exchange" should not be made available unless Argentina adopted "a reasonable policy with regard to the price of wheat and takes certain measures which would substantially improve our relations."⁸⁰ As Argentina did not change its trade monopsony or price policies, it only obtained US\$1 million from the European Cooperation Administration in 1948 (out of the US\$360 million distributed among other food-producing countries, like Canada and Australia).⁸¹

Although international relations historiography often interprets Argentina's 'exclusion' from Marshall Plan dollars as evidence of an Anglo-American economic

⁷⁸ See BoEA OV102/27, f. 16A, Argentina Exchange Position, 27 October 1948, and FRUS 1949, vol IX, p. 473, The Ambassador in Argentina to the Secretary of State, 4 January 1949.

⁷⁹ BoEA OV102/122, f. 19, Buenos Aires to Foreign Office, 6 October 1947. According to the British embassy, this US mission was merely exploratory and, if successful, would only acquire small quantities.

⁸⁰ FRUS, 1948, Vol. IX, pp. 280-281, Memorandum by Mr. Henry Dearborn to the Division of River Plate Affairs, 20 January 1948.

⁸¹ See Dorn, "Bruce Plan" and Marshall Plan', 339-40.

boycott in the postwar period, this chapter approaches the issue from a broader, more systemic perspective.⁸² For one, the fact that other Latin American commodity exporters (such as Brazil and Mexico) were far closer to American policy priorities and enjoyed greater sympathy from Washington, yet still did not benefit from Marshall Plan funding, suggests that Argentina's exclusion was part of a wider regional pattern.⁸³ Rather than a device to punish Buenos Aires for its third position policies, Argentina's difficulties were rooted in the new regional approach adopted by the future G10 countries in the late 1940s. Much like the effects of sterling inconvertibility, the shift in global monetary governance worked against all non-European regions, Latin America in general, and Argentina in particular. In effect, the United States refused to extend a similar recovery programme to countries south of the Rio Grande, despite their own severe balance of payments constraints.⁸⁴ Argentina's dollar crisis, then, must be seen not merely as a product of Washington-Buenos Aires-London dynamics, but as a reflection of the global postwar dollar shortage and a consequence of the broader abandonment of the multilateral agenda in the late 1940s (an agenda, it is worth noting, that Argentina never fully embraced).

This global and systemic perspective does not detract from the significance of these risky domestic policies in the immediate postwar period, and a correction of those policies helped to solve the major payments deficit of 1948. Indeed, the CBAR president himself acknowledged this privately in January 1949. In the words of Gómez Morales, "[e]vidently, in this matter [convertible foreign exchange], we have gone too far... we have overspent. I would say that we have spent in a year what corresponds to three."⁸⁵ In this scenario, and having already exhausted all the options to solve the dollar shortage, the government had no choice but to improve its relations with the US, a rapprochement that in 1950 led to the first trade surplus with the US in the postwar era (Figure 2.3).

The improvement in bilateral ties started with a joint committee in May 1948. This committee, composed of both American and Argentine officials, agreed to take the first steps towards repayment of the defaulted debt to American banks.⁸⁶ Shortly after, the Argentine government agreed to centralise all dollar inflows in a special New York Federal Reserve account. Thereby, firstly 20% and then 30% of all dollars earned from exports to

⁸² A more refined version of this argument in Glenn J. Dorn, *Peronistas and New Dealers: U.S.-Argentine Rivalry and the Western Hemisphere (1946-1950)* (University Press of the South, 2005), 235–36.

⁸³ See Darlene Rivas, 'United States–Latin American Relations, 1942–1960', in *A Companion to American Foreign Relations*, ed. Robert D. Schulzinger (Malden, MA, USA: Blackwell Publishing, 2006), 234, doi:10.1002/9780470999042.

⁸⁴ This is described in Stephen G. Rabe, 'The Elusive Conference: United States Economic Relations with Latin America, 1945-1952', *Diplomatic History* 2, no. 3 (1978): 284–88.

⁸⁵ CBAR Board Minute 28, 31 January 1949.

⁸⁶ FRUS 1949, vol IX, p. 499, Memorandum by the Assistant Chief of the Division of River Plait Affairs (Atwood) to the Director of the Office of American Republic Affairs, 19 May 1949.

the US were set aside to pay the outstanding credits.⁸⁷ Through this and other mechanisms, American records show that Argentina managed to pay more than US\$100 million by late September 1948.⁸⁸ Much improved relations led finally to the first EXIMBANK loan to Argentina in the postwar period, a US\$125 million credit granted in May 1950, with US\$80 million for partial liquidation of commercial arrears.⁸⁹

All these measures inevitably came at a cost to the ISI model as set out in the Five-Year Plan. By the end of 1949, the government had acknowledged the need to strengthen the agricultural sector as a means of boosting receipts in an increasingly competitive international environment, effectively abandoning the industrialisation ambitions of the First Five-Year Plan.⁹⁰ At the same time, new imbalances emerged, including unprecedented inflation levels (over 30% in 1949), which prompted the adoption of corrective measures. These included cuts to public spending and a reduction in IAPI's activities, aimed at providing more favourable conditions for agriculture.⁹¹ More broadly, these developments marked the final crisis of Argentina's bilateral-nationalistic strategy for navigating the postwar period. The era of a creditor Argentina capable of repatriating its foreign debt and acquiring overseas assets under a nationalist banner had come to an end. The 1950s would thus see Buenos Aires converge with the broader regional pattern: plagued by balance of payments disequilibria and seeking multilateral cooperation to implement its first comprehensive stabilisation programmes (Chapter 3).

To recapitulate, this section has outlined the main external challenges faced by Argentina as currency areas consolidated following the regional turn of the BWS. The final crisis of Perón's bilateral-nationalistic strategy coincided with two major global developments associated with the worldwide dollar shortage that Argentina experienced so intensely in 1948-1949 (just like Chile in 1949, Chapter 1): the persistence of inconvertibility and the adoption of regional and discriminatory solutions. While not dismissing the political factors behind Argentina's exclusion from Marshall Plan dollars, this section has instead highlighted the systemic dynamics and structural evolution of the BWS that contributed to the country's final crisis of the particular route Buenos Aires chose in the immediate postwar period.

⁸⁷ CBAR 1949 Annual Report, pp. 13 and 33.

⁸⁸ FRUS 1949, vol IX, p. 512, Memorandum by Mr. T. R. Martin of the Division of River Plate Affairs to the Assistant Chief of the Division of River Plate Affairs, 28 September 1949.

⁸⁹ FRUS 1950, Vol. II, pp. 714-715, The Secretary of State to the Embassy in Argentina, 2 May 1950.

⁹⁰ In 1949, European agricultural production recovered whilst the US, Canada, and Australia achieved record wheat harvests, driving international prices downwards. See Rapoport and Spiguel, 'La Argentina y el Plan Marshall', 24.

⁹¹ See Federico Grillo, Sebastián Katz, and Machinea, José Luis, 'Impulso expansivo, redistributivo e industrializador: la política fiscal bajo el peronismo', in *La economía de Perón: Una historia económica (1946-1955)*, ed. Roberto Cortés et al. (EDHASA, 2020), 43.

2.5 Conclusions

Given its historical role as a major agricultural commodity exporter, Argentina's integration into the postwar international trade and payments system was all but inevitable. What is more surprising is the particular path Buenos Aires chose to pursue after the Second World War. The authorities elected in February 1946, in contrast to the Chilean government (Chapter 1), were not attracted by the early promises of multilateralism and non-discriminatory trade and payments held little appeal for the authorities elected in February 1946. Rather than aligning with the principles of the BWS, Perón and his economic advisers opted to reinforce the discriminatory instruments inherited from the Great Depression. This chapter has argued that such a course was not the result of external pressures, but a deliberate policy decision grounded in Argentina's unprecedented accumulation of foreign exchange reserves during the war. Non-governmental actors confirm such assertion: while critical of certain aspects of Bretton Woods, both the CBAR and domestic specialised publications widely anticipated Argentina's eventual membership of the IMF at some point in the late 1940s. In the eyes of Buenos Aires officials, however, bilateralism offered the most viable strategy for navigating an uncertain postwar environment, while simultaneously fulfilling the ISI commitments that had brought them to power.

The unfolding of Argentina's bilateral-nationalistic strategy was deeply intertwined with the early evolution of the BWS. Argentina's early access to convertible sterling, starting in mid-September 1946, may be understood as part of the system's early multilateral push. For all net current account balances between Argentina and Britain, this arrangement effectively prefigured the global experiment with sterling convertibility in July-August 1947. For officials in Buenos Aires, convertible sterling quickly became a crucial component of the government's bilateral strategy. Anticipating continued global demand for agricultural products and meat shipments, they expected a steady net inflow of sterling that could underpin the restart of a triangular pattern of trade and payments with the United States as the third corner. Yet, unlike in the interwar period, this arrangement was now to serve domestic development goals. Imports from the United States were not consumer goods, which remained protected by high tariffs and NTBs, but rather fuel and capital goods essential to the ISI model.

Beyond trade, the uncertainties of the postwar period, mistrust of multilateralism, and a nationalist discourse also shaped other external transactions under the bilateral-nationalistic strategy. Sizeable foreign assets were rapidly nationalised, most iconically the British railways, in a clear signal of the country's departure from its nineteenth-century investment-friendly stance. Similarly, virtually all external debt was repatriated at both the national and municipal levels. Combined with capital exports under a series of bilateral trade and payments agreements, these developments meant that Argentina

effectively became a creditor nation for the first time in its history. While nationalisation and debt repatriations are often interpreted as expressions of 'economic independence,' this chapter proposes a wider understanding. As with convertibility and the triangular payments scheme, these measures can also be seen through the lens of the early BWS: as attempts to reduce exposure to claims in convertible currencies while reinforcing bilateral ties in a world where multilateralism was expected to falter.

Not only the development but also the eventual crisis of Argentina's bilateral-nationalistic strategy were closely tied to the evolution of the postwar monetary system. In other words, Argentina's distinctive approach to navigating the postwar years did not shield Buenos Aires from the global forces that drove the BWS regional turn in the late 1940s. The dollar shortage, delays in G10 convertibility, the consolidation of currency blocs, and the rise of regional solutions all severely undermined the foundations of Argentina's triangular payments strategy. Paradoxically, Perón's bilateral-nationalist model ultimately depended on a degree of global multilateralism, particularly the convertibility of major reserve currencies. In this light, the eventual need to revise the entire First Five-Year Plan following the 1949 balance of payments crisis also reveals the extent to which global developments constrained ISI efforts in the Southern Cone. Chile, by contrast, pursued a less ambitious strategy and remained closer to the dollar area, making it less vulnerable to the disruptions of the late 1940s.

PART II
Stabilisation Programmes in Chile and Argentina
Against the Backdrop of G10 Convertibility (1955-1962)

Macroeconomic evolution

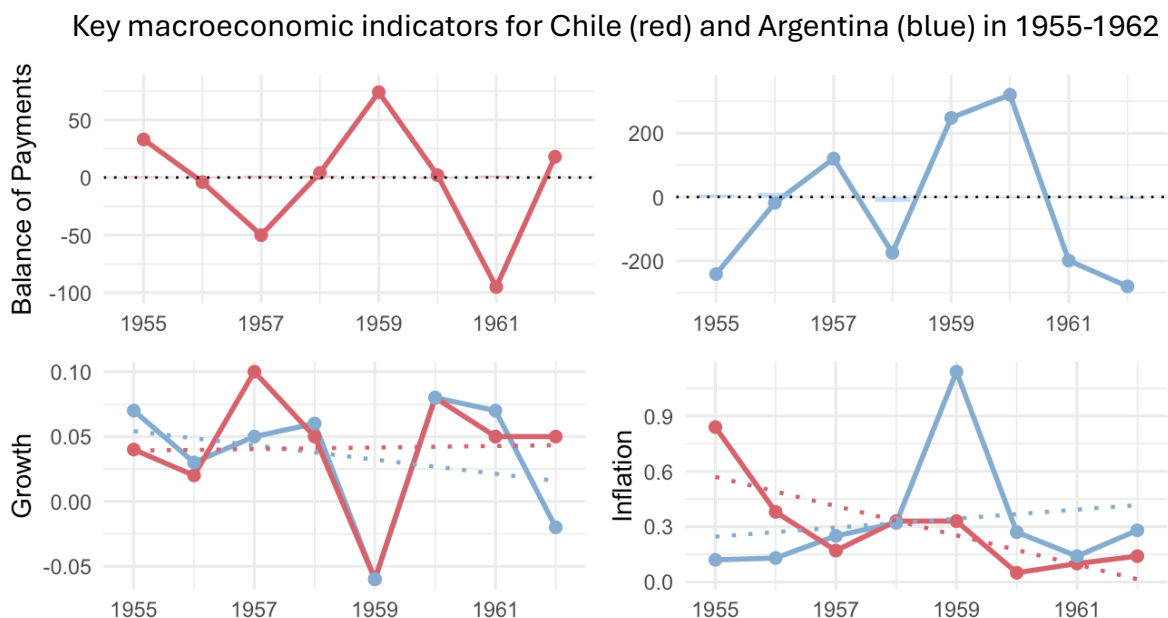
Between the mid-1950s and early 1960s, the Southern Cone's external position was marked by alternating surpluses and deficits. Continuing the postwar pattern, movements in the overall balance of payments closely mirrored the trade and current accounts, which were highly sensitive to fluctuations in global commodity prices as well as to domestic supply shocks such as strikes and droughts. This pattern began to shift in the second half of the 1950s, when Southern Cone economies implemented, almost simultaneously, stabilisation programmes backed by multilateral institutions and key trading partners. Compensatory capital flows from these sources were soon complemented by net autonomous inflows, including long-term investments (both official and private) in key sectors such as mining and oil, as well as short-term investments of private origin. While successful for a couple of years, these programmes ultimately proved short-lived in the two economies, nearly simultaneously. Once key policy commitments were temporarily relaxed or reversed, capital flows shifted course in the early 1960s. Combined with a negative current account driven by a persistent trade shortfall, the Southern Cone recorded some of the largest balance of payments deficits of the Bretton Woods era (Figure II).

Domestically, the turn to stabilisation programmes came in response to the exhaustion of the 'easy' phase of the import-substitution model.¹ As the 1950s progressed, governments on both sides of the Andes gathered increasing evidence of the need to revise the postwar ISI project. While economic growth remained positive, it fell short of expectations and was even more disappointing in per capita terms due to rapid population growth (demographic transition). The most alarming concern for the authorities, however, was the sharp rise in inflation, first in Chile, where the annual CPI exceeded 80% in 1955, and later in Argentina, which saw inflation reach above 100% in 1959. At a crossroads, the Southern Cone governments opted to advance towards a more sophisticated ISI model with the help of external finance. Yet in order to convince international institutions and attract private investors, Chilean and Argentine officials understood they first needed to stabilise their economies and overhaul the regulatory system. In the short term, stabilisation policies led to severe recessions, most notably in

¹ The 'easy' or initial phase refers to the first stage of ISI, characterised by labour-intensive industries producing simple consumer goods for a domestic market protected by tariffs and NTBs. Once most of these goods were produced locally, as occurred in the Southern Cone by the mid-1950s, industrial expansion hinged on shifting towards more complex, capital-intensive intermediate products (second ISI stage). See Bulmer-Thomas, *The Economic History of Latin America since Independence*, 296–97.

1959 (Figure II). This period of adjustment and policy experimentation coincided with modest per capita real growth. In 1955-1962, Chile's total GDP grew at a 4.2% per annum (1.7% per capita), while Argentina's averaged just 3.5% (1.8% per capita). Aligned with government priorities, growth was weaker in the traditional export sectors, particularly in Argentina's agricultural sector (less than 1% per year).

Figure II



Source: For balance of payments CEPAL, for growth and inflation Díaz et. al (Chile) and Ferreres (Argentina).² Balance of Payments = lines: current + capital accounts in millions of US dollars, bars: errors and omissions; Growth = Real GDP rate; Inflation = Y-o-Y CPI rate.

Overview of Part II arguments

The history of stabilisation programmes in Chile during the 1950s is twofold. The first began in 1955, when the Chilean government hired the American consulting firm Klein-Saks to implement a series of crucial reforms, some of which were continued in 1959 under a second programme (the Alessandri Plan) (see Table II). Chapter 3 shows how both efforts had lasting consequences for the country's navigation of the international monetary system. As described in Chapter 1, the starting point was a regulatory system dominated by discriminatory arrangements during the inconvertible phase of Bretton Woods. Throughout the programmes, facilitated by unprecedented levels of multilateral and G10 assistance, Chile substantially simplified both its trade and exchange rate regulations. Although conventionally regarded as failed attempts, the chapter argues that the Klein-Saks and Alessandri programmes are best understood through the lens of international cooperation, shaped by a range of motivations from hemispheric security

² CEPAL, *América Latina y El Caribe*; Díaz Bahamonde, Lüders, and Wagner, *Chile 1810-2010*; Ferreres, *Dos Siglos de Economía Argentina: 1810-2018*.

concerns to new investment opportunities. The chapter also examines the new exchange rate regimes introduced during this period (flotation and peg) and their significance within the broader evolution of the BWS.

Table II
Some key events in the Southern Cone (1955-1962)

CHILE		ARGENTINA	
1956	Klein-Saks' Stabilisation	1955	Military Coup Ousting Perón
1958	End Klein-Saks Stabilisation	1956	BW Membership & Paris Club
1959	Alessandri's Plan	1959	Frondizi's Stabilisation
	Single Pegged Rate		Single Pegged Rate
1962	End Alessandri's Plan	1962	End Frondizi's Stabilisation

Source: see Chapters 3 and 4

Definitive changes to Argentina's traditional ISI model only took place after Juan Domingo Perón went into exile in the mid-1950s. As explained in Chapter 2, in the immediate postwar period, Argentina remained outside multilateral institutions, instead pursuing an ambitious bilateral strategy. Once the Provisional Government took power in 1955, it moved swiftly to reverse that trend, initiating the path that Chapter 4 regards as a cooperative reintegration into the international financial system. It shows how the new authorities not only secured Bretton Woods membership but also improved Buenos Aires' relations with G10 European countries through the Paris Club (a multilateral forum that this thesis argues can be rightfully regarded as part of the Bretton Woods framework). Once key multilateral relations had been restored, the government of Arturo Frondizi launched Argentina's first comprehensive stabilisation programme in an effort to modernise the import-substitution model. Mirroring developments in Chile (yet on a larger scale), this programme benefited from broad support involving multilateral institutions, US federal agencies, G10 governments, and commercial banks in both New York and Europe. One key reason for this backing was the investment opportunity opened by the relatively high-income post-Perón Argentine market.

Taken together, Part II contends that Chile's and Argentina's trajectories in the 1950s were ultimately deeply intertwined with developments in the international monetary system. First, although their stabilisation attempts were prompted by domestic imbalances, these efforts proved essential for both countries to align with global non-discriminatory principles. Second, phasing out postwar restrictions required resources beyond what Santiago or Buenos Aires could have garnered domestically, making a cooperative stance from major trading partners essential. And third, for such cooperation to take place beyond Western Europe, the expansion of global liquidity and the easing of

the dollar shortage were necessary preconditions. In other words, the Southern Cone's shift away from postwar devices like multiple exchange rates and bilateral trade and payments agreements, and the move toward convertibility by most G10 currencies, were two sides of the same (global) BWS coin. This intertwined evolution, in turn, offers new insights into the modernisation of postwar ISI in 1950s Latin America, a development normally studied with little attention to international monetary developments.

CHAPTER 3
Multilateralism and Cooperation:
Two Stabilisation Programmes in Chile (1955-1962)

“[D]uring the past five or six years of close cooperation between the Fund and the Government of Chile a great deal of progress has been achieved in our country in reducing inflationary pressures, liberalizing payments, and eliminating multiple currency practices and other discriminatory arrangements...”¹

Walter Müller, Chilean Ambassador to the US at the IMF Board
10 February 1961

3.1 Introduction

By the mid-1950s, growing frustration with Chile’s development model was casting doubt on the viability of the postwar ISI project. Sluggish per capita economic growth, persistent inflationary pressures, and a fragile external equilibrium revealed that the initial or ‘easy’ phase of the development strategy was reaching its limits. Confronted with a choice between deepening state-led industrialisation or shifting towards an export-led model, Santiago officials, like most of their Latin American counterparts, opted for the former.² The goal was therefore to deploy a more advanced phase of ISI, centred on producing competitive consumer products and gradually developing local capacity for intermediate goods. Yet this more advanced stage demanded investment levels that the country could not afford domestically but only through increasing inflows of foreign capital, whether official or private. In order to convince international agencies, G10 governments, and private actors to invest, Chilean officials recognised the need to align the country’s regulatory framework more closely with multilateral and non-discriminatory principles. As this chapter explains, this reformist turn took shape through two liberalisation or stabilisation programmes: the first launched in 1956, and the second in 1959.³

The persistence of heavy regulations in Chile during the 1950s reflected both the inertia of the ‘easy’ interwar phase of import substitution and broader postwar global developments. Discriminatory NTBs that originated in the 1930s, such as multiple exchange rates and quantitative restrictions, persisted despite the initial postwar

¹ IMF EBM 61/5, 10 February 1961.

² Bulmer-Thomas, *The Economic History of Latin America since Independence*, 296–97.

³ French-Davis et al., ‘The Industrialization of Chile during Protectionism, 1940-82’, 131–34.

momentum towards multilateralism (Chapter 1). Chile justified the continued use of these instruments on multiple grounds: the fragility of its external accounts, their protective function for domestic industry, and their importance as sources of government revenue. Other discriminatory practices, however, were shaped by the way Chile, like much of Latin America, responded to a world marked by global inconvertibility. As discussed in Part I, the early evolution of the BWS was shaped by the postwar dollar shortage and the emergence or consolidation of currency areas with varying degrees of formalisation, from the Sterling Area to other European currency zones, and the more informal dollar area. To navigate a world where convertible currencies were scarce, most Latin American and European countries entered into discriminatory, bilateral trade and payments agreements based on soft currencies to secure both export markets and access to essential imports.⁴

This highly regulated system began to be dismantled with the first stabilisation programme in the mid-1950s. Led by a mission of American experts, the ‘Klein-Saks Programme’ (1956-1958) was a direct response to an inflationary outbreak that had exceeded 80% year-over-year in 1954. In addition to introducing fiscal discipline and tighter credit controls to combat rising prices, the programme simplified Chile’s exchange and trade regimes by adopting a dual floating exchange rate and easing import controls. Most academic accounts have focused on the ‘technocratic’ or ‘unpolitical’ nature of the Klein-Saks mission, and on the policy mix that rapidly brought inflation down to 17% in 1957.⁵ The mission also arranged Chile’s first ‘credit package’ and helped set up an exchange rate stabilisation fund backed by the IMF, American federal agencies and New York banks. Along these lines, recent studies argue that the IMF, the IBRD, and the US government exerted pressure on Santiago to curb inflation by making financial support conditional on policy reform.⁶ The programme’s collapse in 1958, driven by worsening domestic political conditions, episodes of social unrest, and a rapid deterioration in the external balance, has also drawn some attention in the literature.⁷

⁴ Jozef Swidrowski, ‘What Does It Really Mean?: Bilateralism in Payments and Trade’, *Finance & Development* 5, no. 003 (1 September 1968), doi:10.5089/9781616352912.022.A004.

⁵ This argument has been put forward by Sebastian Edwards, ‘Establishing Credibility. The Role of Foreign Advisors in Chile’s 1955–1958 Stabilization Program’, in *The Decline of Latin American Economies: Growth, Institutions, and Crises*, ed. Sebastian Edwards, Gerardo Esquivel, and Graciela Márquez, A National Bureau of Economic Research Conference Report (Chicago: University of Chicago Press, 2007), 326–27.

⁶ See Daniel Ahumada Benítez, ‘Carlos Ibáñez del Campo y las recomendaciones internacionales: el caso de la política macroeconómica, 1952-1958’, *Intus - Legere Historia* 18, no. 1 (2024): 244–70, doi:10.15691/2525x. These analyses, with an strong political-economy approach, are build upon previous works of Kofas. According to the latter, the US government and multilateral agencies employed debt as a tool for dependence. See Kofas, *Sword of Damocles*, ch. 7.

⁷ See Rolf Lüders, *La Misión Klein-Saks, Los Chicago Boys y La Política Económica*, Documento de Trabajo (Santiago, Chile: Pontificia Universidad Católica de Chile, 2012), 5; Juan Pablo Couyoumdjian, ed., *Reformas Económicas e Instituciones Políticas: La Experiencia de La Misión Klein-Saks En Chile*, Primera

Although the Klein-Saks mission permanently simplified trade and exchange regulations in Chile, some postwar restrictions were imposed again in the second half of 1958. In a renewed attempt to modernise the traditional ISI model, a second stabilisation effort was launched in 1959. The ‘Alessandri Plan’ (1959-1962) began with a rapid unification and pegging of the exchange rate, accompanied by a substantial reduction in customs duties that brought them to their lowest level during the Bretton Woods era.⁸ In addition to these general policies, scholars have noted the programme’s early success in curbing inflation (down to 5.4% in 1960) as well as its increasing dependence on foreign borrowing to cover fiscal and external shortfalls.⁹ Early signs of external imbalance emerged as imports rose more rapidly than anticipated, leading to two major trade deficits in 1960 and 1961.¹⁰ This culminated in one of Chile’s worst balance of payments crises in 1961-62, bringing about a partial return to postwar regulatory mechanisms and the accumulation of short-term external liabilities, some of which were eventually renegotiated at a multilateral setting (see Chapter 5).

A review of the literature reveals two common features of the 1950s stabilisation programmes. First, both are typically seen as short-lived efforts that failed to deliver enduring gains and were hindered by a combination of factors (e.g., political indecision, policy missteps or impatience over results).¹¹ Second, most accounts primarily interpret both programmes as responses to Chile’s domestic difficulties rather than other factors, with a focus on the succession of policies and their shortfalls.¹² While it is true that those stabilisation attempts mainly aimed at reshaping the ISI model, existing scholarship largely overlooks the global context in which these reforms unfolded. This chapter argues that many of the policies implemented under both the Klein-Saks and Alessandri programmes were closely tied to the evolving dynamics of the BWS during the years surrounding the convertibility of most G10 currencies (1958). As discussed earlier, a central aim of both programmes was to advance economic multilateralism and implement non-discriminatory policies, like phasing out Chile’s postwar bilateralism. In addition, this chapter situates the involvement of the IMF and G10 partners in these programmes within broader cooperative efforts towards the Southern Cone (as the

edición (Santiago, Chile: Universidad del Desarrollo, Facultad de Gobierno Universidad Adolfo Ibáñez, 2011).

⁸ See Behrman, *Foreign Trade Regimes and Economic Development*, 28.

⁹ See Albert Otto Hirschman, *Journey toward Progress: Studies of Economic Policy-Making in Latin America* (Westport: Greenwood Press, 1963), 219; Beatriz Arbildua and Rolf Lüders, ‘Una Evaluación Comparada de Tres Programas Anti-Inflacionarios En Chile: Una Década de Historia Monetaria, 1956-1966’, *Latin American Journal of Economics-Formerly Cuadernos de Economía* 5, no. 14 (1968): 39.

¹⁰ Ricardo Ffrench-Davis, *Políticas económicas en Chile, 1952-1970*, 1a ed. (Santiago: Ediciones Nueva Universidad, Universidad Católica de Chile, 1973), 85–86.

¹¹ For the limits of the Klein-Saks reforms, see, among other, Lüders, *La Misión Klein-Saks, Los Chicago Boys y La Política Económica*, 4–5. For a critical assessment of the Alessandri programme, see, for instance, Ffrench-Davis et al., ‘The Industrialization of Chile during Protectionism, 1940-82’, 133–34.

¹² See, for example, Ffrench-Davis, *Políticas económicas en Chile, 1952-1970*, 16.

concurrent case of Argentina also shows, Chapter 4). Moving away from conventional accounts that portray these interventions as foreign ‘impositions,’ the evidence suggests that Chile actively benefited from unprecedented levels of international financial cooperation. This chapter, therefore, adds an essential global dimension to understanding Chile’s postwar economic policy beyond the policies and arrangements between the government and political parties.

In addition to this introduction, the chapter is divided into three main sections. The second section provides an overview of Chile’s external sector during the 1950s. It illustrates the country’s transition from discriminatory arrangements to a framework more closely aligned with multilateral principles, and featuring increased capital inflows. The third section examines the main aspects of the Klein-Saks stabilisation programme of 1956 and its significance in the broader evolution of the international monetary system in terms of financial cooperation and the retreat from bilateralism. Section four then turns to the Alessandri Plan, focusing on the introduction of a single pegged exchange rate and the role of G10 assistance during the programme’s crisis. The chapter concludes by framing these stabilisation efforts as episodes in the broader evolution of the BWS and as valuable steps in the reshaping of Chile’s traditional ISI model.

3.2 Chile’s external sector in the 1950s: moving away from postwar discrimination

As shown in Chapter 1, Chile navigated the global challenges of the immediate postwar period not by dismantling but by reinforcing its discriminatory regulatory framework. Although in a better position to move towards multilateralism than Western European counterparts, Santiago officials continued to rely on an ‘easy’ and discriminatory form of import-substitution to navigate the postwar years. As discussed in Part I, these developments were also shaped by the postwar dollar shortage and the BWS regional turn, which delayed the convertibility of most European currencies until the end of 1958. This section examines how Chile adapted to a world of persistent bilateralism by analysing its export sector and the composition of its foreign exchange earnings in terms of hard and soft currencies. It then turns to the main discriminatory instruments used to navigate different currency areas, particularly multiple exchange rates and bilateral trade and payments agreements. Finally, and in an analytical move not typically pursued in the literature, it suggests how these mechanisms were employed to influence Chile’s direction of international trade during the inconvertible phase of Bretton Woods.

To understand the nature and effects of bilateralism in Chile, it is first necessary to examine the composition of its export basket. The most notable feature of Chile’s external sector was its heavy reliance on just two mining commodities: copper and nitrates. Between 1950 and 1958, copper clearly dominated, accounting for 57% of total

exports, followed by nitrates at 14%. The remainder consisted of agricultural surpluses (9.4%), which were severely constrained by domestic output and local consumption, and manufactured goods (8.8%) that struggled to compete in international markets.¹³ The concentration on just two commodities meant that fluctuations in mining output and prices had a direct impact on the government's foreign exchange earnings, the ISI-related import needs (e.g., fuel and machinery), the trade balance and the overall balance of payments. All four of these aspects were clearly influenced by the volatility of copper prices. In the New York market, copper prices doubled between 1950 and 1956 to reach 40 cents per pound, before dropping sharply to 25 cents in 1957-1958 and then stabilising around 30 cents.¹⁴ As will be seen, this decline was a critical factor in the collapse of the first stabilisation programme.

A closer look at the currency composition of export proceeds reveals an important distinction between copper and other Chilean commodities. Because of its strategic nature and the limited number of global suppliers, Chile was in a position to require virtually all its trading partners to pay for copper in US dollars.¹⁵ Indeed, this metal was a key input for military production during the Cold War, but also in the manufacturing and construction sectors of developed economies in Europe and North America. Moreover, thanks to significant American investment since the 1920s, Chile was one of the few net exporters of copper in the postwar era, and the only one in the Western Hemisphere besides Canada (other key producers included the Belgian Congo and Rhodesia).¹⁶ By contrast, agricultural goods or nitrates lacked this privileged status in international markets and therefore were mostly traded in inconvertible or soft currencies. While agricultural exports faced growing competition from other temperate-climate producers, the expansion of synthetic ammonia production in G10 countries eroded the strategic relevance of Chilean nitrates. This decline was clearly marked in 1949, when Chilean nitrate was no longer traded in US dollars.

On top of dealing with the challenges posed by a narrow export base, volatile prices and global inconvertibility, policymakers in Santiago also had to respond to pressing domestic demands. As noted above, these demands arose from the ISI model, particularly the need to secure a steady supply of industrial inputs as well as essential consumer goods such as sugar, tea and cellulose for newspapers. Lacking confidence in market mechanisms to allocate foreign exchange from exporters to importers, Santiago officials turned to a range of administrative controls and discriminatory devices. Their overarching aim was to maximise control over scarce foreign exchange by managing

¹³ CBCh Balance of Payments 1960, p. 12.

¹⁴ Wagner and Díaz-Bahamonde, 'Dos Siglos de Política Comercial: Un Ensayo'.

¹⁵ Only through special ministerial degrees could copper be sold. FRUS Vol II, pp. 1242-58. Policy Statement Prepared in the Department of State, 27 February 1951.

¹⁶ For copper production, see US Minerals Yearbook 1950, p. 491.

export earnings according to government priorities and earmarking hard currency for strategic uses. One of the discriminatory NTBs that reflected these priorities was the system of foreign exchange budgets, introduced in 1947 (see Chapter 1) but more systematically applied in the early 1950s.¹⁷

Exchange budgets for 1951 to 1953, shown in Table 3.1, reveal the main goals of these NTBs. First, the government projected (and wanted to carefully control) a growing availability of foreign exchange during the Korean War boom, with total receipts rising from US\$336 million in 1951 to US\$471 million (US\$291 in dollar and US\$158 in other currencies) in 1953; second, around two-thirds of these receipts were in US dollars, which were prioritised for essential imports or public debt or foreign loans for industrial development (e.g., EXIMBANK); and third, soft or inconvertible currencies were generally channelled through higher exchange rates (the equivalent to 90 to 110 pesos to the US dollar), reflecting the artificial undervalued rates for hard currencies and the need to subsidise non-traditional exporters.¹⁸

Table 3.1
Foreign exchange budgets in millions of US dollars (Chile) (1951-1953)

	1951	1952		1953	
	All curr.	US Dollar	Soft curr.	US Dollar	Soft curr.
Exchange Rates					
Preferential (19 to 60 pesos per US dollar)	236	216	87	231	61
Free (90 to 110 pesos per US dollar)	100	75	71	69	110
Total	336	291	158	300	171

Source: IMF SM/51/643 C1, 28 November 1951, Table 11 (1951), IMF SM/53/49, 10 July 1953, Table 24 (1952), and CBCh Monthly Bulletin, January 1953 (1953). The free rate, a controlled floating rate, was pegged at 90 pesos from July 1951 to March 1952, then fully floating until February 1953, from which point banks were instructed to stabilise at 110 pesos.

¹⁷ IMF SM/54/77, Part II, p. 35.

¹⁸ For example, the artificially low parity assigned to the US dollar, specifically, the 19-peso rate applicable solely to large mining exporters, had remained unchanged since 1935, even though by 1953 the free market rate had reached 174 pesos per US dollar. In addition, exporters to soft currency areas, who were typically non-traditional producers, received an exchange subsidy from the government. This subsidy aimed not only to bolster their international competitiveness but also to compensate for rising domestic production costs driven by inflation. CBCh Annual Report, 1953, pp. 50–62.

In addition to exchange budgets and multiple exchange rates for navigating a world of inconvertible currencies, the Chilean government expanded and strengthened its network of bilateral trade and payments agreements. In response to the global dollar shortage, these annual arrangements established export and import commitments to be settled in soft currencies, with the ultimate goal of maintaining balanced trade between pairs of countries. They typically included a clause for ad hoc short-term financing known as swing credits to cover temporary imbalances.¹⁹ For Chile and Latin America at large, the most important of these arrangements involved EPU participating countries.²⁰ Through such mechanisms, Santiago was able to sell agricultural commodities and some industrial products. Given the greater transferability of sterling, the UK-Chile agreements stood among the most important, starting in 1949 and renewed annually until 1954, when sterling was externally unified.²¹ These agreements made Chile the only Latin American country within Sterling's Transferable Account system, a status that enabled Santiago to use its sterling receipts with a large number of nations, including Italy and Egypt.²²

The discriminatory arrangements outlined above appear to have influenced the direction of Chile's international trade during the years of currency inconvertibility. In this context, a number of key patterns emerge from an examination of the country's trade balance with major regions (Figure 3.1). At the beginning of the decade, when exchange restrictions among most G10 currencies remained tight, the data suggest that Chilean authorities managed trade flows to maintain a surplus with the dollar area, especially the United States, in light of hard currency requirements discussed above (profit repatriation and debt repayments). The fact that this balance turned negative in 1957, just two years before G10 convertibility, reflects the rise of compensatory financial flows under the first stabilisation programme, as well as the rapid easing of import restrictions. As for non-dollar countries prior to 1958, Chile aimed for balanced trade with inconvertible-currency countries, as earnings in those currencies could only be spent within the same markets. The modest surpluses with Western Europe likely stemmed from copper sales invoiced in US dollars, which Chile could use in the dollar area. Meanwhile, the growing trade surplus with the UK, although largely driven by copper, may also reflect sterling's increasing transferability by the mid-1950s, which enabled Chilean authorities to use sterling to settle payments with other minor trading partners in the Middle East, the

¹⁹ Gardner Patterson, *Discrimination in International Trade, The Policy Issues: 1945-1965* (Princeton University Press, 1966), 40–41.

²⁰ EPU signatory countries were Austria, Belgium, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Trieste, Turkey and the UK. See Kaplan and Schleiminger, *The European Payments Union*, 91–94.

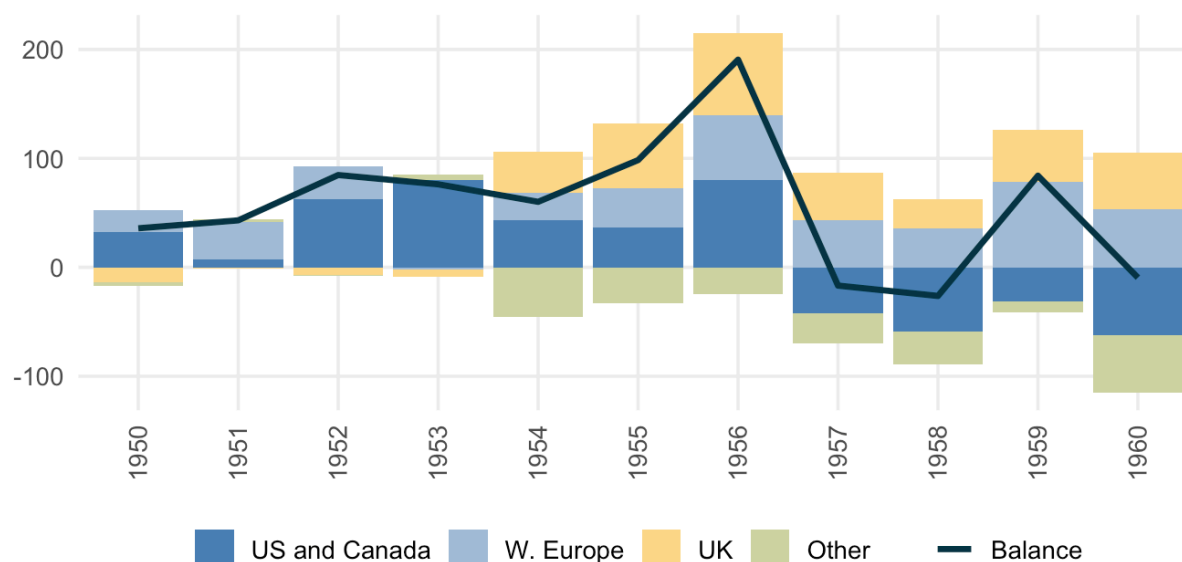
²¹ See Schenk, *The Decline of Sterling*, 110.

²² In 1952, the Transferable Account included Austria, Chile, Czechoslovakia, Denmark, Egypt, Ethiopia, Finland, W. Germany, Greece, Italy, the Netherlands, Norway, Poland, Spain, Sweden, Thailand and the USSR. See Catherine R. Schenk, *Britain and the Sterling Area: From Devaluation to Convertibility in the 1950s* (London: Routledge : LSE, 1994), 9.

British Empire, and the Commonwealth (excluding Canada).

Figure 3.1

Chile's trade balance by main regions in millions of US dollars (1950-1960)



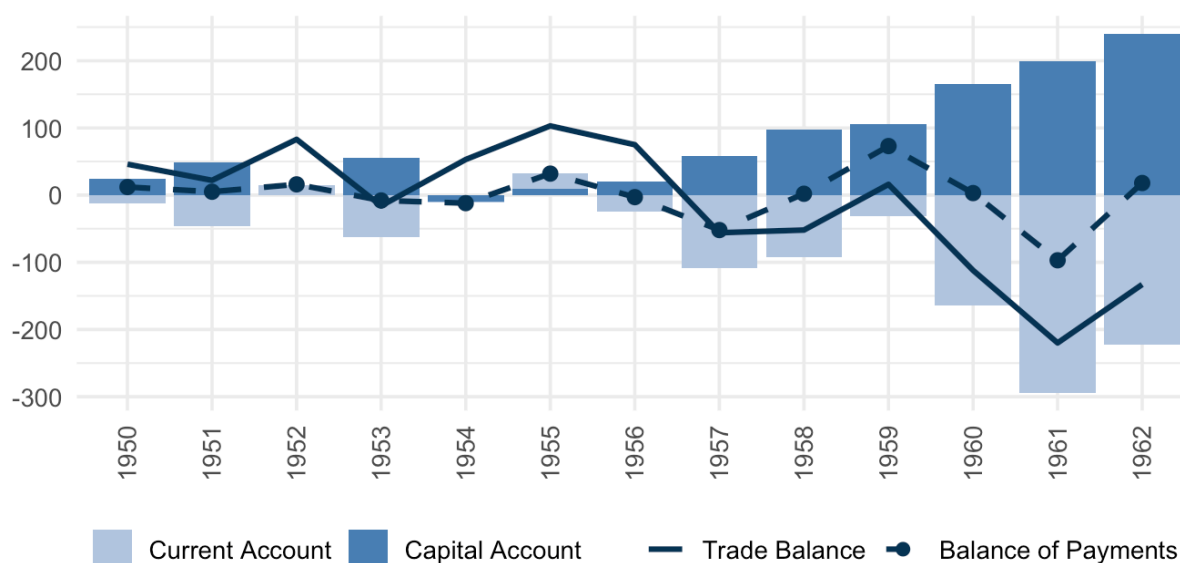
Source: CBCh Balance of Payments 1950-1960 based on data from the Customs Superintendency. The 'Balance' of this chart does not coincide with the overall 'Trade Balance' from Figure 3.2 because the Superintendency did not record the entry of ships, military goods, or estimates of smuggling in the case of imports. Export values also differ, mainly due to the different valuation of shipments from large-scale mining, particularly copper. Note that, due to the importance of the copper trade, this figure does not directly reflect the currency denomination of trade, only partner-based balance.

As the 1950s drew to a close, a new era in international payments began, marked by the declaration of currency convertibility by major European countries in December 1958. As the BWS literature shows, this shift towards multilateralism rendered many postwar discriminatory arrangements obsolete.²³ Trade and payments agreements, for instance, lost much of their utility as the boundaries between currency areas became more permeable and transit trade expanded. In Chile's case, achieving a multilateral regime while modernising the traditional ISI strategy also meant moving beyond a postwar external dynamic characterised by limited capital inflows. As explained in Chapter 1, this earlier model relied on maintaining a consistent and sizeable trade surplus to offset persistent outflows. Indeed, Figure 3.2 shows that, as a sole exception of 1953, the trade surplus exceeded the overall balance of payments, reflecting ongoing net income transfers abroad despite a positive yet modest capital account.

²³ This was especially evident in the liberalisation of intra-EPU trade, the restoration of global equilibrium and the end of the dollar gap. See Eichengreen, *Globalizing Capital*, 105–6.

Figure 3.2

Chile's balance of payments in millions of US dollars (1950-1962)



Source: CEPAL.²⁴

The stabilisation programmes launched in the second half of the decade introduced a new dynamic in Chile's balance of payments marked by increasing capital inflows. The challenge during this second period was not so much to obtain hard currency through trade, but rather to secure steady capital flows, either in dollars or in now convertible European currencies, to compensate for the current account deficit. Indeed, starting with the Klein-Saks years (1956-1958), Chile began to receive larger financial inflows for that purpose in the form of autonomous movements and compensatory mechanisms. Regarding the former, Chile benefited from private FDI from the American copper corporations and official flows for multilateral institutions (IBRD) and US agencies (ICA/AID and EXIMBANK).²⁵ In addition to these autonomous flows, compensatory financial mechanisms became increasingly important. These included support from the IMF's Stand-by Arrangements (SBA), short-term EXIMBANK credit, loans from private G10 banks, and trade-related short-term instruments, like suppliers' credits.²⁶ From the perspective of the BWS, it is interesting to note that this rise in capital inflows coincided with the end of the dollar shortage, a more balanced distribution of international reserves, G10 currency convertibility, and a general increase in global liquidity (partly driven by the expansion of official lending by multilateral institutions and US federal

²⁴ CEPAL, *América Latina y El Caribe*.

²⁵ ICA was the International Cooperation Administration, founded in 1955. In 1961, it was replaced by the Agency for International Development or AID.

²⁶ CBCh Balance of Payments 1962, pp. 64-73.

agencies, from which Chile directly benefited).²⁷

To summarise, this section has outlined, for the first time in the literature, key aspects of the operation of Chile's external sector within a global context defined by currency inconvertibility. This makes it clear that international developments shaped the tools available to acquire specific types of foreign exchange, and that the new multilateral regime opened at the end of the decade, marked by increased capital inflows. Within this framework, the following sections analyse in detail two major reform efforts in Chile's regulatory and financial system: the first led by the American Klein-Saks mission (1955-1958), and the second carried out under the liberal government of Jorge Alessandri Rodríguez (1959-1962). The main objective is to illustrate how the broader orientations of these reforms echoed shifts in the international monetary system. In this sense, the two reform attempts reflect Chile's strategies for navigating the transition from the inconvertible phase of the BWS to one characterised by greater, albeit still constrained, capital flows.

3.3 The first stabilisation plan: Klein-Saks (1956-1958)

The first stabilisation plan aimed at correcting Chile's traditional ISI model emerged in the mid-1950s, successfully phasing out the most discriminatory features of the postwar regulatory system. Indeed, the Klein-Saks programme brought about a major simplification of foreign trade regulations, which had until then been characterised by a complex set of administrative controls. Equally significant was the exchange rate reform, which finally ended the interwar-era system of multiple exchange rates, replacing it with a dual floating regime. To properly understand Klein-Saks, this section begins by outlining the broader context preceding its implementation before turning to the main policy changes introduced by the programme. The second subsection considers the significance of Klein-Saks in the broader evolution of the BWS: while the plan sought to correct the distortions of Chile's traditional ISI model, it also brought the country closer to the principles of economic multilateralism.

The 'Klein-Saks mission,' as it came to be known, has drawn some scholarly attention, particularly for its foreign and technocratic character. According to Edwards, both aspects were central for the mission to overcome domestic resistance to reform.²⁸ Beyond functioning as a foreign 'money doctor,' the mission is often seen as an instance of orthodox stabilisation, aimed at curbing inflation through fiscal discipline and supply-

²⁷ Eichengreen, *Globalizing Capital*, 106–7. For world reserves, see IMF Annual Report 1961, pp. 109-113.

²⁸ Edward provides arguably the best explanation for the reasons behind hiring foreign experts Edwards, 'Establishing Credibility. The Role of Foreign Advisors in Chile's 1955–1958 Stabilization Program'. See also a 2011-edited volume: Couyoumdjian, *Reformas Económicas e Instituciones Políticas*.

side adjustments.²⁹ This section draws on new archival evidence to emphasise how the implementation of Klein-Saks' recommendations was shaped by the increasing flexibility of the BWS rules (notably the acceptance of floating rates). It also shows how they benefited from an unprecedented degree of international cooperation in Chile's history, and identifies the advanced key aspects of a multilateral regime for trade and payments (just as G10 economies were preparing to declare full current account convertibility).

The Klein-Saks stabilisation programme: context and policies

By the early 1950s, macroeconomic imbalances had become a persistent feature of Chile's state-led industrialisation model. The difficulty in accumulating international reserves and securing enough critical imports, combined with the challenges of a fragmented global currency system, intensified domestic pressures to reform the traditional ISI model. A major economic reform was on the minds of many policymakers in Santiago, but the weakened second half of Gabriel González Videla's presidential term (1946-1952) failed to deliver any substantial proposal.³⁰ Only a rapid worsening of external and domestic conditions in 1953-1954 convinced the administration of Carlos Ibáñez del Campo (1952-1958) to endorse Chile's first major stabilisation programme in the 1950s. Externally, the ceasefire signed on 27 July 1953 that ended the Korean War quickly reduced Chile's net foreign exchange earnings, as the authorities struggled to contain import requests for ISI-related overseas inputs. Domestically, expansive fiscal and credit policies triggered a steep rise in inflation, with domestic prices increasing from 10% in June 1953 to over 80% a year later (see Figure II.1). Aware that any reform proposal devised by local experts or institutions would be politically unviable, the government turned to foreign advisers.³¹

The Ibáñez government then embarked on a major economic and financial reform under the guidance of Klein and Saks, a prestigious US consulting firm based in Washington, DC. The firm was named after its senior partner, Julius Klein, a former Harvard professor of Latin American history and economics during World War I and assistant secretary of commerce under the Hoover administration.³² Between

²⁹ For a political or political-economy viewpoint, see Ahumada Benítez and Kofas. Jon V. Kofas, 'Stabilization and Class Conflict: The State Department, the IMF, and the IBRD in Chile, 1952-1958', *The International History Review* 21, no. 2 (1 June 1999): 352-85, doi:10.1080/07075332.1999.9640863; Ahumada Benítez, 'Carlos Ibáñez del Campo y las recomendaciones internacionales'. For a different economic analysis, see Lüders, *La Misión Klein-Saks, Los Chicago Boys y La Política Económica*; French-Davis, *Políticas económicas en Chile, 1952-1970*.

³⁰ John L. Pisciotta, *Development Policy, Inflation, and Politics in Chile, 1938-1958: An Essay in Political Economy*, South American and Latin American Economic History (New York: Garland Pub., 1987), 91-92.

³¹ On the 'foreign factor' of the reforms, see Edwards, 'Establishing Credibility. The Role of Foreign Advisors in Chile's 1955-1958 Stabilization Program'.

³² The choice for Klein-Saks was made, among other things, because of their knowledge of the region.

September 1955 and October 1958, the Klein-Saks mission drafted the blueprint for a comprehensive reform package aimed at reforming some core aspects of Chile's ISI strategy. It encompassed changes in exchange, trade, fiscal, credit and income policies.³³ It is important to note that the mission initially benefited from an exceptional external environment: copper prices reached a 90-year high during the first year of the reforms.³⁴

The mission's recommendations on trade and exchange policies require special attention as they focused on the features of the traditional ISI model (and because they survived the end of the programme). Beginning in April 1956, the Klein-Saks stabilisation programme moved swiftly to reform the postwar instruments used to manage Chile's external sector. First, the regulatory framework managing foreign trade was rapidly simplified within the broader context of NTBs. The government eliminated import subsidies and dismantled the longstanding system of import quotas, which had historically been subject to frequent and arbitrary revisions. In addition, the system of import licences, which had created a privileged group of importers enjoying quasi-monopolistic positions, was phased out. In its place, the authorities introduced a general list of 'authorised imported goods,' open to all importers and without quantity restrictions (in the same way, merchandise not included in the list was prohibited for everybody). To retain some measure of control over trade flows, the government implemented an advance deposit scheme in local currency, requiring importers to deposit between 5% and 200% of the CIF value of goods, depending on the item's priority (e.g., essentials closer to the lower bound). This mechanism allowed the authorities to control overall import levels, increasing the required deposits during periods of declining export revenues and easing them in times of favourable external conditions.³⁵

Before going to Chile, the American consulting firm was advising the Peruvian government.

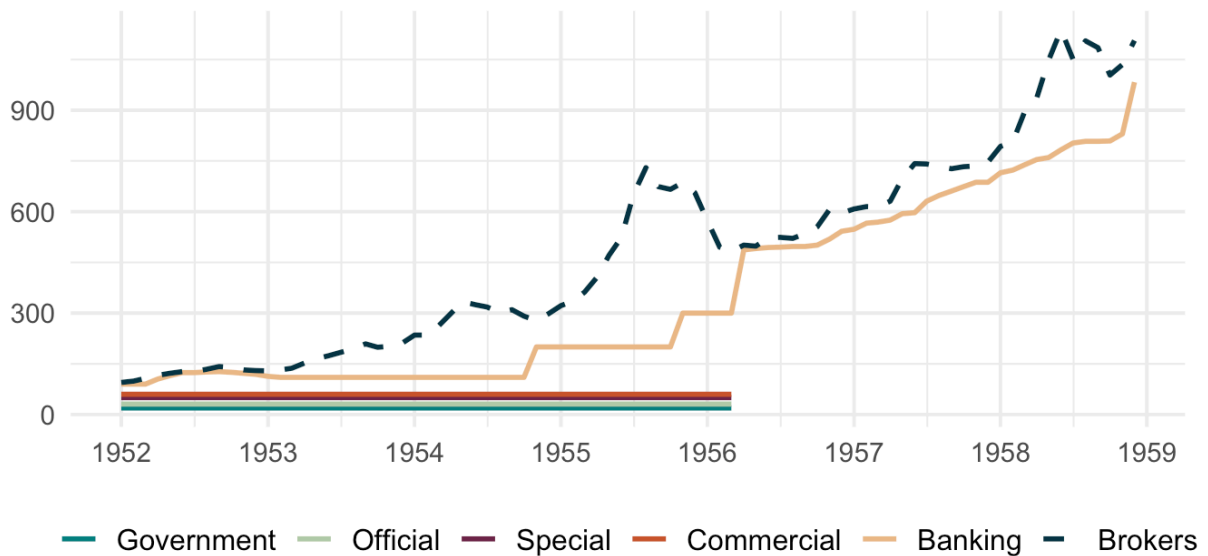
³³ Ffrench-Davis, *Políticas económicas en Chile, 1952-1970*, 26–28.

³⁴ US Mineral Yearbook: Metals and Minerals (Except Fuel) Year 1955, Volume I, p. 406.

³⁵ For some exceptions, see Ffrench-Davis, *Políticas económicas en Chile, 1952-1970*, 29–35; 78–82.

Figure 3.3

Chile's multiple exchange rates in pesos per US dollar (1952-1958)



Source: CBCh Monthly Bulletins.

In parallel with the new trade regulations, Klein-Saks accomplished what the IMF had failed to achieve in the immediate postwar years: a major simplification of Chile's exchange rate system. As shown in Figure 3.3, March 1956 marked the final month of the country's complex regime of multiple exchange rates. Previously, the system included four fixed rates and one pegged rate, and an additional freely fluctuating rate. Starting in April 1956, this system was replaced by just two floating rates. The most important was the banking rate, which applied to all trade transactions, covering all importers and exporters. Roughly 10% more expensive, the second, known as the brokers' rate, was used for invisibles, tourism, and capital movements.³⁶ It is worth noting that, although Klein-Saks successfully persuaded domestic actors to accept a dual exchange rate, a significant obstacle to reforming the postwar multiple exchange rate regime had already been overcome prior to the mission's arrival in Santiago. Under the so-called 'Copper New Deal,' foreign companies agreed on a new tax regime in exchange for new investment, resulting in the 19.37-peso rate ceasing to be applied to those companies.³⁷ Beginning in May 1955, American and other large mining receipts began to be exchanged at the 'banking rate,' at that time at 200 pesos to the dollar, and remained at that rate until the mid-1960s.³⁸

³⁶ See IMF EBS/56/8, 24 February 1956 and IMF EBS/56/8 S1, 27 February 1956, for the Fund Staff analysis of the Chilean proposal.

³⁷ For the 'New Deal' towards foreign investment, see Ricardo Nazer Ahumanda, 'La Crisis Del Modelo de Desarrollo y Las Reformas Estructurales, 1952-1970', in *Historia Económica de Chile Desde La Independencia*, ed. Manuel Llorca-Jaña and Rory M. Miller (Santiago: RIL Editores, 2021), 200-202.

³⁸ For the exchange regime applied to large copper companies, see Behrman, *Foreign Trade Regimes and Economic Development*, 104-9.

After decades of relying on multiple exchange rates, the adoption of a dual fluctuating regime represented a significant break from the postwar discriminatory system. Aware of the potential destabilising effects this shift could entail, the experts advised the Ibáñez government to establish an exchange stabilisation fund. With increased resources, they argued, the CBCh would be better positioned to intervene in cases of sharp short-term volatility. The exchange stabilisation fund, amounting to US\$75 million, was backed by contributions from the IMF, the US Treasury, and short-term loans from New York commercial banks.³⁹ Significantly for Chile-IMF relations, most of that package was supplied by the Fund via Chile's first SBA in March 1956, amounting to US\$35 million (the significance of this operation is discussed below).⁴⁰

In the short term, the Klein-Saks programme appeared to yield the promised results. Domestic measures, including credit controls and wage de-indexation, succeeded in curbing inflation: the CPI fell to 37% year-on-year by December 1956, and declined further to 17% a year later. However, the real test of the new regulatory regime came in 1957, when copper prices dropped nearly 30% to just 30 cents per pound, followed by another fall to 26 cents in 1958. Given that copper accounted for the majority of Chile's exports, these price shocks had a substantial impact on overall export earnings. In response, policymakers employed some of the new tools introduced by Klein-Saks. In both 1957 and 1958, the authorities in Santiago adjusted the advance deposit system: from an initial maximum of 200%, some import categories were subjected to rates as high as 1,500% at the peak of the crisis.

These measures, however, proved insufficient. By the end of 1957, Chile faced a massive external gap of US\$90 million, equivalent to 23% of all exports. The deficit was financed through the stabilisation fund and other arrangements involving cooperative support from the G10.⁴¹ As the next subsection shows, archival evidence allows for a reconstruction of the role played by key international actors throughout the stabilisation programme, shedding light on how Chile inserted itself into, and drew upon, the tools of the international monetary system.

Klein-Saks and the BWS: fluctuating rates, international cooperation and multilateralism

As noted above, the impact of the Klein-Saks mission has generated a great deal of interest within Chilean historiography. Yet there has been relatively little discussion about the connection between these reforms and the main players in the international

³⁹ See Ahumada Benítez, 'Carlos Ibáñez del Campo y las recomendaciones internacionales', 259–60.

⁴⁰ Carrasco, *Banco Central de Chile 1925-1964. Una Historia Institucional. Tomo I*, 372–74.

⁴¹ IMF SM/57/24, Part I, 20 March 1958, pp. 3-4.

monetary system. Thanks to new archival evidence, this section highlights three aspects of the Klein-Saks stabilisation programme closely linked to the evolution of the BWS: the possibility of applying a non-traditional exchange rate regime, the unprecedented benefits of international cooperation at the onset and crisis of the stabilisation programme, and the rapid advance towards a multilateral system of trade and payments on the eve of G10 convertibility.

In the context of the BWS, one of the most notable aspects of the Klein-Saks mission was exchange rate reform. After decades of operation, the complex multiple exchange-rate regime was abruptly replaced overnight in April 1956 by a dual floating system. At first glance, this policy choice may appear to have deviated further from the rules of the Bretton Woods regime of fixed-but-adjustable exchange rates. At the 1944 Conference, flexible rates were excluded as a viable policy option, as they were associated with monetary instability and volatility, often attributed to destabilising speculative capital flows.⁴² However, as with other aspects of the BWS, a closer examination reveals that departures from the system of pegged rates were common both within and beyond the G10. The tolerance of multiple exchange rate practices in the postwar years allowed many developing economies to avoid adopting a single pegged rate, employing multiple rates instead to contain balance of payments pressures and function as an indirect taxation mechanism.⁴³ In the specific case of fluctuating rates, the BWS literature often highlights the Canadian decision to adopt a floating currency, which began in September 1950 and lasted nearly thirteen years. Initially adopted in response to sizeable capital inflows from the United States (due to their inflationary effects), the regime was subsequently maintained with remarkable stability.⁴⁴

But Canada was not the first Bretton Woods member to rely on a flexible regime for an extended period. In November 1949, military-ruled Peru moved from a pegged regime to a dual floating system, which remained in place throughout the 1950s. Officials in Lima had grown disillusioned with the multiple and pegged exchange rate system in light of a sharp decline in international reserves.⁴⁵ A dual floating arrangement was also recommended to Peru by Klein-Saks experts, who argued that the previous exchange regime discriminated against exporters. Yet despite the shared adviser and double market, the similarities between the Chilean and Peruvian cases should not be

⁴² Douglas A. Irwin, 'The Missing Bretton Woods Debate over Flexible Exchange Rates', in *The Bretton Woods Agreements: Together with Scholarly Commentaries and Essential Historical Documents*, ed. Naomi R. Lamoreaux and Ian Shapiro (Yale University Press, 2019), 56–74, doi:10.12987/9780300245578-004.

⁴³ de Vries, 'Multiple Exchange Rates', 310–11.

⁴⁴ See Michael D. Bordo and Pierre Siklos, 'The Importance of Sound Monetary Policy: Some Lessons for Today from Canada's Experience with Floating Exchange Rates Since 1950', Working Paper, Working Paper Series (National Bureau of Economic Research, September 2023), 4–5, doi:10.3386/w31654.

⁴⁵ Gonzalo Pastor, *Peru: Monetary and Exchange Rate Policies, 1930-1980*, IMF Working Papers (International Monetary Fund, 1 June 2012), 24–25.

overstated.⁴⁶ Peru was a far more outward-oriented economy, with only limited prior experience of trade and exchange controls, whereas stabilisation programmes in Chile were designed to address the distortions of the traditional ISI model.⁴⁷ What is particularly interesting in the Peruvian case is the reception of fluctuating exchange rates as a valid policy choice at the multilateral level. Marking a shift from earlier instances in which the Fund had deemed flexible rates incompatible with the Articles of Agreement, the IMF acknowledged the complex circumstances of Peru's proposal and refrained from imposing sanctions (likely paving the way for the same approach to be applied to Chile).⁴⁸

Given the IMF's tolerance for alternative or flexible regimes, the American experts argued in favour of a fluctuating exchange rate in Chile. Unlike the Canadian case, where the regime responded to capital inflows, or the Peruvian case, driven by export discrimination, Chile's main rationale stemmed from the detrimental effects of its deeply entrenched 'mixing system' on the external balance. The experts' diagnosis was unequivocal: the prolonged use of multiple exchange rates had distorted both imports and exports, creating a chronic foreign exchange scarcity. Overvalued or preferential selling rates artificially stimulated imports not necessarily needed for Chile's industrial project, while unremunerative buying rates stifled exports, resulting in traders withholding shipments pending rate increases.⁴⁹ Against this complex background, Klein-Saks argued that only a flexible exchange rate with limited intervention could effectively respond to fluctuations in domestic prices relative to international prices, curb excessive imports and stimulate exports. Increased reliance on market forces to determine the exchange rate, corrected only indirectly by the monetary authorities, constituted "a long-standing solution to the exchange rate problem in Chile."⁵⁰

In addition to fluctuating rates, a second aspect of the Klein-Saks programme that reflected the evolving nature of the BWS was the unprecedented level of international cooperation involved. At its most basic level, this cooperation took the form of technical advice. Archival evidence shows that the IMF played a continuous and prominent role between 1956 and 1958. As recalled by the Fund's Deputy Managing Director Cochran, "some of the most expert technicians on the staff had been sent to Chile and the Managing Director [Per Jacobsson] himself had had lengthy discussions in Chile."⁵¹ Before the programme began to unravel in the second half of 1957, several missions had

⁴⁶ For additional references to the Peruvian case, see *Ibid.*, 25.

⁴⁷ See Alberto Pascó-Font and Piero Ghezzi, *Exchange Rates and Interest Groups in Peru, 1950-1996*, Research Network Working Paper (Washington D.C.: Inter-American Development Bank, 2000), 5–6.

⁴⁸ Previously, the Fund was much stricter with Mexico and Belgium. See de Vries and Horsefield, *The International Monetary Fund, 1945-1965*, 152–57.

⁴⁹ CBCh Annual Report 1956, pp. 73-75.

⁵⁰ Klein & Saks Misión Económica y Financiera, *El programa de estabilización de la economía chilena y el trabajo de la Misión Klein & Saks* (Santiago de Chile: Editoria Universitaria, 1958).

⁵¹ IMF EBM 57/56. H. M. Cochran was an American diplomat and economist. After retiring from the US Foreign Service (1927-1954), he started his role as IMF Deputy Managing Director until 1962.

reviewed developments in Chile, including the Fourth Annual Consultation (1956), which produced a detailed 100-page report incorporating discussions with senior Chilean officials and President Ibáñez himself.⁵² In this context, Chile was cited in the IMF's 1956 Annual Report as an "outstanding example" (together with Argentina) of members adjusting their exchange rates to address chronic inflation.⁵³ Furthermore, during the three years of the stabilisation programme, there was frequent communication between the IMF, American officials in Santiago and Washington, and members of the Klein-Saks mission.⁵⁴

Even more significant than technical assistance, the Klein-Saks mission marked the beginning of a sustained pattern of cooperative financial support towards Chile. As mentioned earlier, Santiago officials were aware that the exchange reform required support beyond the limited international reserves of the CBCh. For that reason, the government and mission negotiated a US\$75 million exchange fund to lend credibility to the stabilisation programme, bridge potential external gaps and smooth short-term volatilities. The cornerstone of this fund was Chile's first IMF SBA for US\$35 million, approved in March 1956. Significantly, the SBA was the Fund's new instrument for supporting a member's reserves in the face of balance of payments pressures, first introduced with Belgium-Luxembourg in June 1952. Unlike drawings against a member's quota (as Chile had done in 1947 and 1953), the SBA involved a larger volume of resources and therefore required special approval by the Fund's Executive Board. The SBA granted to Chile in 1956 was the fourth ever issued to a Fund member and the third to a Latin American country, the largest granted to a South American economy so far and the first to support a comprehensive stabilisation programme.⁵⁵ Reflecting the broader significance of this approval, Latin American Director Octavio Paranaguá expressed "his appreciation of the cooperative spirit with which the Chilean request had been met" during discussions at the Fund's Board.⁵⁶

A distinctive feature of the Klein-Saks stabilisation programme was the decisive involvement of both public and private American actors in a broader cooperative effort. Anticipating a similar initiative in Argentina two years later (Chapter 4), Chile complemented its stabilisation fund with loans from private American banks and direct support from the US Treasury. On 13 April 1956, following a recommendation by the National Advisory Council (NAC) on International Monetary and Financial Problems, the

⁵² IMF SM/57/3, C1, 10 January 1957, Part I, p. 1.

⁵³ IMF Annual Report 156, p. 23.

⁵⁴ See, for example, FRUS 1955-57, Vol. VII, p. 852-854. Memorandum of Conversation, Department of State, Washington, 6 November 1957.

⁵⁵ Emil G. Spitzer, 'Stand-By Arrangements: Purposes and Form', in *The International Monetary Fund 1945-1965: Twenty Years of International Monetary Cooperation Vol. 2: Analysis* (Washington; London: International Monetary Fund, 1969), 457; 481.

⁵⁶ IMF EBM 56/15, 9 March 1956.

US Treasury agreed to purchase up to US\$10 million in Chilean pesos to help maintain orderly exchange conditions.⁵⁷ These funds were drawn from the US Exchange Stabilization Fund, an institution established under the Gold Reserve Act of 1934 to be activated at the sole discretion of the Executive branch.⁵⁸ A further line of defence for the floating peso was provided by a consortium of New York commercial banks. Amounting to a total of US\$30 million, the principal participants included the National City Bank (US\$10 million), which acted as the agent, along with the Chase Manhattan Bank, the Chemical Corn Exchange Bank, and the American National Trust and Savings Association (US\$5 million each).⁵⁹

This cooperative effort did not end with the onset of the programme. When copper prices declined in 1957-1958 and the balance of payments recorded its first trade deficit of the postwar era, international support proved crucial for Chile in managing the external gap. Indeed, the country turned to all available options to address its payment difficulties, including further recourse to the Fund's SBA and loans from US private banks. So intense was the pressure on the currency that, by the end of 1957, nearly half of the US\$75 million stabilisation fund had been depleted, as shown in Table 3.2.⁶⁰ Beyond this fund, the government drew down US\$15 million from CBCh reserves (equivalent to 80% of the central bank's dollar and sterling holdings), secured a 90-day emergency loan of US\$5 million backed by gold collateral from the Federal Reserve Bank of New York (FRBNY), and increased its debt to foreign suppliers by US\$15 million.⁶¹ In addition to this emergency financing, and despite the IMF's criticism over the slow pace of devaluation (e.g. persistent exchange interventions), Chile secured extra loans from American federal agencies for key imports. Santiago received credits up to US\$12.5 million from the EXIMBANK to finance US capital goods imports and another US\$30 million in agricultural surplus under Public Law 480 (Food for Peace). The latter, a donation or dollar-saving programme for developing countries, made Chile the largest recipient in Latin America in 1957-1958, accounting for 28% of the region's total.⁶²

⁵⁷ NAC approval in NARA II RG 59, Entry A1 205-N, Box 4286, Treasury Department to International Finance Division, 7 March 1956. Agreement in NARA II RG 56, Entry UD 13W 109, Box 19.

⁵⁸ FRUS 1955-1957, Vol. VII, p. 807-809, 242d Meeting of the NAC on International Monetary and Financial Problems, 6 March 1956. For references to the Stabilization Fund, see Anna J. Schwartz, 'From Obscurity to Notoriety: A Biography of the Exchange Stabilization Fund', *Journal of Money, Credit and Banking* 29 (1997): 135-53.

⁵⁹ NARA II RG 56, Entry UD 13W 109, Box 19, Credit Agreement, 27 March 1956.

⁶⁰ IMF EBM 57/56, 22 November 1957. According to the terms of the agreement with the US government, no drawing could be made on the US Treasury until the IMF and private banks' funds were exhausted. See NARA II RG 59, Entry A1 205-N, Box 4287, Chilean Interests in Balance of Payments Assistance, 28 April 1958.

⁶¹ NARA II RG 59, Entry A1 205-N, Box 4289, 21 February 1958, Monthly Exchange Report January 1958.

⁶² PL 480 data from Eleanor N. DeBlois, *12 Years of Achievement under Public Law 480*, Miscellaneous Publications (United States Department of Agriculture, Economic Research Service, 1967).

Table 3.2

Stabilisation fund and special balance of payments credits in millions of US dollars
(1956-1958)

	IMF	Private Banks	US Treasury	Balance SBA	EXIM	ICA
I. Original stabilisation fund						
Granted on April 1956	35	30	10	75	-	-
Drawings SBA 1956-57	25	15	-	35	-	-
Drawings SBA 1958	4.4	8	-	22.6	-	-
Balances outstanding	5.6	7	10	22.6	-	-
II. Special balance of payments credits						
Credits for 1958	-	-	-	-	15	10
Balances special credits	-	-	-	-	5.4	2.5

Source: NARA II RG 59, Entry A1 205-N, Box 4289, Embassy Report on Chilean Foreign Exchange Operations 1958, 29 January 1959. EXIM = EXIMBANK.

Chile's balance of payments difficulties persisted throughout most of 1958. That year, according to Klein-Saks' calculations, the authorities in Santiago required at least US\$30 million to meet foreign exchange needs. A meeting between Chilean top officials, Klein-Saks officials, and US Ambassador Cecil B. Lyon in January underscored the urgency of further American assistance. Chile's finance minister warned that if the government could not "obtain [a] loan [of] this amount from [the] EXIM Bank or [a] development loan fund, Chile is faced with losing all progress made in [the] anti-inflation fight and possible serious catastrophe."⁶³ A return to inflation was widely perceived as a political risk, particularly with presidential elections scheduled for September 1958 and the left-wing candidate Salvador Allende seen as a serious contender. After a brief visit to Washington by the CBCCh general manager, the United States promptly offered support.⁶⁴ By mid-year, Chile had secured US\$25 million in aid loans: US\$15 million from the EXIMBANK for balance of payments support (granted in May 1958), and an additional US\$10 million from the ICA on 27 June, most of which was immediately disbursed (Table 3.2, bottom rows).⁶⁵ Taken together, the scale of international support received by Chile between 1956 and 1958 was unprecedented in its history, setting a precedent that would only expand as the BWS developed.

⁶³ NARA II RG 59, Entry A1 205-N, Box 4289, Telegram from Santiago to Secretary of State, 13 January 1958.

⁶⁴ NARA II RG 59, Entry A1 205-N, Box 4287, Status of Chilean loan Application, 20 May 1958.

⁶⁵ NARA II RG 59, Entry A1 205-N, Box 4283, Economic Summary, Chile, 30 June 1958.

At this point, it is worth considering the reasons behind US-Chile cooperation in setting up the programme and later supporting Chile's difficult external payments position. A general explanation is that Latin American countries were experiencing a renewed confidence in the benefits of closer ties with industrialised nations, particularly in light of the successes of intra-G10 cooperation.⁶⁶ This trend became more pronounced after the Korean War and the subsequent downturn in commodity prices, with Chile appearing to move ahead of other ISI economies in the region. Indeed, Santiago's 1956 SBA was the first to be granted to a Latin American country in connection with a comprehensive stabilisation programme (excepting only export-led Peru in 1954), preceding similar programmes in six other countries across the region with IMF support.⁶⁷ By the end of 1958, Argentina, Bolivia, Brazil, Colombia, Paraguay and Peru had drawn more than US\$215 million from the Fund's facilities.

Within this broader atmosphere of confidence in multilateral initiatives, Chile's early engagement and close ties with the United States can be attributed to several factors. These included the decision to hire an American consulting firm, but also reflected wider strategic considerations in Washington. Far from being purely altruistic, the US was acutely aware of its substantial investments in Chile's copper sector, a critical supplier of the metal to American military and civilian industries. Ensuring a successful stabilisation effort (and avoiding a payment default or resurgence of inflation) aligned with US private interests in the copper sector, especially as political parties began advocating for nationalisation.⁶⁸ Secondly, hemispheric security concerns gave Chile a degree of strategic importance during the Cold War, helping to explain US assistance to Santiago.⁶⁹ From Washington's perspective, Chile was a key ally consistently aligned with the Western bloc. For example, between 1947 and 1958, the Communist Party was outlawed, and its members were banned from electoral lists under the 'Law of Permanent Defence of Democracy.' In sum, the cooperative efforts that supported Chile through the Klein-Saks years were genuinely multilayered, reflecting both Latin America's growing confidence in the IMF and Santiago's distinctive position within the Cold War order.

The third and final way in which the Klein-Saks programme intersected with the broader evolution of the Bretton Woods order was through its role in dismantling Chile's

⁶⁶ This is the argument advanced in Jorge Del Canto, 'Latin America and the Fund', *Finance & Development* 1, no. 002 (1 September 1964): 65, doi:10.5089/9781616352752.022.A002.

⁶⁷ IMF IA, Central Files, International Organizations\I500 Regional Intergovernmental Organizations, Inter-American Economic and Social Council, The Role of the International Monetary Fund in the Stabilization Efforts of Latin America, 6 June 1960.

⁶⁸ See Gustavo Lagos, 'Mining Nationalization and Privatization in Peru and in Chile', *Mineral Economics* 31, nos 1–2 (May 2018): 8, doi:10.1007/s13563-017-0124-9.

⁶⁹ See William F. Sater, *Chile and the United States: Empires in Conflict*, United States and the Americas (Athens ; London: University of Georgia Press, 1990), 126–28.

postwar bilateralism. Although often sidelined in major historical accounts of the BWS, the global retreat from bilateralism marked a significant step in the development of the postwar monetary regime.⁷⁰ Initially conceived as a response to the dollar shortage and the regional orientation of the BWS, post-1947 bilateralism had already begun to lose traction by the mid-1950s, as rising international liquidity reduced its perceived benefits. A more flexible system of international payments gradually emerged, helped by multilateral inter-area settlements, the growing transferability of sterling and other G10 soft currencies and increased transit trade that by-passed strict intra-currency zone trade.⁷¹ At the same time, progress on regional solutions, such as the EPU, seemed to offer a credible path towards global multilateralism. In sharp contrast, bilateral arrangements often gave rise to distortions and abuses, as stronger trading partners isolated weaker ones from more competitive markets.⁷² Even as near-convertible countries began easing controls, they typically maintained restrictive import regimes when dealing with developing economies, using them as bargaining tools rather than offering meaningful concessions like purchasing or licensing guarantees.⁷³ In this context, the promises of postwar bilateralism had largely fallen short.

Reflecting this global shift, Chile's transition towards a multilateral regime for trade and payments followed a gradual path (particularly in contrast to Argentina, Chapter 4). Shortly after the Klein-Saks reforms were introduced in April 1956, the government established an inter-ministerial committee to design a new, non-discriminatory commercial policy. The committee acknowledged the need to phase out bilateral trade agreements, which at the time accounted for 12% of Chile's total trade. These agreements were seen as problematic because they typically relied on inconvertible currencies, often resulting in outstanding balances that were difficult to settle. Moreover, the government's diagnosis found that bilateralism artificially stimulated exports that would have been unprofitable under normal conditions. According to the CBCh, bilateralism effectively created protected markets in which exporters had little incentive to improve productivity, let alone compete in more demanding dollar-area markets.⁷⁴

From the standpoint of multilateralism, the Klein-Saks policies not only redefined the

⁷⁰ Note the absence of references to postwar bilateralism in a recent piece by Maurice Obstfeld, 'Economic Multilateralism 80 Years after Bretton Woods', *Oxford Review of Economic Policy* 40, no. 2 (12 June 2024): 307–28, doi:10.1093/oxrep/gra009.

⁷¹ Transferable sterling was key. Transferability meant that countries could use net commercial balances to settle payments in sterling with a third country. Until 22 March 1954, sterling was transferrable only within a special category or under special approval by the Bank of England. After that date, sterling was automatically transferable outside the dollar area. This condition made it highly used in international trade, even outside the sterling area (e.g. between Japan and Argentina), accounting for 40% of global foreign exchange reserves. See Schenk, *The Decline of Sterling*, 23.

⁷² IMF Archive, SM/54/118, 13 December 1954, pp. 1-2.

⁷³ IMF Archive, SM/55/31, 15 May 1955.

⁷⁴ CBCh Annual Report 1956, pp. 176-177.

general rules governing foreign commerce but also began to dismantle the complex and distortionary web of bilateral trade and payments agreements. First, the introduction of a single import list that guaranteed equal access for all countries directly conflicted with the special import provisions established under bilateral arrangements. Second, the preferential exchange rates embedded in those agreements clashed with the new exchange banking market, which was designed to handle all trade transactions equally and on a non-discriminatory basis. As the minister of finance explained, the fluctuating rate solution reflected “the desire of Chile to arrive as quickly as possible at near multilateralism.”⁷⁵

Beyond domestic policies, a concurrent factor that facilitated the abandonment of bilateral payments was the shrinking interest of European partners in these agreements. The first to move in that direction was the UK, which decided to allow the agreement with Chile to lapse as early as June 1954. This allowed Chile and other non-American Account members to transfer sterling anywhere in the non-dollar area.⁷⁶ The case of Germany, Chile’s third most important export outlet after the United States and Britain, was even more indicative of this change of course by European partners. Before the trade and payments agreements between Santiago and Bonn expired in September 1956, German officials declined to renew them under the same discriminatory principles. Instead, a new agreement entered into force in November 1957 whereby settlements between the two countries were conducted solely in convertible currencies. To address outstanding bilateral transactions, the Bank Deutscher Länder extended a credit line to Chile’s central bank, to be repaid in monthly instalments until September 1959.⁷⁷

⁷⁵ NARA II RG 59, Entry A1 205-N, Box 4282, Report to the Chairman of the International Monetary Fund, 9 March 1956.

⁷⁶ BoEA OV160/7, Talk by Mr. Crick to Chileans in 1955 during course of negotiations on multilateralism, 31 March 1955, f. 6a.

⁷⁷ IMF EBS/57/3, C.1, 9 January 1957, part 2, p. 42.

Table 3.3

Bilateral accounts in millions of US dollars (Chile) (1955-1959)

	1955	1956	1957	1958	1959
W. Germany (Balance)	(-1)	(-1)	-	-	-
Exports	30	31	-	-	-
Imports	31	32	-	-	-
Spain (Balance)	(2)	(4)	(-5)	(4)	(-2)
Exports	8	10	7	12	8
Imports	6	6	12	8	10
Argentina (Balance)	(28)	(5)	(-4)	(0)	(-7)
Exports	61	32	20	21	28
Imports	33	27	24	21	35
Brazil (Balance)	(4)	(0)	(-3)	(-1)	(4)
Exports	13	13	10	8	15
Imports	9	13	13	9	11
Other (Balance)	(0)	(4)	(-1)	(-1)	(-1)
Exports	1	10	1	2	2
Imports	1	6	2	3	3

Source: CBCh Monthly Bulletins. 1955 data from April 1956. Data on 31 December each year. Others include Ecuador, Bolivia, and Yugoslavia. Trade was also conducted under bilateral agreements with France (until October 1957) and Italy (until August 1958), but these flows were not supervised or recorded by the CBCh.⁷⁸

Not all EPU participating countries pushed for a rapid transition to convertibility in their trade and payments relations with Chile. Italy, for instance, only began using convertible currencies for trade with Chile in mid-1958, while France maintained some bilateral trade for Chilean wine well into 1959.⁷⁹ Yet despite the different paces of multilateralism, discriminatory agreements gradually lost ground over the decade. Table 3.3 illustrates this trend. Outside EPU participating countries, only Argentina, Brazil and Spain maintained significant flows by the late 1950s. By mid-1960, according to an IMF staff report, almost 90% of Chile's foreign trade was conducted without recourse to these discriminatory devices, but "on the basis of convertible currencies, and, therefore, the surplus or deficits with individual countries do not bear the significance that used to be

⁷⁸ IMF IA, Country Files, C/Chile/420 Exchange Controls and Restrictions.

⁷⁹ NARA II RG 59, Entry A1 205-KA, Box 4283, Economic Summary, 24 April 1958.

attached to them in earlier postwar years.”⁸⁰ In 1961, trade agreements with Bolivia and Ecuador were terminated, but more importantly, trade with Argentina began to be conducted on a convertible currency basis. The latter required the intervention of the IMF since Chile, which had experienced payment problems in 1960-1961, had a large deficit with Argentina. Thanks to an SBA reached in January 1961, Chile was granted the equivalent of US\$ 16 million in Argentine pesos to settle the bilateral balance between the two countries. This was a milestone in the history of the IMF, as it was the first time that a Latin American member's currency was drawn.⁸¹

To recapitulate, this section has revisited the Klein-Saks stabilisation programme in the context of the evolving postwar international monetary system. Drawing on new archival evidence, it shows how the Klein-Saks mission, despite its eventual failure, brought Chile closer to fulfilling its non-discriminatory obligations as an IMF member and a Contracting Party to the GATT. Along these lines, the reform of trade regulations and the overhaul of the complex exchange rate regime gain particular significance, marking turning points in Chile's shift towards multilateralism, especially through the dismantling of discriminatory bilateral trade and payments agreements even before G10 full current account convertibility. The stabilisation programme was actively employed by Chilean officials as a means to navigate their way out of restrictive arrangements at a time of rising international liquidity, relying on tools offered by a more flexible BWS (such as fluctuating rates), as well as unprecedented international cooperation through the IMF and the United States. Significantly, a similar pattern reappeared with the second stabilisation programme launched in the late 1950s.

3.4 The second stabilisation programme: the Alessandri Plan (1959-1962)

In September 1958, after three years of economic stagnation, the Chilean electorate turned to the liberal option when Jorge Alessandri Rodriguez, former Minister of Finance (1947-1950), was elected President (1958-1964). In a renewed bid to correct the shortcomings of Chile's ISI model, Alessandri campaigned on the promise of establishing a government of managers, advocating a reduction in state intervention in the economy and moving the country towards a model more friendly to private initiative. Along those lines, the government's economic programme was characterised by a rapid implementation of Chile's second major stabilisation programme, commonly known as the Alessandri Plan. Building on some of the enduring achievements of the Klein-Saks reforms in terms of multilateral trade and payments, this Plan proposed a major liberalisation of foreign trade, immediate adoption of a single pegged rate and increased reliance on capital inflows (including loans to support development projects and fiscal

⁸⁰ IMF SM/60/52, Part II, p. 51.

⁸¹ IMF EBM 61/5, 10 February 1961.

expenditure). Reflecting on those shifts, this section highlights two features that link this second stabilisation effort to the broader evolution of the BWS in the early 1960s: the single pegged exchange rate and international cooperation.

From a historiographical perspective, the Alessandri Plan (1959-1962) has received less scholarly attention than the earlier Klein-Saks programme. Most accounts characterise it as an “incomplete and disjointed” stabilisation attempt that ultimately resulted in a rapid rise in Chile’s external liabilities and the reinstatement of administrative controls by mid-1962.⁸² Although scholars acknowledge the programme’s initial success in curbing inflation (5.5% year-on-year in 1960), they underscore that this achievement proved short-lived. By 1961, the government had abandoned its commitment to price stability, turning once again to the CBCh for extraordinary financing and thereby reigniting inflationary pressures.⁸³ Moreover, the rapid liberalisation of the external sector, rather than enhancing the efficiency of domestic producers, exacerbated the trade imbalance and triggered a substantial balance of payments deficit.⁸⁴ While these historical accounts focus on the policy set and its pitfalls, this section analyses Chile’s second stabilisation programme in the context of the BWS. Drawing on historical records, it discusses the relevance of the Alessandri Plan in terms of its exchange rate policy and the episodes of international cooperation that accompanied it. Remarkably, the latter involved support from multilateral agencies, the United States and (for the first time) wider G10 assistance.

The Alessandri programme: policies and outcomes

Upon taking office, the new government undertook a comprehensive overhaul of Chile’s external sector regulatory framework. At the heart of Alessandri’s programme was the unification of the banking and brokers’ markets, accompanied by the introduction of a pegged exchange rate. Anticipating a similar move in Argentina later that year (Chapter 4), the Alessandri administration viewed the fixed rate both as a symbol of stability and confidence in the broader stabilisation effort and as a swift means of curbing inflationary pressures and expectations, running at 33% year-on-year in 1958. This policy choice may also have been shaped by the recent convertibility of all G10 currencies and the emerging convertible phase of the BWS, which aligned Chile with evolving global norms. In any case, the new unified rate, set at 1,050 pesos on 27 January 1959, marked a 30% devaluation relative to the September 1958 banking market rate.

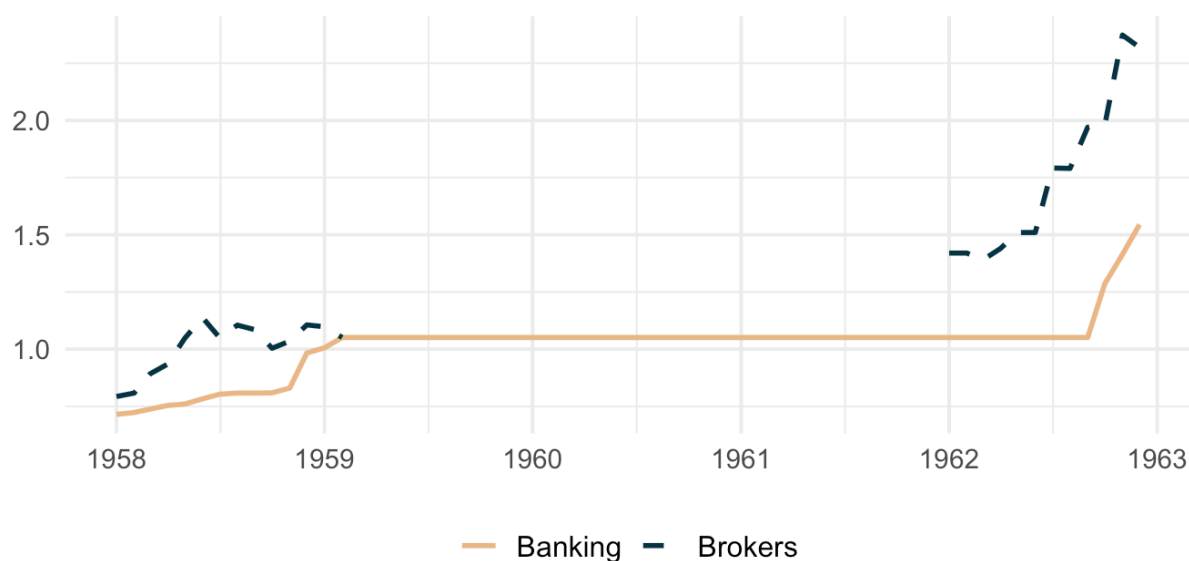
⁸² Ffrench-Davis, *Políticas económicas en Chile, 1952-1970*, 49–50.

⁸³ Felipe Morandé and Carlos Noton, ‘La conquista de la inflación en Chile’, *Estudios públicos*, no. 95 (2004): 124–25.

⁸⁴ See Ffrench-Davis et al., ‘The Industrialization of Chile during Protectionism, 1940-82’, 133–34.

Figure 3.4

Chile's multiple exchange rates in escudos per US dollar (1952-1958)



Source: CBCh Monthly Bulletins.

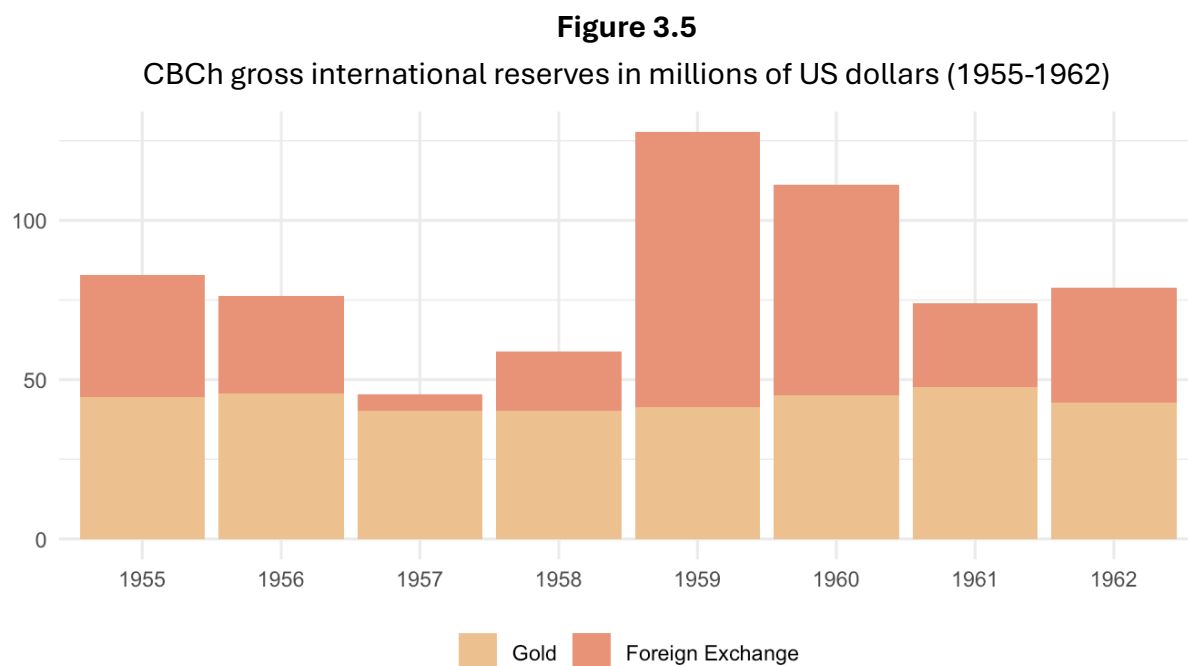
The unification of the two exchange markets in 1959 was a milestone for Chile's postwar trajectory. It marked the first time since the demise of the gold exchange standard (1931-32) that both foreign trade and capital transactions were conducted at a single rate. To further bolster confidence in the domestic currency and exchange rate, the government later introduced a new monetary unit (the escudo) at a rate of 1,000 pesos to 1 escudo. As Figure 3.4 shows, from 1 January 1960, the US dollar was quoted closer to parity, at 1.05 escudos per dollar, a level maintained until 1962.

With the foundations of the new exchange rate system in place, the government advanced with measures to liberalise foreign trade. Compared to the Klein-Saks programme, Alessandri adopted a system in which market forces played an even greater role. The list of authorised imports introduced in 1956 was abolished, and virtually all goods could now be imported freely, subject to an advance deposit (in addition to customs duties and certain special surcharges). Notably, deposits were predominantly made in dollars or in short-term dollar-denominated obligations of the Chilean Treasury known as '*pagarés,*' a form of IOU. This arrangement had a significant impact on the banking system, as dollar loans by domestic commercial banks rose by 323% in 1959, accounting for 30% of all bank lending.⁸⁵ Much of this expansion in foreign exchange operations was enabled by domestic banks drawing heavily on credit lines from foreign banks, which totalled over US\$22 million.⁸⁶ Treasury IOUs also helped stimulate the repatriation of private capital that had fled in earlier years. For instance, dollar deposits

⁸⁵ IMF SM/60/52, 8 July 1960, Part I, p. 5.

⁸⁶ See Jorge Marshall, 'La Estabilización Monetaria En Chile, 1959-1960', *Revista de Economía Latinoamericana* 10 (1963): 55.

by Chilean residents in US banks fell by about US\$12 million in 1959, which the Fund staff believed had been reinvested in *pagarés*.⁸⁷



Source: IMF International Financial Statistics. Only foreign exchange was counted as CBCh's reserves working balances. Gold reserves, mostly stable throughout the period, were held exclusively as a 'backing' for circulating money.

Capital repatriation was not the government's only success in 1959. The overall external position improved markedly, generating optimism and renewed confidence in Alessandri's Plan. The balance of payments recorded a historic surplus of US\$27 million (Figure 3.2), while the gross and convertible assets of the CBCh more than doubled, reaching US\$85.1 million (Figure 3.5).⁸⁸ This sharp increase in reserves was largely attributable to deposits held at the CBCh under the advance deposit system for imports, as well as to external financing. Regarding the latter, in addition to substantial private FDI in copper projects, the government increasingly relied on external financing for public expenditure and to fund development projects through the EXIMBANK, the IBRD, the International Finance Corporation (IFC) and the Inter-American Development Bank (IDB), a pattern that continued into 1960 and 1961.⁸⁹

Table 3.4
Foreign loans linked to the Alessandri Plan in millions of US dollars (Chile) (1959)

⁸⁷ IMF SM/60/52, 8 July 1960, Part II, p. 43.

⁸⁸ IMF SM/60/52, 8 July 1960, Part I and Part II, p. 43.

⁸⁹ CBCh Balance of Payments 1959, pp. 47-50, 1960, pp. 59-65, 1962, p. 64-75.

I. US Commercial banks' 5-year loan	
Total drawn	55.0
Used to repay earlier loans	-23.0
Amortisation of current loan	-10.3
Net amount used in 1959	21.7
II. EXIMBANK-ICA	
Total drawn	8.9
Amortisation of earlier BoP loans	-1.9
Amortisation of current loan	-5.2
Net amount used in 1959	1.8
Total	23.5

Source: IMF EBD/60/52, Part II, p. 45, 8 July 1960. These loans only included those used to cover balance of payments' deficits.

On top of sizeable autonomous net capital inflows, the government secured almost US\$65 million in compensatory financing from the United States as an additional line of defence for the peso/escudo. Although this strategy mirrored the 1956 exchange stabilisation fund under Klein-Saks, in 1959 Alessandri avoided recourse to significant IMF financing. By contrast, this second stabilisation programme relied mostly on US commercial banks and federal agencies (Table 3.4). This decision may have been motivated by America's cooperative attitude towards a liberal government in Latin America, particularly after the end of the Cuban Revolution (January 1959).⁹⁰ But Santiago also appreciated the greater flexibility of bilateral US resources compared with the Fund's SBAs, which prohibited their use for government expenditure. Table 3.4 also underscores a key difference from the 1956 stabilisation effort or perhaps reveals one of its consequences: increased debt. Given the heavy reliance on foreign borrowing to cover the 1957-1958 deficits, part of the new loans from commercial banks and the EXIMBANK simply refinanced existing obligations.

Despite potential risks to the government's stabilisation programme, a prevailing sense of optimism marked the assessments of IMF authorities, who consistently praised Chile's progress. Notably, the Fund's Executive Board paid comparatively less attention to potential weaknesses in the external sector and focused instead on achievements in domestic monetary stability. In particular, the rapid control of inflation was highlighted

⁹⁰ See Sater, *Chile and the United States*, 131–33.

as a key success. At the IMF Board meeting on 20 July 1960, Brazilian Director Octavio Paranaguá remarked that Chile's shift in attitude towards inflation was something he "never believed could ever happen;" reflecting on past stabilisation attempts, Paranaguá noted "the many years of disappointment the Fund had had in its tireless effort to eradicate the devastating philosophy of inflation which had infiltrated Chile, including its politicians and businessmen."⁹¹ In the eyes of the Fund's Executive Board, however, the situation had changed. With the sole exception of fiscal adjustment, the Board concluded that all other indicators suggested Chile was entering a new phase of macroeconomic balance and long-awaited growth.

Alessandri's stabilisation and the BWS: pegged rate and international cooperation

The following paragraphs provide an overview of the final years of the Alessandri stabilisation programme, with particular attention to the challenges posed by reliance on a unified pegged exchange rate in an industrialising economy facing severe imbalances. In this context, the limited flexibility of the Bretton Woods fixed-but-adjustable regime may be seen as ill-suited for reshaping Chile's traditional ISI model. A second key aspect of the programme, when viewed through the lens of the international monetary system, was the emergence of a new episode of international cooperation. This materialised most notably during the programme's most critical phase, through a sizeable SBA, as well as renewed extraordinary assistance from the United States and, for the first time, European G10 countries. Taken together, multilateral and G10 support were instrumental in restoring some degree of external equilibrium by 1962 (Figure 3.2).

The complications of the Alessandri government's stabilisation programme were preceded by an exogenous shock in mid-1960. On 22 May, the southern city of Valdivia was struck by a 9.5 magnitude earthquake: the most powerful seismic event ever recorded globally. The natural disaster, followed by a tsunami, claimed thousands of lives and caused economic losses estimated between US\$250 million and US\$1.5 billion, although recent estimates have significantly revised the upper bound.⁹² The government saw itself compelled to undertake reconstruction in the worst-affected areas, which in turn weakened its anti-inflationary stance. From mid-1960 onwards, there was increased tolerance for large budget deficits and credit expansion.⁹³ The fiscal pressures of post-disaster reconstruction were soon compounded by the launch of an ambitious development programme. In the final months of 1960, the government unveiled its Ten-Year Economic Development Plan (1961-1970), aimed at boosting agricultural

⁹¹ IMF EBM 60/38, 20 July 1960.

⁹² A. Nasser et al., 'Estimating Losses Due to a Recurrence of the 1960 M9.5 Megathrust Earthquake in Southern Chile', 2016.

⁹³ IMF SM/62/17, Part I, 11 March 1962.

production and improving infrastructure to stimulate private investment.⁹⁴

Unfortunately for the government's plans, Chile's external position deteriorated markedly in 1961. Exports performed poorly and fell by roughly 10% compared to the previous year, largely due to declining international prices for key commodities, particularly copper (-4%). At the same time, a liberal trade policy combined with a pegged exchange rate likely contributed to a rise in imports of over 10%.⁹⁵ As a result, the trade deficit, already exceeding US\$100 million in 1960, doubled in 1961, leading to Chile's second-largest balance of payments deficit of the Bretton Woods era (surpassed only by that of 1971 under Marxist rule, Chapter 5) (Figure 3.2). With limited options available, the government decided to devalue the escudo by reintroducing a dual exchange market in January 1962. This measure proved only partially effective: in October the same year, Alessandri announced that the banking rate (the one that covered most trade transactions) would also be allowed to float (Figure 3.4). Simultaneously, the government reinstated exchange controls and trade restrictions, including the return of the advance deposit system, import prohibitions, and tighter bureaucratic controls, in a clear sign that the programme had come to an end.

The final years of Chile's second stabilisation programme illuminate broader dynamics within the international monetary system in the early 1960s. For one thing, Alessandri's experience exposed the limitations of the Bretton Woods principle of fixed-but-adjustable exchange rates for countries with persistent structural imbalances. Because the credibility of the entire programme hinged on maintaining (in practice) a fixed parity, adjusting the rate, even in the face of fundamental disequilibria as suggested by the rules of the system, became politically and economically too costly. This inflexibility ultimately led to the depletion of Chile's working or non-gold international reserves (Figure 3.5). Between 1959 and 1961, 70% of CBCh's foreign exchange reserves were used up, whereas the remaining 30% (US\$26 million) was actually term deposits pledged as collateral for loans obtained from private banks abroad. The dilemma of the Alessandri programme and Bretton Woods-type exchange regime echoes Milton Friedman's influential 1953 essay on fluctuating rates, in which he argued that exchange rate rigidity merely masked underlying structural problems: "the elimination of this symptom by administrative freezing," talking about the system of pegged exchange rates, "cures none of the underlying difficulties and only makes adjustment to them more painful."⁹⁶ Chile's experience during the pegged-rate years illustrates the practical consequences of this diagnosis.

⁹⁴ NARA II RG 59, Entry A1 1611, Box 2394, Economic Summary, Chile, Fourth Quarter, 19 January 1961.

⁹⁵ CBCh Balance of Payments 1961, pp. 13-28.

⁹⁶ The essay on flexible exchange rates is in Milton Friedman, *Essays in Positive Economics* (Chicago ; University of Chicago Press, 1953), 158.

Available documents reinforce the notion that, despite mounting evidence to the contrary, the government remained committed to the pegged exchange rate. By early 1961, Chilean officials were fully aware that the initial benefits of the 1959 devaluation (namely, the short-term boost to exports and the temporary improvement in the trade balance) had already dissipated. In March 1961, the US embassy reported that ECLA technicians had concluded the escudo was substantially overvalued by an estimated 25-30% against the dollar. Rumours of overvaluation soon unsettled the market: in May, a two-week surge in dollar demand was met with official reassurances that exchange receipts would soon be available.⁹⁷ Similar pressures re-emerged in August, again prompting public statements to calm expectations. Yet as pressure on the escudo intensified, such assurances grew increasingly unconvincing. In October, the government insisted that Chile “had and will be receiving sufficient foreign exchange for all necessary and normal uses,” only to announce shortly thereafter a suspension of foreign exchange for tourism, blaming the shortage on costly trips by the wealthy.⁹⁸ The situation culminated on 27 December with a two-week suspension of all exchange transactions, a clear prelude to devaluation.

Records from the American embassy also demonstrate the government’s rationale for resisting devaluation. For President Alessandri, the potential gains from increased exports, such as nitrates or agricultural products, were outweighed by the likely costs, most notably a resurgence of inflation. The government feared that “the psychological reactions of the people to a new devaluation would quickly result in large-scale wage demands and price increases at all levels, leaving only an easily recognizable blot on the record of the administration.”⁹⁹ A second, equally pressing concern was the rising volume of dollar-denominated domestic debt, which had reached the equivalent of US\$150 million by January 1962. For importers who had financed their trade through domestic banks, a devaluation of the escudo would instantly and substantially increase their debt burden.¹⁰⁰ In sum, within the complex landscape of a developing country attempting to reshape its ISI project, the Bretton Woods principle of a fixed-but-adjustable exchange rate revealed its limitations. By contrast, as Chapter 5 will show, a genuinely adjustable regime, such as a ‘crawling peg,’ proved far more suitable for the Southern Cone context.

A second feature of the broader evolution of the BWS was new episodes of international cooperation during the latter years of the Alessandri programme. As Chilean authorities began to anticipate a complex payments situation in late 1960, it became clear that the country’s own resources would be insufficient, especially with debt repayments set to peak in early 1961. Confronted with this dire outlook, further

⁹⁷ NARA II RG 59, Entry A1 1611, Box 2394, Economic Summary, Chile, Second Quarter, 11 July 1961.

⁹⁸ NARA II RG 59, Entry A1 1611, Box 2394, Biweekly Economic Review, 3 November 1961.

⁹⁹ NARA II RG 59, Entry A1 1611, Box 2394, Economic Assessment, Chile, 22 March 1961.

¹⁰⁰ NARA II RG 59, Entry A1 1611, Box 2394, Biweekly Economic Review, 26 January 1962.

exacerbated by increased reconstruction spending and a decline in copper prices and output due to labour unrest, Santiago once again turned to multilateral agencies, the United States and, for the first time, European G10 partners for additional extraordinary financing.¹⁰¹

The first sign of support came from the IMF in early 1961. Leveraging the early yet historically significant achievements of the stabilisation plan in curbing inflation, alongside the mounting pressures of reconstruction, the Chilean delegation approached the IMF for a new SBA. Recalling “the past five or six years of close cooperation between the Fund and the Government of Chile” in phasing out discriminatory devices, the IMF approved a new SBA for US\$75 million on 10 February 1961.¹⁰² Notably, this standby was Chile’s largest request to the IMF during the Bretton Woods era. Yet beyond its gross size, the significance of this multilateral cooperative effort lay in two main factors. First, it received broad support across the Executive Board, not only from Latin American representatives from Venezuela and Argentina, but crucially from key G10 Directors, including those from the United States, the Netherlands, France, Germany, Belgium, and the United Kingdom. The British Director notably expressed “gratification at the progress the Chilean authorities had made towards stabilizing the economy despite the great calamity of last year’s earthquakes.”¹⁰³ Second, and perhaps more importantly, the 1961 SBA marked a milestone in IMF lending: for the first time, a member country was granted access to Fund resources exceeding 100% of its quota.

In that regard, the 1961 SBA granted to Chile opened the door for extraordinary IMF assistance. To appreciate the significance of this support, it is necessary to understand the functioning of the Fund’s quota system.¹⁰⁴ Under this system, each member was assigned a quota (25% payable in gold or convertible currencies, and the remainder in the member’s own currency), which determined both its borrowing limits and voting power. At the start of the Fund’s operations, access to its resources was limited to 25% of the quota over a 12-month period, and 100% cumulatively. In 1952, the IMF introduced the concept of five ‘tranches’ of access: the first, the ‘gold tranche’ (later known as the ‘reserve tranche’), represented the gold-paid portion of the quota, while the remaining four ‘credit tranches,’ each equal to 25% of the quota, were granted with progressively stricter conditionality. The significance of the Chilean case lies in the fact that, due to prior borrowings during the Klein-Saks programme, the 1961 SBA opened the possibility of exceeding 100% of a member’s quota (Figure 3.6). Notably, while exceeding such a

¹⁰¹ IMF EBS/61/13, Sup. 1, p. 3, 9 February 1961.

¹⁰² IMF EBM 61/5, 10 February 1961.

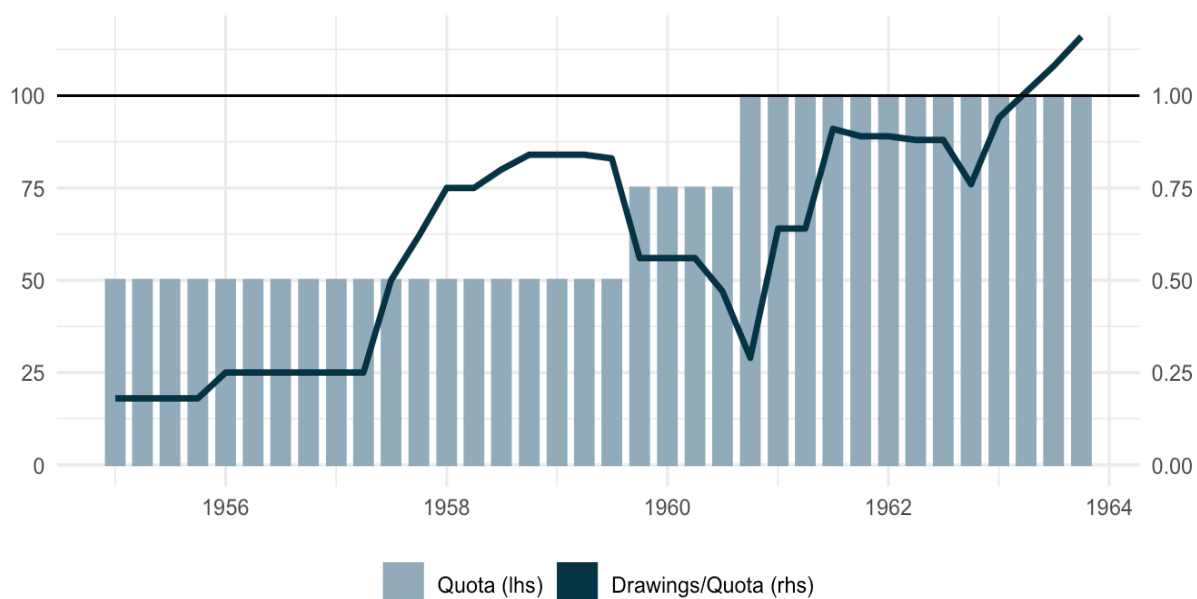
¹⁰³ Ibid.

¹⁰⁴ The following explanation is taken directly from James Boughton, *Silent Revolution: The International Monetary Fund, 1979-89*, 1st ed., Books (Washington, D.C: International Monetary Fund, 2001), xviii–xix.

threshold would become more common in the 1970s and 1980s, this was unprecedented at the time. IMF Directors were fully aware of the implications. As the German Director observed, Chile’s request represented “an important crossing of the border for the Fund,” while American Directors emphasised that “the Fund should be fully aware of the possible consequences of crossing the 100 per cent quota,” and that such a step would be taken only after rigorous scrutiny by both management and staff, concluding that “Chile was clearly such a case.”¹⁰⁵

Figure 3.6

Chile’s IMF quota in millions of US dollars and drawings as a proportion of its quota (1955-1963)



Source: IMF IFS.

Unfolding in parallel with the extra support from the IMF was a second episode of international cooperation involving broader G10 participation. As during the Klein-Saks crisis in 1957-8, US commercial banks and federal agencies were quick to respond to Santiago’s call in 1962. Early that year, representatives of the CBCh secured short-term 90-day credit lines of up to US\$20 million from New York banks, which the central bank pledged to repay using tax revenues expected from the copper companies.¹⁰⁶ US banks also extended credit against a US\$100 million reconstruction loan disbursed throughout the year by the AID.¹⁰⁷ Meanwhile, American federal government support took a new and enhanced form through the ‘Alliance for Progress,’ launched by the Kennedy administration in March 1961 to promote economic cooperation with Latin America in

¹⁰⁵ IMF EBM 61/5, 10 February 1961.

¹⁰⁶ NARA II RG 59, Entry A1 1611, Box 2394, Biweekly Economic Review, 23 February 1962.

¹⁰⁷ NARA II RG 56, Entry A1 1611, Economic Summary Chile First Quarter, 7 May 1962.

the wake of the Cuban Revolution.¹⁰⁸ Within the framework of this initiative, and amid growing concern over Chile's balance of payments, Alliance Coordinator Teodoro Moscoso visited Santiago in March 1962. A series of meetings with Chilean officials and President Alessandri concluded with Washington's commitment to join a future consortium to finance Chile's Ten-Year Economic Development Plan and to provide additional assistance throughout 1962, whether through project-specific aid or commodity shipments under PL 480.¹⁰⁹

A key feature of this cooperative episode was the participation of European partners. Although less substantial than in the Argentine case (Chapter 4), this marked the first direct involvement of G10 members in addressing Chile's financial difficulties. In February 1962, the German government extended a US\$25 million credit to alleviate the CBCh's strained international reserves. Similarly, later that year, Chile secured a government-to-government loan from France to finance imports for the State Railways. European private banks also took part: institutions in France and Switzerland extended a 90-day standby loan renewable for a year through the Banco Francés-Italiano, based in Chile.¹¹⁰

Although archival records do not offer an explicit rationale for this increased European engagement, some explanations can be proposed. Structurally, G10 currencies were by then fully convertible, creating a truly multilateral payments system that allowed their immediate use for international transactions with any other convertible currency.¹¹¹ This stood in sharp contrast to the limitations of a bilateral regime, which would have restricted G10 support to settling outstanding payments with a single member, due to the inconvertibility of their currencies. At the global level, this shift is clearly reflected in the IMF's evolving currency composition of drawings: from 1947 to April 1958, purchases of US dollars accounted for 92% of all drawings, whereas by the 1961-62 financial year, that share had declined to just 36%.¹¹² A second factor may have been Europe's specific interest in Chile, both in terms of development cooperation and stronger commercial ties. In 1961, the OECD established the Development Assistance Committee (DAC) as a framework of governance for coordinating and monitoring aid policies among the major donor countries.¹¹³ Commercially, data suggest that European

¹⁰⁸ The Alliance for Progress and the special place of Chile in this plan are discussed in Chapter 5.

¹⁰⁹ NARA II RG 59, Entry A1 1611, Box 2395, Teodoro Mosco to American Ambassador Charles W. Cole, 23 April 1962.

¹¹⁰ NARA II RG 59, Entry A1 1611, Box 2394, Biweekly Economic Review, 4 May 1962.

¹¹¹ In a similar way, convertibility was a crucial feature for multilateral coordination action for supporting sterling in the 1960s. For those multilateral efforts facilitated by the G10 and the BIS, see Schenk, *The Decline of Sterling*, ch. 8.

¹¹² IMF Annual Report 1962, p. 15.

¹¹³ Germany was the largest donor Georg J. Dufner, 'Chile as a Litmus Test', in *West Germany, the Global South and the Cold War*, ed. Agnes Bresselau von Bressensdorf, Elke Seefried, and Christian F. Ostermann, vol. 2, German Yearbook of Contemporary History (Berlin Boston: De Gruyter Oldenbourg,

participation in Chilean trade expanded rapidly in the 1960s, with Germany surpassing the United States as the leading importer of Chilean copper.¹¹⁴

In summary, this section has examined Chile's second stabilisation programme, which aimed to reshape the country's traditional ISI model. Compared to the earlier Klein-Saks experience, the Alessandri Plan implemented more ambitious trade and exchange policies, underpinned by larger capital inflows, both autonomous and compensatory. While conventional accounts on this Plan tend to focus on the sequence of domestic policy measures and ultimately deem it a failure, a different picture emerges when the programme is viewed in light of the evolution of the BWS. The Chilean case offers valuable insight into the limitations of the Bretton Woods framework, particularly its rigid pegged exchange rate regime when compared with alternative regimes. At the same time, it underscores the critical role of cooperation from the IMF and G10 and reveals some of its underlying motivations, from economic to hemispheric security considerations.

3.5 Conclusion

The Chilean economy entered the 1950s with a complex network of regulations governing international trade and payments. These discriminatory restrictions arose from the initial or 'easy' phase of the import substitution model, as well as from Chile's need to navigate multiple currency areas following the collapse of an early attempt at global convertibility. This latter aspect was especially evident in Chile's reliance on bilateral trade and payments agreements with Western Europe. Compared with Argentina, Chile avoided a stricter form of bilateralism (Chapter 4), largely thanks to its main export commodity, copper, which was sold almost exclusively for convertible currencies. While this currency prescription placed Chile in a relatively more favourable position vis-à-vis the dollar area, the country's external balance remained fragile. Santiago officials were well aware of the need to maintain a large and sustained trade surplus to offset outflows due to profit repatriation by foreign companies and the servicing of external debt. By the end of the decade, however, Chile's balance of payments structure began to shift as the country started to receive increasing net capital inflows. In addition to greater global liquidity, these inflows were facilitated by policy changes that brought Santiago closer to a multilateral regime.

The policy shift of the mid-1950s responded to the limitations of postwar

2017), 83–84. For DAC, see Matthew Clarke, 'History of Development Assistance', in *The Routledge Handbook on the History of Development*, ed. Corinna R. Unger, Iris Borowy, and Corinne A. Pernet, 1st edn (London: Routledge, 2022), 346–48, doi:10.4324/9780429356940-31. It is worth noting that DAC's net bilateral aid flows peaked in the early 1960s.

¹¹⁴ Data from CBCh Balance of Payments 1967, p. 39.

discriminatory arrangements. Confronted with the choice between remaining within a modified version of import substitution or moving towards export-led growth, Chile opted to reshape its ISI strategy. In this context, Santiago implemented two major stabilisation programmes: the Klein-Saks mission (1956-1958) and the Alessandri Plan (1959-1962). While primarily aimed at addressing immediate domestic imbalances, both programmes also sought to reform the country's discriminatory trade and exchange regulations. Traditionally regarded as short-lived and ultimately unsuccessful, this chapter recentres the analysis of these stabilisation efforts by linking them to the broader evolution of the international monetary system in the years surrounding G10 currency convertibility. Drawing on novel archival evidence, it shows how the Klein-Saks programme played a key role in simplifying Chile's highly discriminatory exchange rate system by adopting a dual floating regime (at that point, a solution that the IMF tolerated) and advancing the multilateralisation of its trade and payments system.

In addition to the shift towards multilateral trade and payments, a second key aspect linking these stabilisation programmes to the BWS was the role of international cooperation. This cooperative dimension became more pronounced during the Alessandri Plan. Instead of maintaining a floating regime, this programme allowed Chile to finally comply with the system's exchange rules by adopting a pegged rate. The lack of flexibility of this regime, nonetheless, helped to precipitate the most critical phase of the Plan when Chile sought assistance from multilateral agencies and key trading partners. In early 1961, the IMF approved the largest SBA granted to Chile during the Bretton Woods era, setting a precedent by allowing access to Fund resources exceeding 100% of the country's quota. Notably, it was not only multilateral institutions that backed Chile's second stabilisation programme: the United States and, for the first time, other G10 nations answered Santiago's call for extraordinary assistance. In the American case, motivations ranged from protecting substantial investments in Chile to broader hemispheric defence concerns following Castro's victory in Cuba. Western European support appears tied to broader monetary reforms and the desire to secure commercial presence in the region. Currency convertibility enabled G10 members to provide support for Chile's balance of payments adjustment while simultaneously deepening their economic stakes in Latin America.

Finally, examining these stabilisation programmes in connection with the BWS offers fresh insight into the broader architecture of the postwar monetary system and the Latin American ISI period. By illustrating alternative pathways towards multilateralism, alternative exchange rate regimes and their limitations, and increased cooperation from G10 partners, they can be legitimately understood as episodes within the Bretton Woods order's evolution. That similar steps were taken almost simultaneously in Argentina further strengthens this interpretation (Chapter 4). As for Latin American economic

history, these broader considerations may help challenge the commonly negative view of these reforms. Alternatively, they might be understood as reasonable failures (that reflected limited experience after more than two decades of discriminatory practices plus global bilateralism since 1947) and major steps towards the multilateral regime that underpinned Chile's industrial heyday in the 1960s (Chapter 5).

CHAPTER 4

Argentina's Cooperative Reintegration into the International Financial System (1955-1962)

“Star currency of the year. The award goes to the Argentine peso. The Committee was much impressed by the spectacular improvement in the Argentine external payments situation since the [1959] stabilisation programme.”¹

Financial Times' Annual Selection of Oscar Awards
23 January 1961

4.1 Introduction

Given Argentina's bilateral-nationalistic strategy discussed in Chapter 2, the *Financial Times*' award of the 'world's best currency' to the peso in 1961 may seem surprising. This achievement, however, reflected considerable efforts to revise the country's economic framework following the 1955 military coup d'état that ended President Perón's second administration. Concurrent with the events in Chile, Argentine authorities embarked on a mission to reshape the country's traditional import-substitution model. Up to then, Buenos Aires had remained in the 'easy' phase of the ISI strategy, centred on consumer goods, small plants and relatively low investment needs.² Against this background, the regime change in 1955 provided an opportunity to move away from the more rigid version of import substitution and attract foreign investment, at a time when global bilateralism was in decline and international trade was growing rapidly.

Faced with the choice between reforming the ISI strategy or transitioning to an export-led model, the military-led Provisional Government (1955-1958), also called the Liberating Revolution, opted for a less discriminatory variant of import substitution.³ This approach was further consolidated under the democratic administration of Arturo Frondizi (1958-1962), through a stabilisation programme (1959-1962) that earned praise from international financial circles, including the *Financial Times*. By analysing these two experiences, this chapter shows that Argentina's effort to reshape its ISI model took the

¹ Lombard, 'Annual Selection of Oscar Awards', *Financial Times*, 23 January 1961, Financial Times Historical Archive.

² Jorge Katz and Bernardo Kosacoff, 'Import-Substituting Industrialization in Argentina, 1940–80: Its Achievements and Shortcomings', in *An Economic History of Twentieth-Century Latin America*, ed. Enrique Cárdenas, José Antonio Ocampo, and Rosemary Thorp (London: Palgrave Macmillan UK, 2000), 285–86, doi:10.1057/9780230595682_10.

³ See introduction Part II.

form of a cooperative reintegration into the international financial system, signalled by its entry into the Bretton Woods institutions and sustained assistance from G10 countries.

Argentina's transition to the 'post-Perón era' has attracted considerable attention from economic historians. Much of the scholarship focuses on the failure of subsequent governments and 'orthodox policies' to uphold sustained economic growth, particularly under the longer Frondizi administration.⁴ These accounts, including those of Gerchunoff and Llach and Cortés Conde, emphasise that the policy mix ultimately proved inadequate for Argentina to break away from its characteristic 'stop-and-go' cycles, where episodes of expansion were abruptly interrupted by balance of payments crises (in 1955, 1958, and 1962). Historians such as Belini and Korol, and Petrecolla conclude that the reforms fell short of reversing Argentina's chronically poor export performance, with foreign earnings remaining stagnant throughout the period and until the mid-1960s. In turn, Díaz Alejandro identified an exchange bottleneck that posed a serious problem for the expansion of the industrial sector due to its heavy dependence on imported inputs, from fuel to capital goods.⁵ Despite these criticisms, Cortés Conde also recognised certain achievements associated with the post-Perón policies: several inefficient regulations from the postwar years were effectively dismantled, from state control over foreign trade to the complex system of multiple exchange rates. Ferrer has also argued that the reforms implemented during both the Provisional Government and the Frondizi administration laid the foundations for the more sustained economic growth observed in the mid-1960s.⁶

Although the main policies and implications for Argentina's development model after Perón's fall are well known, the country's reintegration into the postwar financial system remains less understood. Only a limited number of studies examining Argentina-IMF relations have addressed this process. Claudia Kedar has described these interactions as a 'routine of dependency,' a pattern that extends beyond financial assistance to encompass the Fund's broader influence over domestic policymaking.⁷ García Heras, by contrast, places greater emphasis on institutional dynamics, reconstructing in detail the

⁴ See Gerchunoff and Llach, *El Ciclo de La Ilusión y El Desencanto*, 286–87. For an account on the Liberating Revolution, its attempt to re-establish liberal principles and limitations, see Celia Szusterman, 'The "Revolución Libertadora", 1955-8', in *The Political Economy of Argentina, 1946-83*, ed. Guido Di Tella and Rudiger Dornbusch, Pitt Latin American Series (Pittsburgh, Pa.: University of Pittsburgh Press, 1989), 89–107. Also see Cortés Conde, *The Political Economy of Argentina in the Twentieth Century*, 197–204.

⁵ See Belini and Korol, *Historia económica de la Argentina en los siglos XX y XXI*, 155–57; Alberto Petrecolla, 'Unbalanced Development, 1958-62', in *The Political Economy of Argentina, 1946-83*, ed. Guido Di Tella and Rudiger Dornbusch, Pitt Latin American Series (Pittsburgh, Pa.: University of Pittsburgh Press, 1989), 108–28. For the shortage of foreign exchange, see Díaz-Alejandro, *Essays on the economic history of the Argentine Republic*, 80.

⁶ See Aldo Ferrer, *La Economía Argentina: Desde Sus Orígenes Hasta Principios Del Siglo XXI*, Nueva ed. aum. y actualizada, 3. ed, Sección Obras de Economía (Buenos Aires: Fondo de Cultura Económica, 2004), 232.

⁷ Kedar, *The International Monetary Fund and Latin America*, 3–6.

implementation of Fund-backed stabilisation policies in Argentina since 1956, including the role of international commercial banks.⁸ All these contributions provide valuable insights into the multilayered relationship between Buenos Aires and the IMF. However, they offer only a partial view of the broader developments within the BWS, which is the focus of this dissertation. For example, they pay limited attention to the global transition from bilateralism to a multilateral trade and payments regime, which marked a major shift in postwar global economic relations. Second, by focusing narrowly on a single institution or trading partner, at times they overlook Argentina's wider engagement with other key actors, such as the EPU, the broader G10, and the BIS. To provide a more comprehensive perspective, this chapter draws on a broad range of archival sources to examine how Argentina navigated the international monetary system, with particular attention to the cooperative efforts that supported the country after Perón's fall.

Argentina's desire to reintegrate into the international financial system became immediately apparent following the 1955 coup d'état. By 'reintegration,' this chapter refers to a clear shift away from the isolationist stance of the postwar years and the beginning of a convergence with the global multilateral principles of the evolving BWS.⁹ It is true that prior to 1955, Argentina did maintain ties with international finance owing to Buenos Aires' crucial role in global food trade and the substantial import needs embedded in its traditional ISI model. However, Perón's engagement remained largely ad hoc and discriminatory, relying heavily on bilateral agreements and short-term finance to a larger degree than, for instance, Chile. Moreover, due to the government's nationalist orientation, foreign direct investment and other long-term capital inflows remained limited, both in absolute terms and relative to Santiago (a smaller and less diversified economy). By contrast, in its attempt to reshape traditional ISI policies, the Provisional Government took clear steps to revise Argentina's financial integration on a multilateral basis. First, the new authorities hastened to acquire membership of the IMF and IBRD. Second, post-Perón Argentina moved quickly to restructure its bilateral relations with Western Europe via the Paris Club.

Benefiting from renewed multilateral engagement with major Bretton Woods players, the democratic government of Frondizi consolidated Argentina's reintegration by launching a major stabilisation programme in 1959. Seeking to modernise the country's ISI model, the government adopted a 'developmentalist' agenda aimed at advancing state-led industrialisation to new levels of complexity. In that effort, and amid mounting inflationary pressures (and rising international liquidity), Buenos Aires secured

⁸ García Heras, *El Fondo Monetario y el Banco Mundial en la Argentina*, 13–14.

⁹ It is a 'return' in terms of engagement with global norms of the international monetary system. Having joined the gold standard (1889-1914; 1927-1929), the Peronist experience in Chapter 2 appears as a disengagement from global norms. As Chapter 6 shows, Argentina would come back to full convergence with global standards in 1967 (Article VIII approval).

significant multilateral financial assistance. Various international agencies, led by the IMF, supported a plan that combined stabilisation measures with development financing. American backing was crucial from the start, helping to assemble one of the largest 'credit packages' aimed at restoring macroeconomic balance to date. A key requisite for this and subsequent support from the IMF was the full multilateralisation of Argentina's external payments beyond the G10. Later, at the recommendation of the US, the Frondizi government sought additional backing from Western European countries, including loans from over fifty banks under the coordination of the BIS. Finally, just before the final crisis of the programme in 1962, Argentina successfully floated its first government bond in the European capital market in the postwar years.

In addition to this introduction, the chapter is organised into three sections. Section two shows the main trends in Argentina's external sector in the 1950s, the country's bilateral navigation from the inconvertible years of the BWS to a more multilateral regime by the beginning of the 1960s. The chapter's next section then turns to the Provisional Government's actions to reshape the traditional ISI model by moving closer to multilateral principles in terms of domestic policies, membership in Bretton Woods institutions and improved payments relations with Western Europe. Particular attention is paid to the formation and importance of the Paris Club in the light of the broader evolution of the BWS on the eve of convertibility. Section 4 focuses on how efforts to reintegrate Argentina into the international financial system were rewarded by unprecedented levels of cooperation meant to underpin Frondizi's stabilisation programme. The chapter concludes by reflecting on how Argentina's reintegration into, and navigation of, the international financial system offers new avenues for understanding the broader evolution of the BWS and Latin America's ISI period.

4.2 Argentina's external sector: from global inconvertibility to multilateralism

For Argentina to reintegrate into the international financial system, it first had to dismantle a range of discriminatory instruments that Buenos Aires had relied on to navigate a world of inconvertible currencies. As shown in Chapter 2, following the regional turn of the BWS, Buenos Aires faced mounting difficulties linked to the consolidation of currency areas and the persistent challenge of securing a steady inflow of convertible currencies. This section examines how Argentina navigated the post-1947 global bilateral environment (this time from the position of a 'weaker partner') while struggling with an export structure dominated by non-strategic commodities, European agricultural protectionism, and discriminatory trade arrangements. In a perspective often missing from postwar analyses, the section also explores how these arrangements shaped Argentina's direction of international trade. It also highlights the opportunities created by rising global liquidity, G10 convertibility, and the country's gradual

reintegration into the international financial system, all while reshaping its traditional ISI model.

The 1950s were problematic years for Argentina's external sector. Postwar economic policies, which prioritised the expansion of the domestic market, did little to strengthen the traditional agricultural sector or promote new export activities. Rather, the nationalisation of foreign trade and intricate exchange rate regulations inherited from the postwar years left the external sector ill-prepared for the global changes of the 1950s. These included the consolidation of currency blocs, a steady decline in international commodity prices alongside reductions in trade barriers on manufactured goods, but sustained protection of food trade.¹⁰ Over time, Perón's second administration (1952-1955) and later post-1955 governments acknowledged that weak export performance tied to the country's traditional ISI policies had become a major constraint on the expansion of domestic industry. Without a steady inflow of foreign exchange or investments from abroad, it proved impossible to secure the imports of raw materials, fuel, and capital goods necessary for sustaining industrial growth.¹¹ Faced with these limitations, Buenos Aires sought to improve the treatment of previously neglected areas, from agriculture to energy.¹²

While the permanent need for imports was driven by the demands of industrialisation, Argentina's limited export performance in the 1950s stemmed from multiple factors. To begin with, Buenos Aires failed to diversify its exports beyond traditional commodities. Between 1950 and 1962, agricultural products accounted for up to 95% of total exports, with cereals making up a slightly higher proportion (55%) than livestock (45%).¹³ One of the primary challenges posed by this export structure was its vulnerability to unpredictable weather conditions and domestic and foreign consumption trends. Droughts, such as those experienced in 1950, 1952 and 1961, had a considerable impact on cereal production, reducing exportable stock and, consequently, weakening the trade balance. Furthermore, Ferrer suggests that agricultural production was also constrained by a lack of technological progress: a dedicated public research centre, the National Institute of Agrarian Technology, was only established in 1956.¹⁴

Another problem related to an export basket concentrated on foodstuffs was growing

¹⁰ Michael D. Bordo and Catherine R. Schenk, "Unusual, Unstable, Complicated, Unreliable and Temporary" *Reinterpreting the Ebb and Flow of Globalization*, Working Paper, Working Paper Series (National Bureau of Economic Research, July 2021), 14–15, doi:10.3386/w29114.

¹¹ Pablo Gerchunoff and Damian Antúnez, 'De La Bonanza Peronista a La Crisis de Desarrollo', in *Nueva Historia Argentina. Los Años Peronistas (1943-1955)* (Editorial Sudamericana, 2002), 166–68.

¹² Gerchunoff and Llach, *El Ciclo de La Ilusión y El Desencanto*, ch. VI.

¹³ Ferreres, *Dos Siglos de Economía Argentina: 1810-2018*.

¹⁴ Ferrer, *La Economía Argentina*, 267.

international competition and agricultural protectionism. In Western Europe, Argentina's primary market for agricultural exports, the country faced increasing competition from the US and Canada.¹⁵ On top of regular trade competition, US humanitarian aid programmes, such as the policy of agricultural surplus that benefited Chile (PL 480, Chapter 3), undercut Argentina's commercial position in Latin America and other developing markets.¹⁶ Yet more damaging for Argentina's export earnings, key continental European nations actively sought to protect their domestic agricultural sectors. Even before the implementation of the Common Agricultural Policy in 1962, its six founding members protected national food security and supported farmers' financial stability through import controls and price policies.¹⁷ Concurrently, the establishment of the Organisation for European Economic Co-operation (OEEC) in 1948 and the EPU in 1950 enabled freer trade (only) among member states, even as the Six prevented agricultural liberalisation within the GATT framework in the 1950s.¹⁸

From a monetary perspective, Argentina's traditional commodity exports left the country in a relatively weak position to navigate the various currency blocs during the inconvertible phase of the BWS. Lacking strategic commodities that would have allowed it to demand payment in convertible currencies (such as copper or oil), Argentina depended heavily on bilateral and discriminatory trade and payments arrangements until 1957.¹⁹ As noted in Chapter 3, these were typically annual arrangements designed to balance trade in inconvertible currencies, with a short-term ad hoc credit clause (swing credits) activated only in the event of temporary deficits. By June 1954, Argentina had signed 18 trade and/or payments agreements with countries outside Latin America, second only to Brazil's 20.²⁰ Two years later, according to an IMF staff report, Argentina maintained 26 bilateral agreements: six with Latin American countries, 18 with European nations, and two with non-European states (Japan and Israel).²¹ Interestingly, these treaties extended the kind of bilateralism Argentina embraced during its bilateral-nationalistic strategy described in Chapter 2. However, by the 1950s, Argentina, influence in setting the terms of the agreements was diminished.²²

¹⁵ FRUS 1955-1957, Vol VII, p. 401-403, Memorandum on Present Significance of our Argentine Relations, 26 January 1956.

¹⁶ Barry Riley, *The Political History of American Food Aid: An Uneasy Benevolence* (New York: Oxford University Press, 2017), 201-2.

¹⁷ Henrik Zobbe, 'The Economic and Historical Foundation of the Common Agricultural Policy in Europe', *Unit of Economics Working Papers*, Unit of Economics Working Papers, 2001.

¹⁸ Francine McKenzie, *GATT and Global Order in the Postwar Era* (Cambridge: Cambridge University Press, 2020), 137-40, doi:10.1017/9781108860192.

¹⁹ Belini and Korol, *Historia económica de la Argentina en los siglos XX y XXI*, ch. 3.

²⁰ de Looper, 'Recent Latin American Experience with Bilateral Trade and Payments Agreements', 104.

²¹ See IMF SM/58/70, 5 September 1958, p. 4.

²² See Johan H. C. de Looper, 'Current Usage of Payments Agreements and Trade Agreements', *IMF Staff Papers* 4, no. 3 (1955): 365-70.

In addition to bilateral trade and payments agreements, Argentina also relied on a series of discriminatory NTBs, including quantitative restrictions and multiple exchange rates. In the early 1950s, further adjustments were introduced to this system. Initially, it featured two buying and two selling rates (basic and preferential), alongside a freely fluctuating rate. In 1952, a ‘mixing system’ similar to Chile’s (see Chapters 1 and 3) was adopted. Buenos Aires used this complex structure to restrict imports of non-essential goods and to protect domestic industries by applying a higher exchange rate (7.50), which was also extended to the promotion of non-traditional exports (see Table 4.1). According to a 1953 IMF report, this intricate system of multiple exchange rates became the cornerstone of Argentina’s restrictive trade regime.²³

Table 4.1
Proportion of exports and imports at prevailing rates (1952)

Rate (pesos per US dollar)	Exports (%)	Imports (%)
5.00	50.3	15.2
6.25	21.0	–
7.50	15.0	71.4
Free rate (including mixing)	13.7	13.4

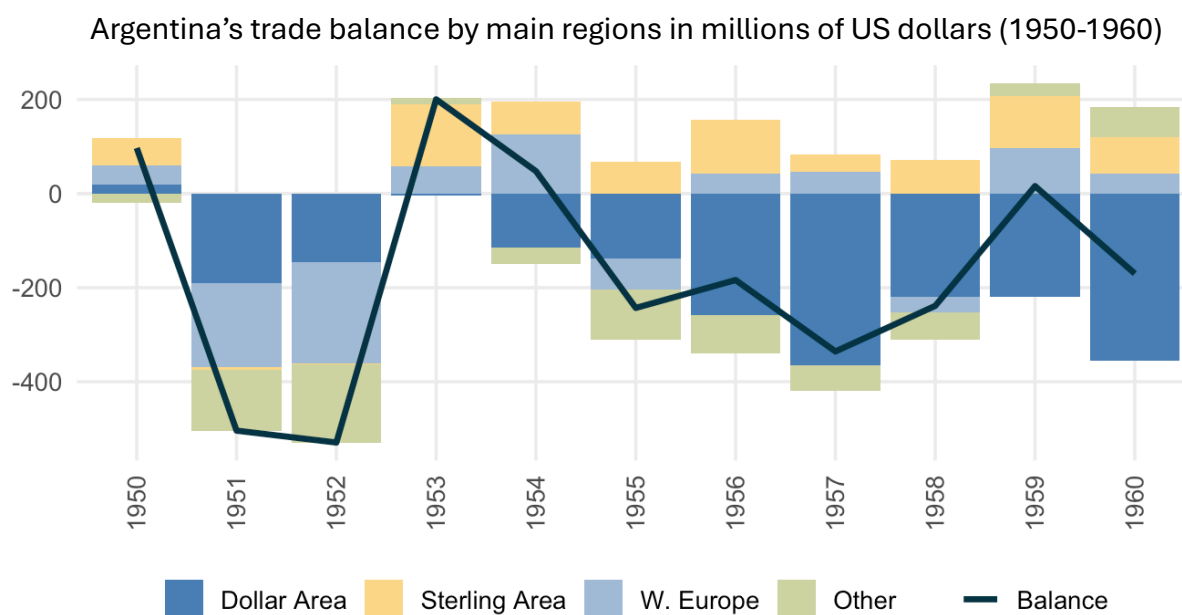
Source: IMF DM/53/37, p. 8, 25 November 1953.

From this evidence, it is clear that the complex regulatory framework governing Argentina’s external sector strongly influenced the direction of its international trade. Throughout much of the inconvertibility period (1950-1958), exports were predominantly directed towards Europe (59%, with two-fifths of this bound for Britain), followed by Latin America (17%). The US, in contrast, became a more distant and declining destination, with its share of Argentine exports falling from 21% in 1950 to 14% in 1958. More intense trade between the two nations was hindered by the limited complementarity of their economies, confining exchange to specific products such as wool, vegetable oils, and certain meats. This pattern was less a strategic choice and more a consequence of a world divided by currency blocs. Evidence indicates that successive governments following Perón’s ousting made attempts, albeit unsuccessful, to expand exports to the US. In 1956, a key meeting between Argentine officials and representatives from the US State Department, Treasury, Agriculture Department, and EXIMBANK underscored Argentina’s limitations in boosting dollar earnings beyond “wool textiles, leather goods, and processed foods like cheese and wine.”²⁴

²³ IMF DM/53/37, 25 November 1953, pp. 3-12.

²⁴ NARA II RG-59, Entry A1 205-KA, Box 4350, Summary of Fifth Meeting of Argentine Financial Mission and

Figure 4.1



Source: Comercio Exterior.²⁵ Dollar Area = US, Canada, Venezuela and Dutch Colonies in America; Sterling Area = UK, Commonwealth (except Canada), British dependencies and other countries listed by Schenk;²⁶ Western Europe includes colonial territories; Other = Mostly Latin America. The difference between the 'Balance' here and the overall 'Trade Balance' in Figure 4.2 is mostly explained by recording mechanisms (see explanation in Figure 3.1).

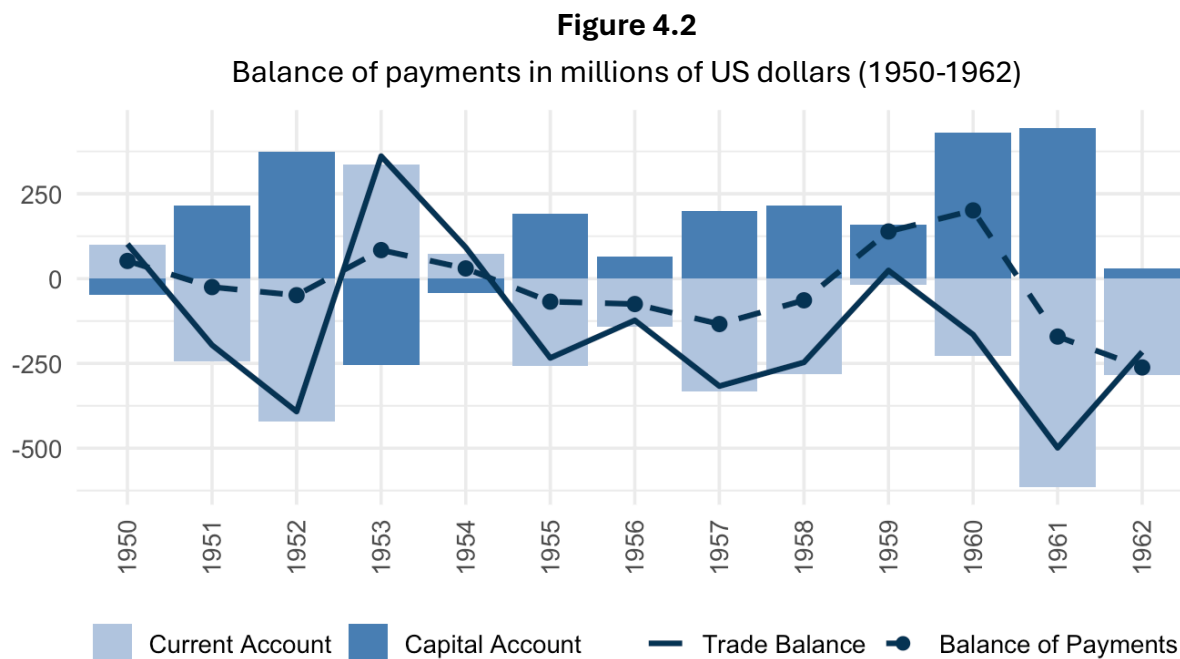
Argentina's direction of international trade offers valuable insight into the country's international navigation during the inconvertible phase of the Bretton Woods era. Figure 4.1 divides the world into four main regions: the dollar and sterling areas, Western Europe, with Other consisting mainly of Latin American countries. This data, often overlooked in conventional historical accounts, reveals that Argentina's foreign trade struggle was not only in aggregate terms but also across different currency blocs. With the exception of 1951-1952, the only region where Buenos Aires maintained a relatively favourable position was the sterling area, largely due to a trade surplus with the UK. By contrast, as already anticipated by the postwar context discussed in Chapter 2, Argentina's most difficult trade relationship was vis-à-vis the dollar area. Indeed, Buenos Aires exhibited an entrenched dependence on American industrial products, left over from the war, that persisted a decade later. Argentina also faced a constraint on supply from other G10 countries as they underwent economic recovery in the 1950s. Along these lines, a 1957 UK Foreign Office report noted that Argentina's "strong preference for a wide range of industrial products of United States manufacture" was due to the "difficulties of obtaining supplies and in particular spare parts from Europe during and

US Inter-Agency Group, 10 July 1956.

²⁵ Dirección Nacional de Estadísticas y Censos, Comercio Exterior, volumes 1949-1950, 1955-1957 and 1958, 1959 and 1960.

²⁶ Schenk, 'The Sterling Area 1945-1972', 775.

immediately after the war,” which “left a permanent mark... [that] continues to influence the placing of contracts.”²⁷



Source: CEPAL.²⁸

In addition to the difficulties with the dollar area, a distinctive feature of Argentina’s external sector throughout much of the 1950s was the close correlation between the trade balance and the overall balance of payments. As shown in Figure 4.2, the current account was largely driven by merchandise trade, with other components like services or profit repatriations playing a secondary role. Indeed, the postwar nationalisation of key foreign-owned firms, ranging from British railways to the American telecommunications company, meant that outflows related to interest payments and profit remittances remained limited (in contrast to Chile’s ongoing repatriation of earnings by foreign copper producers). According to an IMF report from 1956, such income transfers amounted to just 1% of Argentina’s total export revenues.²⁹ The poor export performance noted above thus led to a chronic current account deficit for much of the 1950s. To finance these shortfalls, the government relied on the Central Bank’s international reserves and short-term ad hoc financing, including bilateral agreements and supplier credits backed by government guarantees. Long-term capital inflows remained limited during the Perón years for two complementary reasons. First, Argentina did not join the IBRD until 1956, effectively excluding it from this source of multilateral development finance. Second,

²⁷ Kew FO 371/126178, Review of Economic Relations between the USA and Argentina, 30 July 1957.

²⁸ CEPAL, *América Latina y El Caribe*, 198.

²⁹ IMF IA, Country Files, Argentina, Balance of Payments, Argentina: Changes in the Structure of the Balance of Payments and in the Composition and Pattern of Trade from the Pre-War Period until Recent Years, May 1956, p. 2.

Perón's emphasis on economic independence discouraged foreign direct investment. Most of the private capital present in the country consisted of working capital from a small number of foreign-owned firms, many of which chose to only reinvest profits locally rather than actively expand their presence in the Argentine market.³⁰

Starting in the mid-1950s, as multilateralism gained traction and Argentina began to reintegrate into the international financial system, a new payments dynamic emerged. Postwar mechanisms for navigating global inconvertibility, especially bilateral trade and payments agreements, became increasingly obsolete. The end of the dollar shortage, the rise in global liquidity, and the move toward currency convertibility among G10 countries coincided with a marked increase in net capital inflows into Argentina until 1961.³¹ This double shift (of the BWS and Buenos Aires external economic policy) opened the door to a new way of financing Argentina's post-Perón current account deficits. Rather than relying on ad hoc arrangements, Argentina's reintegration came with access to multilateral tools for balance of payments support (compensatory financial flows). Membership in the Bretton Woods institutions allowed Buenos Aires to access IMF resources through tranche drawings and SBAs, also as part of broader credit packages involving industrialised nations (a sign of the more cooperative stance of the G10). At the same time, the Frondizi administration witnessed a surge in autonomous capital flows to both public and private firms, consolidating a departure from the earlier nationalistic, traditional ISI model.³²

To recapitulate, the preceding paragraphs have outlined the main trends in Argentina's external sector in the 1950s. It has depicted how the country adapted to global bilateralism and other changes following the introduction of current account convertibility. As noted, one of the most significant domestic developments within this broader context was the political regime change in September 1955. In this post-Perón era, successive governments sought new strategies to reintegrate Argentina into the global economy on a multilateral, non-ad hoc basis, opening new venues for financing the chronic trade deficit. The following sections examine how the Provisional Government (1955-1958) and the democratic Frondizi regime (1958-1962) sought to modernise Argentina's import-substitution model in the context of an evolving global monetary system.

4.3 Argentina's return to the international financial system on the eve of G10 convertibility (1955-1957)

This section examines the first steps of Argentina's cooperative reintegration into the

³⁰ NARA II RG 59, Entry A1 205-KA, Box 4346, Economic Assessment for Argentina, 21 January 1958.

³¹ For the expansion of liquidity, see Eichengreen, *Globalizing Capital*, 106–7.

³² CBAR Annual Report 1960, pp. 27-33.

international financial system following the 1955 coup d'état. As part of a broader effort to modernise the country's ISI model, the Provisional Government (1955-1958) introduced exchange and trade reforms, and moved swiftly to join the Bretton Woods institutions, securing their first IMF credit tranche by 1957. In parallel, the new authorities coordinated with Western European partners' new mechanisms to address the rapid accumulation of bilateral short-term liabilities during Perón's final year in office and to phase out the post-1947 network of bilateral and discriminatory trade and payments agreements. These negotiations led to the creation of the Paris Club in 1956, an international forum established to restructure Argentina's external debt and to 'multilateralise' trade between Buenos Aires and Western Europe. The Club became a permanent feature of international finance and remains active today, continuing to serve one of its original purposes: debt renegotiation with developing countries.³³

In terms of historiography, this period has received attention from scholars interested in IMF-Argentina relations. For Kedar, once Argentina was accepted as a member, an asymmetric partnership began between Buenos Aires and the Fund, with the latter deepening its influence over domestic policymaking.³⁴ A more detailed account of the first interactions between the Fund and the Provisional Government is by García Heras, who uncovered the initial 'orthodox' conditions the multilateral agency demanded from Buenos Aires before the deployment of financial assistance.³⁵ García Heras also identified the main steps towards the formation of the Paris Club, the role of key Argentine officials in the negotiations and their main outcomes noted above (debt and payments).³⁶ Building upon these findings, this section advances the literature by providing a more comprehensive depiction of the Paris Club in the BWS context. It portrays the Club as a turning point in international sovereign debt governance and a crucial step towards global multilateralism, as it granted currency transferability facilities to Argentina. Because of its multilateral nature and its place within the broader expansion of convertibility and regional solutions, the Club, this thesis argues, can be regarded as a significant part of the Bretton Woods evolution at the onset of G10 convertibility. Finally, archival records also reveal the crucial involvement of British officials in setting up the Paris arrangements and how such arrangements led to a (short-lived) discrimination against the dollar area.

³³See Club de Paris, 'How Do We Work?', 27 June 2025, <https://clubdeparis.org/en/communications/page/how-do-we-work>.

³⁴ Kedar, *The International Monetary Fund and Latin America*, 86.

³⁵ García Heras, *El Fondo Monetario y el Banco Mundial en la Argentina*, 37.

³⁶ Raúl García Heras, 'La Argentina Y El Club De París: Comercio Y Pagos Multilaterales Con La Europa Occidental, 1955-1958', *El Trimestre Económico* 63, no. 252(4) (1996): 1277–1308.

The Provisional Government and Argentina's first multilateral short-term credit

The government of Juan Domingo Perón came to an abrupt end in September 1955 when a group of military officers took control of the country. The Provisional Government that followed lasted until May 1958, led briefly by General Eduardo Lonardi and then, from November 1955, by Pedro Aramburu. Once in power, the new authorities sought to rectify the complex regulatory framework inherited from the Peronist regime in an attempt to reshape the country's traditional ISI model. They entrusted this task to the region's leading economist and head of the ECLA, Raúl Prebisch. Drawing on his experience at the CBAR in the 1930s, Prebisch readily accepted the challenge and proposed a set of economic reforms for post-Perón Argentina.³⁷ These proposals, which later became known as the 'Prebisch Plan,' pointed to major changes in both the domestic and external economy.³⁸ Although the government overlooked several of Prebisch's measures, enough were implemented to move Argentina closer to multilateral principles.

Indeed, in a sharp departure from the postwar regulatory regime, the Provisional Government swiftly enacted major reforms to exchange policy and to trade and capital transactions. On 27 October 1955, the multiple exchange rate system was replaced with a simplified regime. The Argentine peso was devalued by establishing just two rates: one for the official market, pegged at 18 pesos per dollar, and another for the free market, initially set at 28.3 pesos but allowed to float (Figure 4.3). The official rate devaluation aimed to stimulate traditional agricultural exports, which officials believed had been severely hindered by previously overvalued rates. The free market rate acted as a subsidy for non-traditional exports, mainly industrial goods, helping them compete internationally. Alongside the exchange reform, foreign trade was partially liberalised, although some controls persisted in the form of surcharges and minimum foreign exchange surrender requirements.³⁹ As for non-trade transactions, residents were allowed to transfer capital freely through the free exchange market, and the same applied to earnings from new foreign investments (a measure intended to attract fresh capital to Argentina).⁴⁰ In sum, by dismantling the most complex and discriminatory restrictions, the Provisional Government took an initial step toward ending the more discriminatory postwar ISI regulations.⁴¹

Figure 4.3

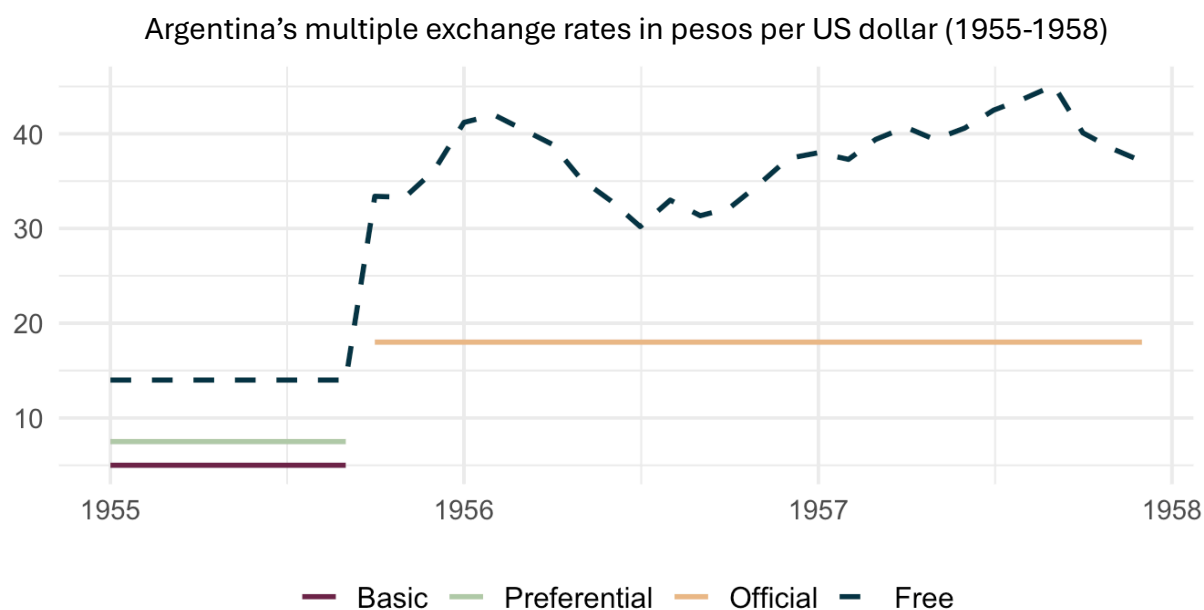
³⁷ See Claudio Belini, 'El Plan Prebisch de 1955, los dilemas del desarrollo argentino y las controversias en torno a los legados económicos del peronismo', August 2018, doi:10.3989/revindias.2018.018.

³⁸ Raúl Prebisch, 'Planes de recuperación económica de la Argentina: Documentos', *El Trimestre Económico* 23, no. 89 (2 January 1956): 113–40.

³⁹ IMF SM/57/68, 7 August 1957, p. 14.

⁴⁰ IMF IA, Country Files, Argentina, UN - Fund Cooperation Vol. I, Argentina Exchange System, 5 November 1956, pp. 3-4.

⁴¹ Ferrer, *La Economía Argentina*, 231–33.



Source: NARA II RG 59, Entry A1 205-KA, Box 4352, various reports (1955-1956) and CBAR Statistical Bulletin (1957).

As Argentina eliminated some Perón-era regulations, Buenos Aires officials moved to reassess the country's traditional relationship with multilateral institutions. In May 1956, the Provisional Government dispatched a special mission to Washington to negotiate Argentina's accession to the IMF and IBRD. Those talks appear to have been relatively cooperative: after addressing concerns over data accuracy and agreeing on a quota contribution of US\$150 million for each institution, Argentina became a member of both the Fund and the IBRD in September 1956.⁴² With this move, the entirety of the 20 Latin American countries were effectively members of the Bretton Woods institutions, ten years after their founding. Notably, Argentina's membership added a third Latin American Executive Director to the Fund's Board, making the group the most represented developing region and the third-largest bloc after Western Europe (8) and the G10 (9).⁴³

The Provisional Government's efforts to reintegrate the nation into the international system after a decade of isolation paid off. Three months after the approval of its par value at 18 pesos to the dollar, Argentina had already made use of multilateral short-term assistance. In April 1957, the IMF approved a purchase of US\$75 million in a low-conditionality drawing under the first tranches, amounting to 50% of Argentina's quota. According to the Fund's records, Buenos Aires justified the assistance due to structural trade difficulties vis-à-vis the dollar area, but also from external shocks. By the mid-1950s, the international grain market had become increasingly competitive, and many of Argentina's customers were becoming almost self-sufficient in certain crops.⁴⁴ To

⁴² Kedar, *The International Monetary Fund and Latin America*, 48–52.

⁴³ Horsefield, *The International Monetary Fund 1945-1965*, 427. Also see IMF Annual Report 1957, 154-155.

⁴⁴ IMF IA, Country Files, Argentina, Exchange Transactions, Argentina's Request for a \$75 Million Drawing,

compound matters, a drought curtailed the exportable surplus just when the Suez crisis broke up in late 1956, driving up freight rates and energy prices. Since much of the oil Argentina needed for sustaining its ISI effort came from suppliers that demanded convertible currency, mainly the Dutch West Indies and Venezuela, its dollar trade deficit deteriorated further. The resulting rapid depletion of dollar and gold reserves, from US\$408 million in December 1955 to US\$268 million in just eleven months, led the Fund's Executive Board to grant Argentina's request.⁴⁵ In other words, a case was successfully made that Argentina's difficulties were short- to medium-term and thus qualified for IMF support.

The Fund's assistance helped Argentina meet its most pressing dollar obligations, but it was never intended to offer a lasting solution to the country's chronic shortage of hard currency. Better access to the dollar area, or the ability to convert export earnings into much-needed US dollars, remained essential for any sustainable resolution. Since Argentina's export mix was not well aligned with North American demand, the post-Perón trade and payments dilemma remained closely tied to the persistence of currency blocs during the inconvertible phase of Bretton Woods (as the previous section explained). Interestingly, archival evidence reveals that key international actors were fully aware of Argentina's predicament. In August 1956, an IMF staff report concluded that "the dollar problem could not be settled until Argentina could obtain a measure of convertibility into dollars of its trade surplus with Europe."⁴⁶ Even earlier, in May 1956, a Working Group Study on Argentina under the aegis of the US NAC on International Monetary and Financial Problems examined Buenos Aires' difficulties with the dollar area. According to that Group, Argentina might use its transferable sterling earnings to improve its dollar position: "with regards to convertibility the key [for Argentina] is sterling... transferable-account sterling is de facto convertible in that any holder can freely change into dollars."⁴⁷

In hindsight, Argentina's foreign currency constraints only began to ease in the mid-1960s due to stronger export performance and global convertibility of G10 currencies. Anticipating this shift, and in line with its commitment to multilateralism, the Provisional Government launched a campaign to revise Argentina's traditional and discriminatory bilateral arrangements with major trading partners. Acting on Prebisch's recommendation, these efforts enabled Argentina to phase out postwar bilateral relations and 'multilateralise' payments with eleven EPU participating countries as early as July 1956. This shift towards multilateral arrangements, hastened by the rapid accumulation of bilateral liabilities in the final year of Perón, marked a significant

p. 1.

⁴⁵ IMF EBS/57/3, Sup. 1, 15 January 1957, pp. 3-4. IMF IA, Country Files, Argentina, Exchange Transactions, Argentina, 28 March 1957, pp. 1-2.

⁴⁶ IMF SM/57/68, 7 August 1957, Part I, p. 22.

⁴⁷ NARA II RG 59, Entry A1 205-KA, Box 4345, NAC Working Group Study on Argentina, 10 May 1956.

development at the Bretton Woods level and was one of the motivations behind the creation of the Paris Club in 1956. The analysis of the Paris Club requires further discussion, as it sheds light on the broader evolution of the international monetary system and the global expansion of multilateral relations (for debt and payments) on the eve of G10 convertibility.

Argentina and the Paris Club: an episode of the broader BWS

In its desire to reform Argentina's import-substitution model and reintegrate the country into the international financial system, the Provisional Government took crucial steps to reform its trade and payments relations with Western Europe. The main obstacle in the soft currency area was unravelling the complex bilateral relations that had developed after 1947 and moving instead toward a multilateral regime. The need to move away from long-standing bilateralism was compounded by the rapid worsening of the trade deficit in 1955 due to poor harvests. As a result, the CBAR and commercial banks saw a rapid accumulation of liabilities in inconvertible currencies to cover the widening deficit with Western Europe (Figure 4.1). In addition to drawing on the central bank's reserves, the Perón government relied more heavily on ad hoc swing credits granted under several of the 27 bilateral payments agreements in place that year.⁴⁸ Before the September 1955 coup, conditions had deteriorated to a critical point. According to a report from the British Embassy in Buenos Aires dated days before Perón's ousting, the short-term credit ceilings with major European partners were almost exhausted, while convertible reserves were at a dangerously low level. A balance of payments crisis was looming, as "Argentina already seems to have decided to default on her obligations to Italy and Germany."⁴⁹

In October 1955, during a radio address, de facto President Eduardo Lonardi publicly acknowledged the gravity of Argentina's overseas financial obligations. Citing figures from the Prebisch report, he stated that the external deficit for 1955 would reach US\$200 million, with international reserves standing at just US\$450 million.⁵⁰ Lonardi's remarks underscored the fragile state of Argentina's external accounts, particularly in relation to its principal partners under bilateral payments agreements. According to data compiled by Bank of England officials, Argentina's private deferred payments to European G10 nations totalled nearly US\$290 million by the end of 1955, while public liabilities amounted to US\$240 million as of April 1956 (Table 4.2). Altogether, Argentina's debt to

⁴⁸ At the end of 1955, the main creditors were Italy, Britain, Japan, France and West Germany, while Argentina only had a favourable balance with Soviet-aligned countries. See NARA II, RG 56, Entry UD UP 734 A1, Box 34, Intelligence Report No. 7195, Department of State, Division of Research for American Republics, 2 March 1955.

⁴⁹ TNA FO371/11403, Report on Argentina payments crisis, 5 September 1955.

⁵⁰ See Raúl Prebisch, 'Informe preliminar acerca de la situación económica de Argentina', *El Trimestre Económico* 23, no. 89 (2 January 1956): 2.

Western Europe reached US\$525 million, equivalent to half of the country's total exports in 1955. The short-term nature of many of these credits further strained Argentina's external position, prompting the Provisional Government to seek alternative mechanisms to avoid defaulting on its bilateral obligations.⁵¹

Table 4.2

Short-term debt to Western Europe in millions of US dollars (Argentina) (1955-1956)

Country	Govt. & Central Banks	Private	Total
Germany	31	178	209
Italy	112	39	151
United Kingdom	53	15	68
France	23	27	50
Netherlands	17	1	18
Other	4	25	29
Total	240	285	525

Source: BoEA OV102/36, f. 39D, 5 April 1956. Other = Belgium, Austria, Switzerland, Sweden, Denmark and Norway. Figures for Government and Central Banks as of 5 April 1956 and private (deferred payments) as of 31 December 1955.

European governments welcomed Argentina's initiative and proved cooperative in seeking a resolution to the post-Perón payments dilemma. Notably, the 1956 arrangement between Argentina and its G10 European partners successfully restructured the country's external liabilities on a multilateral basis. To grasp the significance of this development, it is first necessary to understand the traditional ways creditor countries had dealt with borrowers struggling to repay their commitments. Until Argentina's case in 1956, debt renegotiations had been handled bilaterally and on an ad hoc basis, with no permanent institutional mechanism for coordinating official creditors. The only antecedents of a stable institutional arrangement were the 19th and early 20th-century bondholders' committees in the UK, France or America.⁵² However, with the bond market severely curtailed after the Second World War and until the end of the dollar

⁵¹ García Heras, 'La Argentina Y El Club De París', 1283–84.

⁵² For a recent analysis of bond debt in Latin America, see Pierre Penet and Juan Flores Zendejas, eds, *Sovereign Debt Diplomacies: Rethinking Sovereign Debt from Colonial Empires to Hegemony*, 1st edn (Oxford: Oxford University Press, 2021), chs 2 and 7, doi:10.1093/oso/9780198866350.001.0001. See also Peter H. Lindert and Barry J. Eichengreen, eds, *The International Debt Crisis in Historical Perspective* (Cambridge (Mass.): MIT Press, 1991); Gerardo della Paolera and Alan M. Taylor, 'Sovereign Debt in Latin America, 1820-1913', *Revista de Historia Económica - Journal of Iberian and Latin American Economic History* 31, no. 2 (September 2013): 173–217, doi:10.1017/S0212610913000128.

shortage, developing countries relied mostly on short-term facilities from bilateral (public) arrangements or government-backed suppliers' credits, for which no institutionalised framework had been permanently established.⁵³

In this context, Argentina's request marked a clear departure from traditional debt renegotiations. For the first time, creditor countries acted multilaterally to address a case of payment difficulties. In a landmark move, Western European nations established a new institution in 1956 to handle the Provisional Government's request: the Paris Club. Under the Paris Club framework, Western European nations laid out working procedures deeply embedded in non-discriminatory principles. Instead of individual negotiations, the Club invited all interested parties to meet and assess a country's debt sustainability and outline specific relief mechanisms, ranging from new maturities to changes in interest rates and other conditions, all of which were to be applicable to all partners without distinction. Once a general and common agreement was reached, debtor countries entered into bilateral negotiations to address specific clauses and legal requirements, but always following the most-favoured-nation (MFN) approach. The MFN principle appeared beneficial to both parties: it offered creditors ex post rights comparable to those of sovereign bonds (e.g., all bondholders of a given issue were repaid equally or *pari passu*), while protecting the debtor from disadvantageous bilateral ad hoc negotiations.

Reflecting on its multilateral nature, this chapter (and the dissertation as a whole) argues that the Paris Club is best understood as a key piece within the evolving and global architecture of the BWS and its establishment as a significant event in the transition towards multilateralism. One key reason is the non-discriminatory solution it offered, as noted in the previous paragraph. In contrast with earlier debt renegotiations under the gold standard or the discriminatory practices that followed 1947, the Club established a genuinely multilateral and enduring regime for restructuring debt between developing and industrialised nations. In this sense, the Paris Club can be rightfully seen as a postwar, non-discriminatory, and cooperative arrangement (or, in effect, as an unofficial, 'late-born' Bretton Woods institution) emerging from the same overarching vision that inspired wartime planners in drafting the IMF and IBRD charters. In fact, Helleiner notes that the American postwar plans at one point considered international schemes for debt restructuring, but these were later abandoned because they were deemed "too politically controversial to remain in the plans."⁵⁴ Lending further weight to its Bretton Woods

⁵³ The only antecedent was an interwar experience under the League of Nations. See Juan Flores Zendejas, 'Contesting the Preferred Creditor Status of the League of Nations, 1931–3', *The Economic History Review* 74, no. 4 (2021): 1062–86, doi:10.1111/ehr.13071; Juan Flores Zendejas and Yann Decorzant, 'Going Multilateral? Financial Markets' Access and the League of Nations Loans, 1923–8', *The Economic History Review* 69, no. 2 (2016): 653–78.

⁵⁴ Helleiner, 'The Latin American Origins of Bretton Woods', 84.

character, subsequent renegotiations with Chile (1965, 1973) and Argentina (1965), examined in Part III, revealed a more systematic involvement of the IMF in Club procedures.

A second reason to consider the Paris Club as part of the Bretton Woods framework lies in its contribution to the global (and delayed) transition toward currency convertibility. As previously mentioned, the Provisional Government not only sought short-term relief but also requested broader currency facilities to simplify trade with Argentina's traditional G10 partners. To that end, in an effort to expand the EPU clearing system to non-European participants, the Club ultimately granted Argentina transferability arrangements with major Western European countries as early as July 1956. Interestingly, and reflecting the evolving structure of the international monetary system, the 'late-born' Paris Club did not emerge as a universal multilateral institution like the IMF, but rather as a regional, ad hoc mechanism that responded to the constraints of the system's regional turn. The following paragraphs examine in greater detail the renegotiation of short-term debt and the establishment of currency transferability.

Archival records allow a reconstruction of the negotiations that led to the creation of the Paris Club and situate it within the broader context of Bretton Woods developments. Initially, Buenos Aires intended to conduct the debt restructuring through traditional, bilateral channels. With that aim, Argentine officials quickly reached out to Britain, their most longstanding partner and one with particularly strong commercial ties: one in every five dollars (or pounds) of Argentine exports was destined for Britain in the 1950s, and Argentina was the UK's number one market in Latin America.⁵⁵ Although willing to cooperate, British officials already noted that Argentina's chances of success were limited if it proceeded on a discriminatory basis. Given that Argentina had developed one of the densest networks of bilateral payments agreements in Latin America to navigate post-1947 Bretton Woods, multiple parallel negotiations would have resulted in long and inconclusive talks. In the words of a British official, "many countries in Europe are hardly likely to agree to give up their bilateral relations with Argentina while they have debts due to them and do not know what terms Argentina will make with other European creditors."⁵⁶ Along these lines, the UK government took the initiative to arrange official discussions with representatives of other European countries starting in December 1955.⁵⁷

During the first half of 1956, Western European creditors began discussing the consolidation of Argentine debts and, at the same time, potential alternatives to move beyond bilateral payment arrangements with Buenos Aires. In March, closed-door

⁵⁵ TNA FO 371/108806, Visit of Argentine Ministers, 22 May 1954.

⁵⁶ TNA PREM 11/808, Buenos Aires to Foreign Office, 10 November 1955.

⁵⁷ TNA PREM 11/808, Foreign Office to Buenos Aires, 28 November 1955.

meetings were held in the French capital under the chairmanship of a senior official from the Ministry of Finance, with representatives from the United Kingdom, West Germany, the Netherlands, Belgium, Italy, and others. Senior figures attended, including Sir Leslie Rowan from the UK Treasury and Leslie Crick of the Bank of England, the latter well acquainted with Argentine affairs ever since the 1930s.⁵⁸ Italy was represented by Guido Carli, a prominent official active in the EPU in 1950-1952, and would become the Governor of the Bank of Italy and a key member of the BIS Board in the 1960s. Over several weeks, delegates exchanged views based on questionnaires detailing Argentina's external liabilities, the most updated figures on macroeconomic variables, and potential mechanisms for more flexible payments following a restructuring.⁵⁹ Interestingly, the framework and working procedures of these technical and apolitical discussions mirrored other ongoing instances of intra-G10 cooperation, with some of the same officials involved in the Club also engaged in efforts to re-establish the conditions for G10 currency convertibility.⁶⁰

After a common position was set, the creditor nations invited Argentine representatives to the French capital in April. These initial talks, which informally came to be referred to as the Paris Club, were followed by further preliminary meetings with individual European delegations and a round of visits to European capitals in May to address specific issues arising from bilateral agreements.⁶¹ Throughout those discussions, Argentine officials successfully convinced major partners of the complex situation of the country's foreign trade, the external bottleneck due to permanent and expensive import requirements, and the need for extraordinary assistance. In addition to debt renegotiation, these talks included alternatives to improve trade conditions between Argentina and Western Europe. In line with the Provisional Government's aim to modernise the traditional import-substitution model, Argentina proposed to its European G10 partners the multilateralisation of trade and payments.

As a clear sign of cooperation with post-Perón Argentina, and likely motivated by the potential opportunities created by the opening of the Argentine market, Western European countries accepted both of Buenos Aires' requests. Under the Act of Paris of 30 May 1956, the Club agreed on general and shared rules to restructure Buenos Aires' bilateral short-term liabilities. According to the agreement, each participating government was to consolidate almost all of Argentina's short-term arrears denominated

⁵⁸ Raúl García Heras, *Presiones Externas y Política Económica: El Fondo Monetario Internacional y El Banco Mundial En Argentina*, Cátedra Corona (Colombia: Universidad de los Andes, 2003), 52.

⁵⁹ See, for instance, BoEA OV102/35, f. 109C, Meeting in Paris on 1st and 2nd March, 1956. This meeting included top officials from the said countries.

⁶⁰ This was the work of the BIS. See Claudio E. V. Borio and Gianni Toniolo, 'One Hundred and Thirty Years of Central Bank Cooperation: A BIS Perspective', SSRN Scholarly Paper (Rochester, NY, 1 February 2006), 11–13, doi:10.2139/ssrn.891902.

⁶¹ García Heras, 'La Argentina Y El Club De París', 1287–88.

in their respective currencies into a new ten-year loan, with a grace period included. Regarding interest, the Club maintained the original contractual terms for private export credits, while government-to-government and central bank liabilities (including swing credits) were to bear an average interest rate of 3.5%, starting at 2.5% in the first year and rising gradually to 5.5%.⁶² Reflecting the Club's commitment to multilateral and non-discriminatory treatment, the agreement also included a *pari passu* clause, stipulating that Argentina would service all participating creditors on equal terms and in proportion to their respective quotas. Originally, the framework included all major partners (except West Germany, which joined only in June 1957), with a 'definitive agreement' was formalised on 25 November 1957.⁶³

Besides the much-needed debt restructuring, the Paris Club was instrumental in phasing out Argentina's bilateralism with Western Europe on the eve of G10 convertibility. In a major landmark for post-Perón Argentina in its effort to reinsert itself into the international financial system and the global architecture of the BWS, Argentina was granted access to trade in transferable currencies at rates quoted under the European Currency Arbitrage system.⁶⁴ The agreed regime allowed payments between Argentina and Paris Club members, including their associated monetary areas, in any of the currencies of the European participating countries. Moreover, Argentina's commercial balances in any of these currencies were freely transferable among non-dollar countries and could be converted into other Club members' currencies by both the CBAR and authorised Argentine commercial banks.⁶⁵ Although these arrangements significantly eased payments with Argentina's main trading partners through selected channels, it is important to note that the Club did not grant Buenos Aires membership in the EPU. In many respects, Argentina's access to transferable currencies resembled Turkey's position within the EPU: while it benefited from the clearing system, it neither liberalised intra-regional trade beyond the minimal membership conditions, nor accessed EPU credit schemes after 1951, nor declared its currency convertible in late 1958.⁶⁶

Argentina's informal status at the EPU level should not obscure the significance of the Paris Club as a milestone for the global architecture of Bretton Woods. On the contrary, the improved payment arrangements between Argentina and Western Europe should be

⁶² TNA FO 371/119882, Official records of the meeting in Paris on May 28-29, 1956.

⁶³ The signatory countries were Austria, Belgium-Luxembourg, Denmark, France, Italy, the Netherlands, Norway, Sweden, Switzerland and the UK. Finland also joined later in May 1958. Germany wanted the repatriation of assets seized during World War II and the release of German firms proscribed by the Provisional Government in late 1955 on account of their questionable activities during Perón's regime. Although not a member of the accord, Japan, facing a sizeable accumulation of short-term liabilities, also accepted these terms, bringing the total consolidated debt to nearly half a billion dollars by the end of 1957. See NARA II RG 59, Entry A1 205-KA, Box 4345, Quarterly Economic Review for Argentina, 22 July 1957.

⁶⁴ BoEA OV102/35, f. 34, Airmail Watson to Stanford, 7 June 1956.

⁶⁵ BoEA OV102/37, f. 45C, Agreed Minute Representatives of Central Banks, 15 June 1956.

⁶⁶ For Turkey's role, see Kaplan and Schleiminger, *The European Payments Union*, ch. 16.

seen as part of the broader evolution of the BWS and a step towards global multilateralism in the mid-1950s. As noted in the previous section, at that point, post-1947 bilateralism was reaching its limits and Western European nations were increasingly recognising the benefits of freer trade. In the years leading up to the establishment of the Paris Club, the BWS literature shows that major steps were taken to move away from strict discriminatory trade and payments practices. Following the external unification of sterling in 1954, wider currency transferability outside the dollar area was adopted by Germany, Italy, the Benelux countries, Denmark, and Sweden. In this context, a solution such as the Paris Club signalled an expansion of non-discriminatory trade and payments.⁶⁷ Indeed, a similar agreement had already been signed with Brazil in the summer of 1955, known as the Hague Club, described by one contemporaneous scholar as a “revolutionary” change in the expansion of multilateral arbitrage.⁶⁸ The same adjective, and arguably in a more substantive sense, could be applied to a case like Argentina, which had embraced a bilateral-nationalistic strategy in the postwar period (Chapter 2).

Finally, archival records reveal two other important aspects of Argentina’s access to currency transferability: British leadership and American criticism. Regarding the former, it is noteworthy that London officials not only showed protagonism in starting the European talks in late 1955, but also led technical discussions in mid-1956. According to a telegram sent to Buenos Aires in November 1955, British officials were “most anxious to show ourselves willing to help Argentina so far as it lies within our power and to assume the leadership in Europe in a drive to put payments and trading relations... on a multilateral basis.”⁶⁹ Accordingly, after the signature of the Act of Paris in May 1956, the Bank of England put itself forward to host a meeting of central bank experts to discuss replacing the strict bilateral regime each country maintained with Argentina. During the opening session on 15 June 1956, Leslie Crick encouraged his European peers to include Argentina in the European Currency Arbitrage system (and even potential wider-central bank cooperation), stating that “[w]e European Central Bankers know from our experience over the years that many complex issues have been smoothly resolved by informal discussion amongst ourselves” and that he was sure Continental partners “will agree with me that the participation now of the Argentine Central Bank in our deliberations marks a further step forward in inter-Central bank co-operation.”⁷⁰

In a strict sense, the Paris Club’s transferability facilities granted Argentina a form of limited multilateralism. While clearly marking a departure from strict bilaterality, the Club

⁶⁷ Ibid., 235–36.

⁶⁸ Dallas Jones, ‘The European Monetary Agreement, the European Payments Union, and Convertibility’, *The Journal of Finance* 12, no. 3 (September 1957): 333, doi:10.1111/j.1540-6261.1957.tb04142.x.

⁶⁹ BoEA OV102/32, f. 141, Foreign Office to Buenos Aires, 28 November 1955.

⁷⁰ BoEA OV102/37, f. 43F, Introduction, 13 June 1956.

could still be seen as part of a broader category of ‘regional solutions,’ such as the Sterling Area or the EPU, that continued to discriminate against the dollar area, and particularly the US. This dimension is generally overlooked in the literature, not only because most historical accounts concentrate on G10 developments, but also likely because the Paris Club emerged so close to the onset of convertibility that it avoided open debate or criticism at the time. Nonetheless, historical records reveal contemporaneous concerns about the lack of a fully multilateral solution for Argentine-Western European payments. As one US Treasury official warned, arrangements like the Paris Club could lead to “the crystallization of two trading areas in the world: the present dollar area and a unified non-dollar area which discriminates against the dollar area.”⁷¹

Although short-lived, the American apprehension about the Club was not unfounded. Available records suggest that, to prevent commercial balances from flowing into the dollar area, Western European countries implemented two safeguards. First, the Paris Act stipulated that if Argentina’s trade balance with Club members significantly improved, Buenos Aires could accelerate the repayment of the 10-year loan.⁷² Second, and in a more explicit way, the final treaty signed in Buenos Aires in November 1957 included a Confidential Agreed Minute, with Article 10 specifying that Argentina’s earnings in transferable currencies would be exclusively used to finance current trade and debt obligations for an extended period. This formal understanding ensured that Argentina would not convert European currencies obtained through exports into dollars.⁷³

Fortunately for US officials concerned about discriminatory attitudes by Western European allies, the convertibility of European currencies in December 1958 effectively quelled any remaining criticism of the multilateral structure of the Paris Club. From that point onward, the dollar area no longer existed as an isolated bloc centred on hard currency, effectively dissolving the rigid divisions between Argentina’s major trading partners.

In summary, this section has examined the Provisional Government’s efforts to reshape Argentina’s postwar economic architecture, reform its ISI model, and reintegrate the country into the international financial system. The new authorities moved swiftly to dismantle the most discriminatory aspects of Argentina’s exchange and trade policies and to join the Bretton Woods institutions. Yet, while IMF and IBRD membership was significant, the drive to modernise economic relations with Western Europe engaged core dimensions of the BWS proved to be more crucial than formal membership. In 1956,

⁷¹ NARA II RG 56, Entry UD UP 734 A1, Box 33, Mr Harley (US Treasury) to US Embassy in Buenos Aires, 15 April 1956.

⁷² IMF SM/57/68, Part I, p. 29, 7 August 1957 and EBM/57/48, 18 September 1957.

⁷³ IMF IA, Country Files, Argentina Stabilization Program, Argentina and the Paris Club, 31 October 1958.

Buenos Aires and its European G10 partners, led by Britain, established the Paris Club to resolve two pressing issues: the restructuring of Argentina's bilateral short-term debt and the extension of multilateral payments facilities. Although both outcomes are acknowledged in the literature, scholars have failed to acknowledge the systemic importance of the Paris Club within the BWS (e.g., a key piece in its evolving global architecture and the transition towards multilateralism). By contrast, this section has argued that the cooperative and multilateral features of the negotiations granted the Paris Club a 'late-born' status within the Bretton Woods framework. Through Club arrangements, government-to-government and suppliers' debt resembled traditional bonds in some respects, notably through *pari passu* treatment. Support for Argentina continued beyond the Provisional Government, as archival records from the democratic Frondizi administration show.

4.4. Frondizi's stabilisation programme and international cooperation (1958-1962)

The democratic government of Arturo Frondizi (1958-1962) continued the path opened by the Provisional Government to modernise Argentina's postwar import-substitution strategy. With the country already a member of the Bretton Woods institutions and enjoying much-improved trade and payments relations with European G10 nations, Frondizi capitalised on Argentina's renewed multilateral orientation. Facing mounting inflationary pressures and other imbalances, Argentina requested multilateral cooperation to buttress an ambitious stabilisation programme in early 1959. When called upon, major G10 trading partners offered crucial support: both to address short-term pressures and to provide development finance, and at the onset and throughout the implementation of the programme. Official assistance (ultimately enabled by the expansion of global liquidity) was soon followed by private capital inflows, encouraged by Argentina's regulatory alignment with multilateral principles and the opportunities offered by the post-Perón Argentine market. Unfortunately for Buenos Aires, despite sustained G10 support, domestic political turmoil led to the abandonment of the stabilisation programme, which was precipitated by a military coup in March 1962.

In terms of historiography, available accounts on Frondizi's programme tend to emphasise the government's goal of combining stabilisation with development, and the rapid accumulation of foreign debt.⁷⁴ Both general studies of the Frondizi years and analyses of IMF-Argentina relations have highlighted the substantial foreign support obtained from the Fund and the United States in late 1958. This latter strand of literature argues that such interactions laid the foundations for a 'routine of dependency' or a 'multilateral trap' as described by Kedar, paving the way for broader participation by

⁷⁴ See, for example, Belini and Korol, *Historia económica de la Argentina en los siglos XX y XXI*, ch. 4; Petrecolla, 'Unbalanced Development, 1958-62'.

international lenders (and their influence over domestic policymaking).⁷⁵ The expanding involvement is also attributed to the government's adoption of more orthodox economic policies and liberal-minded policymakers.⁷⁶ Moving beyond specific policy frameworks, this section focuses on the Argentine economy's structural shift toward a multilateral and non-discriminatory regime, highlighting the key role played by the G10.

Fronzizi's stabilisation: policies and evolution

Even before taking office, Frondizi and his economic team recognised that the initial phase of Argentina's ISI model was already exhausted and risked delivering diminishing returns. As groundbreaking as Provisional Government efforts to reintegrate Argentina into the international financial system were, economic growth in 1956-1957 had fallen short of expectations, while external imbalances persisted. The trade deficit remained unchanged: exports stagnated, and rising demand for fuel and industrial inputs continued to drive up imports. Embracing so-called developmentalist ideas, the new government sought to break free from postwar stop-and-go patterns by a renewed attempt to strengthen the domestic market. In practice, this meant prioritising heavy or vertical industrialisation as the path to sustained growth and a remedy for Argentina's external imbalances and deteriorating terms of trade.⁷⁷ Rather than targeting traditional agricultural exports or expanding other export sectors, the new authorities believed that increasing domestic production of intermediate and capital goods and oil offered a more viable solution to the country's payments problems. Although this plan echoed some goals of the Peronist years, Buenos Aires now understood that a cooperative stance towards major international actors and foreign investment was an essential precondition for any chance of success.

In order to convince major partners to provide development funding and to attract foreign investors, the new government recognised it had to move quickly. Compounding this urgency, inflationary pressures began rising in mid-1958 and surged to nearly 130% by June 1959. In response, Buenos Aires adopted a stabilisation programme (mirroring Chile's concurrent approach under Alessandri, Chapter 3). Launched in late 1958, the plan targeted short-term inflation control while also aiming to align external regulations with multilateral tenets and Bretton Woods exchange policy principles. In line with this non-discriminatory approach, the dual rate regime introduced by the Provisional Government was simplified further in January 1959 through the adoption of a unified rate (Figure 4.4). The peso was sharply devalued from 18 to 65 per dollar, followed by some

⁷⁵ Kedar, *The International Monetary Fund and Latin America*, 56–68.

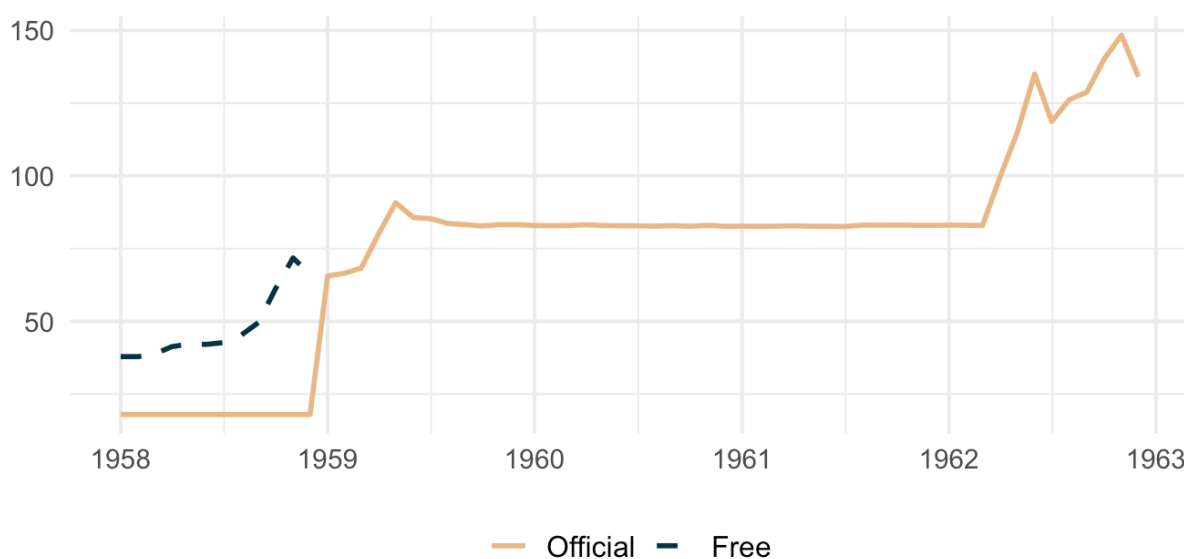
⁷⁶ García Heras, *El Fondo Monetario y el Banco Mundial en la Argentina*, 64–65.

⁷⁷ Marcelo Rougier, Juan Odisio, and James Brennan, *Industry and Development in Argentina: An Intellectual History, 1914–1980*, 1st edn (London: Routledge, 2022), 171–72, doi:10.4324/9781003351627.

months of flotation, and was eventually pegged at 83 pesos until the programme's collapse in 1962. In parallel, the government rapidly liberalised foreign trade: mandatory retention of export proceeds was reduced, import licenses and quotas were eliminated, and administrative discrimination against dollar-denominated imports was abolished. Although temporary ad valorem import surcharges of 20%, 40%, and 300% were introduced to protect domestic industries, by the end of 1961, over 60% of imports were surcharge-free.⁷⁸

Figure 4.4

Argentina's exchange rates in pesos per US dollar (1958-1962)



Source: IMF IFS.

While inflation was successfully brought under control in 1959, the policies outlined above inevitably triggered a recession. In an effort to persuade the public of the programme's merits, Finance Minister Álvaro Alsogaray appeared on national television on 27 June 1959 to explain the government's position and to ask for citizens' support, famously declaring 'we must go through winter.' Fortunately for the minister (and for the survival of the democratic government), winter was not a permanent feature and economic spring did follow. Built on earlier efforts to reintegrate Argentina into international financial circles, the country received records levels of net capital inflows. FDI flowed primarily into the oil and power generation sectors but reached virtually all sectors. This influx of capital, combined with access to international short-term financing, allowed the government to advance its developmentalist agenda swiftly. Purchases of industrial equipment and machinery soared while car factories and

⁷⁸ IMF EBS/62/59, S1, Appendix II, p. 51.

chemical and pharmaceutical plants multiplied.⁷⁹

Post-Perón Argentina's success story reached overseas observers. As noted at the start of this chapter, the *Financial Times*, reflecting on an economy that just six years earlier had been dominated by discriminatory arrangements, named the peso the star currency of 1960. It cited the "spectacular improvement in the Argentine external payments situation since the [1959] stabilisation programme."⁸⁰ Along the same lines, but at the official and multilateral level, the IMF's Latin American Director, Chilean Felipe Herrera remarked that the new policies had successfully reintegrated the "Argentine economy back into the main international stream of goods and capital."⁸¹ At that point, everything seemed to indicate that Argentina had finally entered into an era of sustained growth.

Yet once again, a crisis came knocking on Argentina's door. The investment and import boom masked the fundamental weakness in the Argentine economy: the persistent trade deficit. Exports remained stagnant due to several factors, including unfavourable weather conditions, which rendered Argentina's developmentalist strategy highly dependent on a surplus in the capital account. Continued capital inflows (essential even for repaying earlier loans) were contingent on the government's ability to maintain confidence in the peso, requiring tight credit policies, fiscal austerity, and a stable political environment.⁸² This fragile balance started to be disrupted when political turmoil led to the resignation of Finance Minister Alsogaray in April 1961. With parliamentary elections looming in February 1962, the new economic team permitted the expansion of public spending and bank credit, paving the way for a resurgence of inflation and capital flight. Dissatisfaction with Frondizi's political and economic approach led to a military coup in March 1962. One of the new administration's first moves was to devalue the peso (Figure 4.4), signalling the definitive collapse of Frondizi's stabilisation project.

The 1958 credit package, multilateral support and the last bilateral accounts

As mentioned at the beginning of this section, Frondizi's stabilisation programme and the subsequent investment boom should not be viewed solely through the lens of 'orthodoxy' or the influence of foreign institutions like the IMF. On the contrary, archival evidence shows that it actually hinged on record levels of international cooperation. Indeed, having reinserted itself into the international multilateral system, Argentina received swift and

⁷⁹ Gerchunoff and Llach, *El Ciclo de La Ilusión y El Desencanto*, ch. 6.

⁸⁰ Lombard, 'Annual Selection of Oscar Awards'.

⁸¹ IMF EBM 59/49, 2 December 1959.

⁸² Gerchunoff and Llach, *El Ciclo de La Ilusión y El Desencanto*.

unprecedented support not only from the IMF (as in 1957) but, for the first time in the postwar era, also from the United States. In late 1958, the Fund’s Executive Board approved Argentina’s first SBA, amounting to US\$75 million or half the country’s quota and the largest single allocation to any Latin American member at the time, twice the amount granted to Brazil that year.⁸³ Complementing the Fund’s efforts, US federal agencies moved quickly to support Frondizi’s stabilisation. Motivated by hemispheric concerns and the perceived regional importance of post-Perón Argentina, the Bureau of Inter-American Affairs stressed that US backing stemmed from both “the intrinsic merits of the economic stabilisation plan itself” and “the beneficial effects which its success will have in neighboring countries.”⁸⁴ In total, Argentine officials secured nearly US\$350 million in support of balance of payments relief and development finance, with almost four-fifths coming from American sources (Table 4.3).

Table 4.3

Argentina’s credit package in millions of US dollars (December 1958)

Purpose and Funding Agency	Amount
<i>Balance of Payments</i>	<i>245.50</i>
International Monetary Fund	75.00
US Treasury	50.00
Federal Reserve Bank of New York	17.00
US Commercial Banks	54.00
EXIMBANK	24.75
Development Loan Fund	24.75
<i>Project Financing</i>	<i>100.00</i>
EXIMBANK	100.00
Total	345.50

Source: IMF IA, Country Files, Argentina Stand-by Arrangements, Argentina Composition of Package, 23 December 1958, and BoEA OV102/60, f. 72, Argentina, 29 December 1958.

Although scholars have discussed the importance of Argentina’s 1958 credit package, they often fail to underscore the significance of the American contribution (and thereby downplay Washington’s cooperative stance).⁸⁵ In fact, the support granted by the United

⁸³ de Vries and Horsefield, *The International Monetary Fund, 1945-1965*, 490.

⁸⁴ NARA II RG 59, Entry A1 205-KA, Box 4351, Financing of the Argentine Stabilization Plan, 5 December 1958.

⁸⁵ See, for example, García Heras, *El Fondo Monetario y el Banco Mundial en la Argentina*, 67; Kedar, *The International Monetary Fund and Latin America*, 64.

States marked a milestone in cooperation with Latin America, surpassing even the assistance extended to Chile's concurrent stabilisation programme in size and institutional scope. As Table 4.3 shows, virtually all major US agencies typically involved in international assistance took part in Argentina's package: the US Treasury, the FRBNY, EXIMBANK, and the Development Loan Fund, along with eleven commercial banks led by the First National Bank of New York. American records provide further evidence of the cooperative attitude of US officials: Acting Secretary of Inter-American Affairs Roy Rubottom described Argentina's 1958 package as "one of the most comprehensive operations ever undertaken by the United States in Latin America," while EXIMBANK President Samuel C. Waugh noted that "the magnitude as well as the complexity of Argentine problems, and the extent of the new Argentine program, required the far-flung and cooperative actions taken."⁸⁶

The Fund's Board was also attuned to the multilateral significance of Argentina's 1958 credit package. From the IMF's perspective, the agreement with Argentina also marked a significant milestone. Reflecting the increase in multilateral lending (and overall global liquidity), an official reviewing the entire Argentine package referred to it as "the biggest we ever had in the IMF since the British transaction two years ago," referencing the IMF's involvement during the 1956 Suez crisis.⁸⁷ Within the Executive Board, the stabilisation project received widespread praise. The American Director emphasised the potential of oil investments for attaining external balance, noting that their success would represent a "revolutionary change" for "Argentina's balance of payments." The plan's broader regional impact was also a point of optimism. Latin America's Brazilian Director Paranaguá expressed confidence that Argentina's successful resolution could act as a tipping point for reforms across the region, particularly concerning "multiple rates, excessive credit expansion, fiscal order and budget policy." Costa Rican Alternate Director Jorge Hazera went even further, asserting that developments in Argentina could have repercussions throughout Latin America, potentially leading to a "turning point in Latin American economic history."⁸⁸

Although Hazera's statement may have overstated the regional impact of Frondizi's reforms, the stabilisation programme marked a turning point in Argentina's path to multilateralism. Having already dismantled the most significant bilateral and discriminatory trade and payments relations with Western Europe in 1957 through the Paris Club (and achieving full multilateralisation with G10 convertibility in December 1958) it was now the turn of the rest of the world. Until then, the IMF staff had noted with concern that, beyond the G10, Argentina "had not made any progress in reducing

⁸⁶ NARA II RG 59, Entry A1 205-KA, Box 4351, Joint Announcement, 24 December 1958.

⁸⁷ IMF IA, Country Files, Argentina Stand-by Agreements, Jorge del Canto to Merle Cochran, 19 December 1958.

⁸⁸ IMF EMB 58/58, 18 December 1958.

dependence on bilateralism,” as 17% of all exports were still conducted in non-convertible currencies.⁸⁹ Table 4.4 illustrates the evolution of the bilateral net balance with Soviet Bloc and Latin American countries. The most significant trading partners within these agreements were Brazil and the Soviet Union, with swing credits equivalent to US\$35 million and US\$11 million, respectively. Argentina’s reliance on these credits deepened in 1958-1959, as most bilateral balances turned negative amid balance of payments deficits (Figure 4.2).

Table 4.4

Argentine net balances in bilateral accounts, in millions of US dollars (1957-1961)

	Swing	1957	1958	1959	1960	1961
<i>Soviet Bloc</i>						
USSR	11	7	12	6	11	10
Poland	4	5	-4	5	3*	-*
Czechoslovakia	3	6	-1	3	2*	-*
Other	7	5	4	0	3*	-1*
<i>LATAM</i>						
Brazil	35	6	-1	7	62	35*
Chile	15	15	-4	-15	19	-1*
Peru	4	-	-	-1	2	0*
Uruguay	8	6	7	5	10	9
Other	3	0	-3	-8	-2*	-1*

Source: Source: IMF SM/58/66, SM/59/74, SM/59/74 and SM/61/85 C1. The dates are 30 June for 1957-1959, 10 October for 1960 and 30 September for 1961. * = Agreements terminated and accounts in the process of liquidation/liquidated.

In line with Fund policies, Argentina began unwinding its remaining bilateral agreements as early as 1960. Bilateralism ended first with the Soviet satellites, where Argentina had originally aimed to spend its agricultural export balances on capital goods or commodities.⁹⁰ After the convertibility of European currencies, Argentina lost interest in non-dollar sources of commodities, such as Polish coal. Additionally, as Soviet countries could not offer competitive or world-level prices, Buenos Aires opted to shift trade with non-Western countries to a convertible currency basis in 1960.⁹¹ According to US observers, agreements with Eastern Europe “have not resulted in appreciable growth

⁸⁹ IMF SM/58/66, Part I, p. 20, 20 August 1959.

⁹⁰ ES, No. 669, 25 May 1959.

⁹¹ IMF IA Country Files, Argentina/810 Missions - Berterns and Jones, “Argentina Bilateral Payments Policy”, 5 May 1959.

of trade; indeed they have generally resulted in rewriting extension of credits to the Soviet Bloc by Argentina.”⁹² As for Latin American countries, multilateralisation took longer because Buenos Aires was committed to maintaining strong regional ties. In such cases, the retreat from bilateralism was delayed as Argentina awaited the establishment of the Latin American Free Trade Association (LAFTA), formalised by the Montevideo Treaty in February 1960, signed by Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay.⁹³

LAFTA’s intra-regional multilateralisation is an interesting yet unexplored episode in the global BWS and the expansion of non-discriminatory principles. Established as a response to the European Economic Community in 1957 and the Continental preference for former African colonies, LAFTA was a major step towards regional integration.⁹⁴ In terms of commerce, it sought to liberalise trade and exchange restrictions among participating nations to create a common market over ten years. This ambitious project required resolving the complex web of intra-regional payments, with Argentina standing as a particularly complex case. Although a proper analysis of LAFTA arrangements lies beyond the scope of this dissertation, archival records make it possible to trace the steps that preceded Buenos Aires’s phasing out of Latin American bilateral agreements.

Indeed, Fund sources show that LAFTA member countries requested technical assistance from ECLA and the Fund itself to reform intra-regional trade and payments.⁹⁵ Both organisations supported adherence to the non-discriminatory principles of GATT and the use of customs duties as the primary policy tool. However, they differed in their approach to handling bilateral accounts. ECLAC’s stance, led by Raúl Prebisch, argued for a transitional period towards multilateralism, allowing for the transferability of balances. This transition was to be facilitated by a Clearing Agency, with the ultimate goal of establishing a payments union (following EPU’s path) and eventually a common market.⁹⁶

More focused on international rather than regional trade, the Fund advocated for a swift transition to convertible currencies for intra-area payments. This recommendation was based on the fact that five of the seven members, including Chile and Argentina, had already adopted multilateral payments with their main G10 partners, and because the volume of intra-area trade was relatively small. Both reasons, according to the IMF staff, made it unjustifiable to extend the discriminatory payments system.⁹⁷ Ultimately, free

⁹² NARA II RG 59, Entry A1 205-KA, Box 4347, Economic Summary Argentina, 30 October 1959.

⁹³ Additional references to LAFTA in Chapter 5.

⁹⁴ Frank E. Nattier, ‘The Latin American Free Trade Association (LAFTA)’, *Business Lawyer (ABA)* 21 (1966 1965): 516.

⁹⁵ IMF SM/59/65, 26 October 1959, p. 7.

⁹⁶ See ECLA Annual Report 1959-1960, p. 3.

⁹⁷ IMF SM/59/80, 22 December 1959, p. 1 and 12.

convertibility prevailed ahead of the signing of the final treaty.⁹⁸ Once this point was settled, Argentina could end bilateral agreements and start trading in convertible currencies with neighbouring countries and Peru throughout 1961 (Table 4.4). The history of improved intra-regional payments did not end in the early 1960s: as Chapter 5 explores, LAFTA ultimately implemented an ambitious clearing system in the mid-1960s, in which Chilean officials played a pivotal role.

Ongoing cooperation and the programme's final crisis

The previous subsection examined the cooperative efforts that marked the beginning of the Frondizi programme, highlighting US support and key shifts in Argentina's bilateral relations beyond its Western European partners. Archival records reveal that, as the Frondizi administration moved away from 'easy' import substitution and embraced multilateralism, it continued to receive vital backing from major players in the international financial system. Building on the cooperative momentum initiated by the Paris Club in 1956, the following paragraphs explore the unprecedented engagement of European G10 commercial banks in Argentina's stabilisation programme in 1960-1961. Particular emphasis is placed on the structural factors behind their involvement, the technical challenges surrounding this new form of support and the final crisis of the programme.

Ongoing support for Frondizi's programme became evident as the compensatory financing secured in 1958 neared expiration. In the final months of 1959, Argentine officials embarked on a new tour of G10 capitals, seeking to extend the previous year's credit package. Notably, this time Buenos Aires obtained support not only from the IMF via a US\$100 million SBA, and renewed commitments from US commercial banks and the American Treasury, but also from Western Europe.⁹⁹ Now benefiting from currencies that were fully convertible for current account transactions (and increased global liquidity), the Argentine government asked European commercial banks to step in and match the New York contribution with an additional US\$75 million as a third line of reserve. In order of importance, the participating banks were based in the United Kingdom (US\$17 million), West Germany (US\$16 million), France and Italy (US\$10.5 million each), along with institutions from Switzerland, the Netherlands, Belgium, and Sweden. At the time, this type of operation by commercial banks was still uncommon and, in fact, marked a milestone in post-1958 European G10 cooperation. When Finance Secretary Méndez Delfino was invited to the IMF Board, he described the package as "the first time in which commercial banks of eight European countries have joined forces to

⁹⁸ IMF SM/60/3, 26 January 1960 and IMF SM/60/22, 12 March 1960, EBD/60/64, 23 June 1960, p. 2.

⁹⁹ BoEA OV102/65, f. 11, Argentina, 3 November 1959.

make a stabilisation loan to a Central Bank,” a development made possible because, he noted, because “the European countries, as well as Argentina, have restored convertibility and multilateralized trade.”¹⁰⁰

This unprecedented European support was not solely due to the advent of convertible currencies. By contrast, it was a deliberate attempt by American officials to bring Europeans to the forefront of international support efforts. According to confidential information gathered by British authorities, it was the US that encouraged Argentina to seek European backing. Argentina’s Financial Counsellor at the London Embassy informed Bank of England officials that the “Argentines had not originally intended to ask the Europeans for assistance but had been pressed to do so by the Americans.”¹⁰¹

Although not mentioned directly, the US desire for European involvement was likely tied to concerns over America’s balance of payments deficit and declining gold reserves. As the BWS literature explains, by 1959 the total external dollar liabilities held by foreign central banks equalled the US monetary gold stock.¹⁰² This imbalance exposed a structural weakness in the international monetary system and prompted a growing debate on the functioning of the ‘adjustment mechanism,’ particularly regarding the potential overvaluation of the US dollar. Interestingly, US records reveal that American officials were aware of this dilemma when discussing support for Argentina in 1959. In talks with Argentine representatives in Washington, a US Treasury official remarked European contribution was needed as “the U.S. has on a net basis been in the position of financing European exports, of contributing to an increase in European reserves and to European claims on gold.”¹⁰³ American pressure on European allies is well documented during this period, with the final years of the Eisenhower administration (1953-1961) seeking to push NATO members to increase their contributions to help redress global imbalances.¹⁰⁴ In other words, it can be rightfully claimed that unprecedented European support towards Argentina in 1959 signalled both cooperation and a symptom of the growing imbalances within the postwar monetary system.

Beyond the cooperative attitude and emerging systemic issues, a third notable feature of European participation in Frondizi’s stabilisation package was the technical complexity of this new form of support. Of particular importance was the broad participation of European institutions, each operating under distinct legal frameworks.

¹⁰⁰ IMF EBM 59/49, 2 December 1959.

¹⁰¹ BoEA OV102/65, f. 2, Argentina, 2 November 1959.

¹⁰² Several authors identified 1959-1960 as a tipping point in terms of foreign dollar liabilities. See, for example, Bordo, ‘The Imbalances of the Bretton Woods System 1965 to 1973’, 198.

¹⁰³ NARA II RG 56, Entry UD 13 W 109, Box 3, ARG/3/10, Vol. Exchange Stabilization Fund Agreement, Conversation October 13, 1959.

¹⁰⁴ Francis J. Gavin, *Gold, Dollars, and Power: The Politics of International Monetary Relations, 1958-1971* (Chapel Hill ; University of North Carolina Press, 2004), 38.

More than fifty banks from eight countries took part, many of which had not extended loans beyond Europe since the 1930s.¹⁰⁵ This diversity gave rise to the first challenge of the operation: establishing a form of guarantee acceptable to all parties. Argentine officials initially sought to replicate the relatively low-key provisions accepted by New York banks in 1958 and renewed the following year. The European banking consortium, however, demanded stronger assurances, such as linking the US\$75 million loan to payments for imports from participating countries. A compromise was eventually reached: the European consortium received a negative pledge on the Central Bank of Argentina's assets, excluding its convertible gold reserves. To mitigate the additional risks involved in this unfamiliar arrangement, several banks also turned to their national governments for backing, either in the form of explicit guarantees (Germany and Belgium) or rediscount facilities (France).¹⁰⁶

A second challenge lay in coordinating such a diverse group of lenders and ensuring that Argentina would repay all participating banks on a *pari passu* basis. Initially, British officials, together with the Bank of England, were eager to employ Barings Brothers to centralise and coordinate operations and information, given the institution's extensive knowledge of the Argentine market. Barings' Buenos Aires branch had "intimate enough relationships with the Banco Central [CBAR] to justify their becoming a suitable vehicle" while its Paris branch could relay information to the other banks, all of which had correspondent relationships with Barings.¹⁰⁷ From a historical perspective, the potential choice of Barings seems rather ironic: it was the very institution the Bank of England had been forced to bail out in 1890 after defaulted Latin American debts triggered a crisis in Argentina itself.¹⁰⁸

Despite Baring's strategic position within Argentina, other members of the syndicate appeared uncomfortable with the prospect of British leadership. At the request of Swiss, French, Dutch, and Belgian institutions, the banking syndicate ultimately chose the BIS. Although not a fully multilateral institution (until its 1990s expansion), the BIS played a crucial role as a facilitator of central bank cooperation among industrialised nations during the Bretton Woods era, especially when the system came under strain in the 1960s. As the Agent for the EPU, for instance, the BIS had "accumulated unrivalled experience in performing trustee and agent functions," making its selection over Barings

¹⁰⁵ BoEA OV102/66, f. 12, European Credits, 2 December 1959. See Juan Flores Zendejas, David Lopez Soto, and David Sanchez Amador, 'New Paradigms and Old Promises: Central Banks and the Market for Sovereign Debt in the Interwar Period', *Working Papers*, Working Papers, 2020.

¹⁰⁶ The negative pledge refers to a promise of the CBAR not to give security over its non-gold assets to other creditors unless it is also granted to the European banks (e.g., a form of MFN clause). BoEA OV102/66, Argentine Banking Credit, 14 December 1959, f. 49.

¹⁰⁷ BoEA OV102/66, Phillimore to Bolton (Treasury), 2 December 1959.

¹⁰⁸ Paula Vedoveli, 'Information Brokers and the Making of the Baring Crisis, 1857–1890', *Financial History Review* 25, no. 3 (December 2018): 357–86, doi:10.1017/S0968565018000173.

unsurprising.¹⁰⁹ In the case of Argentina, the BIS was tasked with gathering information from leading banks in each country, disseminating it to all participating institutions, including US banks, and receiving notifications from the IMF regarding credit lines granted to the CBAR.¹¹⁰

With the technicalities resolved, international cooperation enabled the stabilisation programme to continue into 1960. Interestingly, and foreshadowing a pattern that would reappear in Chapter 6, the support from commercial banks primarily took the form of standby credits and served largely ‘window dressing’ purposes (in a similar strategy employed by the Bank of England in the mid-1960s).¹¹¹ As Argentina was simultaneously receiving substantial capital inflows through FDI and short-term investments, the CBAR did not require compensatory external funding. In practice, the US\$150 million granted by New York and European banks was redeposited in those very institutions, with a specific aim: to inflate the central bank’s balance sheet (see 1960-Q1 in Figure 4.5). This window dressing was especially apparent in 1960, when Finance Minister Álvaro Alsogaray requested additional annual renewals from the IMF and G10 partners. As Alsogaray put it, these contributions were intended to keep “Argentine reserves as high and mounting [just] *pour la Galerie*.”¹¹² Once again, G10 partners appeared to acquiesce to Buenos Aires’ strategy, reaffirming their willingness to support Argentina’s efforts: in September 1960, the US Treasury and New York banks renewed their backing; in December, the IMF extended its SBA; and in January 1961, the European commercial banks followed by renewing their standby credits.

¹⁰⁹ See Borio and Toniolo, ‘One Hundred and Thirty Years of Central Bank Cooperation’.

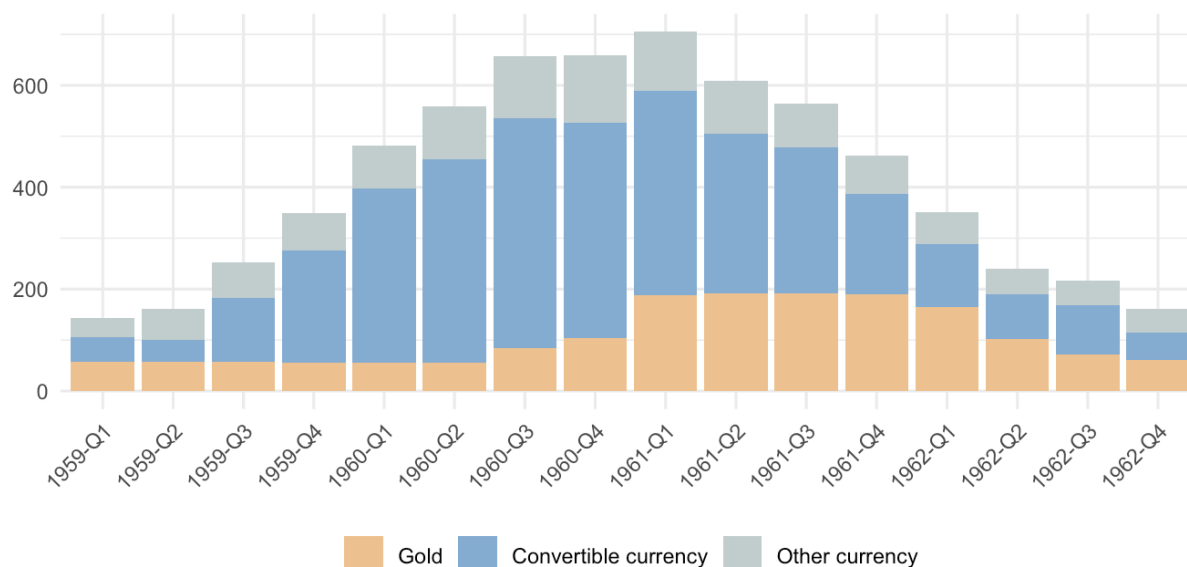
¹¹⁰ BoEA OV102/66, f. 89, Draft Letter to the B.I.S., 30 December 1959.

¹¹¹ See Naef, *An Exchange Rate History of the United Kingdom*, 174–79.

¹¹² EBM 60/51, 9 December 1960.

Figure 4.5

CBAR's gross international reserves in millions of US dollars (1958-1962)



Source: IMF IFS.

Before the programme entered its final crisis in mid-1961, Buenos Aires officials sought to reap the full benefits of Argentina's financial reintegration by accessing the European bond market. After months of negotiations, in early July 1961, the government successfully floated Argentina's first bond since the 1930s. Negotiations with private banks in Zurich resulted in the formation of a syndicate led by *Crédit Suisse* and *Deutsche Bank*, which took 50% of a US\$25 million, 12-year bond at an interest rate of 6.5%. Although dollar-denominated, the bond included multi-currency options, allowing repayments in *Deutsche marks*, *Swiss francs*, *Italian lire*, *Belgian francs*, and *sterling*.¹¹³ In a clear departure from postwar ad hoc financial integration, Argentine officials saw the 1961 as a "return to traditional pre-war, pre-Peron financing methods."¹¹⁴ Along these lines, the government hoped to float additional securities totalling US\$150 million, including future issuances in New York, with the ultimate goal of converting part of Argentina's short-term debt into long-term bonds.¹¹⁵ Unfortunately for Frondizi's elected government, further bonds had to wait until the second half of the 1960s, when a new stabilisation programme was implemented under authoritarian rule (Chapter 6).

As significant as the 1961 bond was, it paradoxically marked the final positive sign of Frondizi's stabilisation programme. That same year, Argentina's external position

¹¹³ BoEA OV102/77, f. 21, Argentina Bond Issue, 9 June 1961.

¹¹⁴ NARA II RG 56, Entry A1 1611, Box 2438, Approach to be Made by Minister of Economy Alsogaray to Treasury Secretary Dillon, 14 April 1961.

¹¹⁵ BoEA OV102/75, f. 74, Proposed Argentine Government Bond Issue, 7 March 1961.

deteriorated sharply, culminating in a record trade deficit of US\$500 million, the largest of the Bretton Woods era. The deficit was driven by a sharp increase in capital goods imports, the highest since 1951, alongside a decline in agricultural exports due to a severe drought. International reserves were further depleted as the CBAR repaid its own foreign obligations, those of other governmental agencies, and to maintain the pegged exchange rate (Figure 4.5).¹¹⁶ To make matters worse, in early 1962 the government breached the conditions of the SBA, triggering a domino effect among commercial banks that had used IMF support as a benchmark. An earlier collapse of the programme was avoided only thanks to extraordinary assistance from Britain and the United States, which persuaded the banks to keep their standby lines open until February 1962. As one official of the Bank of England put it, “the Argentines were in great exchange difficulties at the moment; and I did not see why we should help to rock the boat.”¹¹⁷ At the same time, Argentina “quickly and quietly” secured a US\$150 million loan from the US, including US\$20 million for immediate balance of payments relief from the AID and Alliance for Progress funding.¹¹⁸

Yet neither extraordinary support nor ongoing cooperation could resolve Argentina’s domestic political challenges. When the government sought a confidence vote in the legislative election of 18 March 1962, it severely miscalculated and suffered a significant defeat at the hands of pro-Peronist forces. This political setback, coupled with the frustration over the failed economic programme, prompted conservative leaders within the Armed Forces to lead a coup d’état on 29 March.¹¹⁹ Amid the post-election crisis, foreign currency transactions had been suspended for twenty days. When the market reopened on 4 April, the CBAR intervened heavily to maintain the peso’s exchange rate of 83 pesos to the dollar, selling US\$60 million in just two days, as reported by both the US embassy and the Bank of England.¹²⁰ On 9 April, the new authorities allowed the peso to depreciate by 20%, marking the collapse of Frondizi’s stabilisation programme, just as Alessandri’s had come to a fatal end in January (Chapter 3).

To recap, this section has examined some previously unexplored aspects of Frondizi’s stabilisation programme in the early 1960s. In its effort to reshape traditional ISI and move towards a more sophisticated version of import substitution, the government definitely departed from extra-G10 bilateralism and benefited from Argentina’s reintegration into the multilateral financial system. Marking a milestone in international cooperation with Latin America and the Southern Cone, and in the context of increased

¹¹⁶ IMF EBS/61/85, C1, 23 November 1961, Part 2, p. 52.

¹¹⁷ BoEA OV102/80, f. 74, Bankers’ Stand-by, 19 February 1962.

¹¹⁸ BoEA OV102/80, Argentina, 6 March 1962. NARA II RG 59, Entry A1 1611, Box 2435, Biweekly Economic Review, 8 March 1962.

¹¹⁹ Robert A. Potash, *The Army & Politics in Argentina, 1945-1962: Perón to Frondizi* (Stanford, Calif: Stanford University Press, 1980), 361–72.

¹²⁰ NARA II RG 59, Entry A1 1611, Buenos Aires to Secretary of State, 10 April 1962.

global liquidity, Buenos Aires secured crucial support from almost all G10 partners, ranging from multilateral agencies and US federal institutions to commercial banks operating with newly convertible currencies. Archival records show that major actors in the international system were involved both at the programme's outset and throughout its implementation. Yet, despite their importance, this support ultimately proved insufficient to prevent the programme's collapse in early 1962.

4.5 Conclusion

When Juan Domingo Perón went into exile in 1955, he left behind a country whose regulatory system was deeply embedded in discriminatory restrictions stemming from Argentina's 'easy' import-substitution model. Yet it was not only domestic regulations that constrained the country: the consolidation of currency areas had also left Argentina with little room for manoeuvre during the inconvertible phase of Bretton Woods. Poor export performance in the 1950s was compounded by an export basket dominated by commodities that did not earn US dollars, which left Buenos Aires unable to secure convertible currencies (like Chile's copper). Although bilateral trade and payments agreements sought to maximise the use of export proceeds in inconvertible currencies, the reality was that the dollar area remained the primary supplier of goods essential to Argentina's traditional ISI strategy. Argentina thus faced a twofold dilemma: a chronic trade imbalance (already well documented in the literature) and limited access to convertible currencies. While the declaration of G10 current account convertibility would eventually address the latter problem, post-Perón Argentina did not wait for this formal change to begin securing improved trade and payments conditions with key partners.

The Provisional Government that assumed power in 1955 took major steps to reintegrate Argentina into the international financial system. In line with Buenos Aires' goal of modernising its ISI strategy, the new authorities sought to move beyond ad hoc, bilateral financing mechanisms as well as discriminatory trade and payments relations. By embracing multilateral principles, Argentina secured swift membership in the Bretton Woods institutions in 1956 and obtained its first IMF drawing the following year. Arguably more significant than membership itself, the Provisional Government appealed to European G10 partners for debt relief and a far-reaching simplification of the bilateral payments regime. In a cooperative response, these partners established the Paris Club to provide both debt restructuring and currency transferability. This thesis contends that the Paris Club can rightfully be considered a key piece in the global evolution of the Bretton Woods system as a 'late-born' institution. Indeed, the Club was embedded in postwar multilateralism and non-discriminatory practices (mirroring intra-G10 procedures) by providing bond-like conditions for debt restructuring, and it played a central role in the global transition toward multilateralism. The subsequent

reappearance of Club negotiations after 1964 (Part III), this time with more explicit IMF involvement, lends further weight to this argument.

In 1958, the newly elected democratic government of Arturo Frondizi embraced a comprehensive stabilisation-cum-development programme as the only viable path to Argentina's prosperity. For such a strategy to succeed, however, substantial foreign support was essential. Capitalising on the newly available multilateral facilities, Frondizi and his economic team appealed for extraordinary cooperation from G10 partners, both in terms of compensatory (or window-dressing) flows and development finance. Now with the dollar shortage over and currencies convertible, major trading partners, from US federal agencies to the unprecedented involvement of European commercial banks, stepped forward to support post-Perón Argentina. As in the case of Chile, this cooperation was partly driven by hemispheric defence concerns within the Cold War context, though arguably to a greater extent in Argentina's case, given the market opportunities presented by the post-Perón economy. Regardless of the motivation, this support proved crucial in moving Argentina further toward multilateral principles, particularly through the dismantling of extra-G10 bilateral arrangements. The ultimate collapse of the programme in 1962 should not obscure these episodes of cooperation, which marked the beginning of Argentina's multilateral navigation within the international financial system of the 1960s (Chapter 6).

Finally, Argentina's reintegration into the international financial system offers a valuable vantage point from which to reassess both the evolution of the BWS and Latin America's ISI era. Regarding the former, Argentina's case fits naturally as part of the broader global expansion of multilateralism on the eve of convertibility. As the dollar shortage began to ease, rising global liquidity enabled not only the G10 countries to declare their currencies convertible (as normally understood) but also to support Argentina's improved payments position and facilitated the gradual dismantling of the complex web of discriminatory bilateral arrangements via the Paris Club. From a Latin American perspective, Argentina's case calls for a reassessment of the global monetary conditions during the traditional ISI model period, particularly in countries reliant on soft commodity exports, and of the role a multilateral regime played as a precondition for the industrialisation 'heyday' of the 1960s discussed in Part III.

PART III

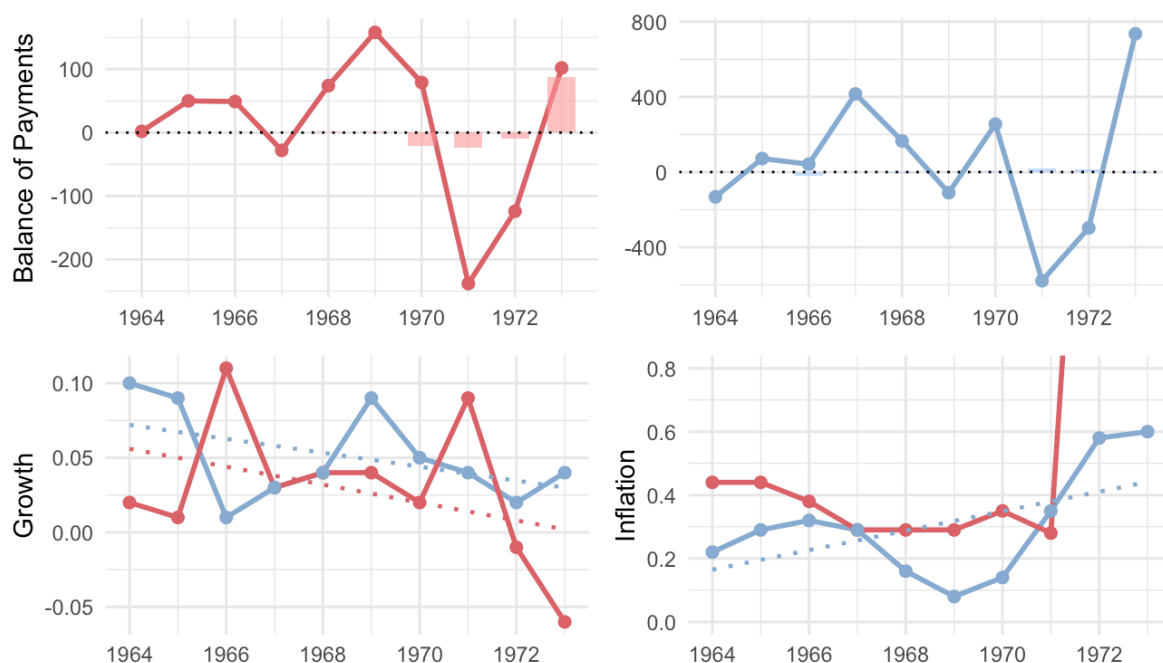
The Industrial Peak of the Southern Cone and Bretton Woods' Last Decade (1964-1973)

Macroeconomic evolution

In the second half of the 1960s, the Southern Cone experienced the most successful years of the ISI model. For the first time since the Second World War, the balance of payments of both countries recorded several consecutive years of surplus. This outcome stemmed from a range of factors, including improved treatment of the external sector after the Southern Cone moved away from the more discriminatory phase of the ISI model (Part II). In Argentina, much of the balance of payments surplus resulted directly from improvements in the trade and current account balances as well as short-term private capital inflows. In Chile's case, net capital inflows from official sources and some private investment also help to explain the overall payments surplus. By the turn of the decade, however, the Southern Cone's external position deteriorated markedly: in 1971, both Argentina and Chile recorded their largest balance of payments deficits of the Bretton Woods era (Figure III.1). During this period, governments on both sides of the Andes adopted expansionary domestic policies, which increased demand for imports at a time when commodity prices were weak and net capital movements turned negative.

Figure III

Key macroeconomic indicators for Chile (red) and Argentina (blue) in 1964-1973



Source: For balance of payments CEPAL, for growth and inflation Díaz et. al (Chile) and Ferreres

(Argentina).¹ Balance of Payments = lines: current + capital accounts in millions of US dollars, bars: errors and omissions (e.g., the residual between the sum of current and capital accounts and the observed change in official reserves); Growth = Real GDP rate; Inflation = Y-o-Y CPI rate.

The domestic economy closely mirrored the dynamics of the external sector. During the second half of the 1960s, the Southern Cone experienced its highest rates of economic growth in the postwar ISI period. Between 1964 and 1969, improved trade conditions contributed to average real growth rates of 4.2% in Chile and 5.9% in Argentina, with the industrial sector expanding even more rapidly: 5.2% and 8.7%, respectively. It should be noted that not all trends were positive, as traditional export sectors lagged behind: mining in Chile grew by just 0.9% on average, while agriculture in Argentina recorded only 2.2%. As Figure III.1 shows, the domestic economic situation deteriorated rapidly in the early 1970s, particularly in Chile. Inflation, which had been declining until 1969, thanks to prudent policies on both sides of the Andes, resurged with the implementation of expansionary measures. In Argentina, the annual CPI reached nearly 60% in 1973, while Chile entered a period of hyperinflation, with annual rates exceeding 700% that same year.

Overview of Part III arguments

Chile's navigation of the final decade of the BWS closely mirrored the contrasting approaches of its two governments of the period and their external positions. While economic historians have mostly focused on the succession of domestic economic policies, Chapter 5 goes further by examining the engagements of the Frei and Allende governments with international financial developments. It firstly traces how Eduardo Frei's administration (1964-1970) secured early support from G10 partners through a debt restructuring agreed in 1965 with the Paris Club, a multilateral forum that this thesis situates within the Bretton Woods framework. Once Chile attained a relatively comfortable external position, new evidence shows that Santiago contributed (within its limited means) to US external policies through early debt repayments and the central bank's reserve management. At the same time, Chile also pioneered an innovative exchange rate regime (the crawling peg) and promoted regional financial integration through the LAFTA clearing system (Table III.1). During the second government of the period, however, the country entered a period of greater domestic turmoil and external imbalances. Under the administration of Salvador Allende (1970-1973), the chapter turns its attention to how Chile once again secured debt restructuring at the Paris Club in 1972.

¹ CEPAL, *América Latina y El Caribe*; Díaz Bahamonde, Lüders, and Wagner, *Chile 1810-2010*; Ferreres, *Dos Siglos de Economía Argentina: 1810-2018*.

Table III
Some key events in the Southern Cone (1964-1973)

CHILE		ARGENTINA	
1964	Frei Elected President	1965	Paris Club Negotiations
1965	Paris Club Negotiations	1966	Argentine Revolution
1966	Crawling Peg; LAFTA Clearing	1967	Krieger Vasena Plan
1970	Allende Elected President	1969	Krieger Vasena Crisis
1972	Paris Club Negotiations	1972	Multilateral and G10 Support
1973	Coup d'état	1973	Perón Elected President

Source: see Chapters 5 and 6.

In a pattern resembling that of neighbouring Chile, Argentina also shifted from a position of relative external strength to one of acute balance of payments crisis. Building upon previous works that identified some of Buenos Aires' links with multilateral institutions and key trading partners, Chapter 6 delves deeper into Argentina's financial arrangements with the G10 and IMF. It shows how the cooperative debt restructuring granted by the Paris Club in 1965 enabled Buenos Aires not only to address short-term maturities but also to lay the groundwork for its own 'economic spring.' Distinctively, Argentina's industrial heyday unfolded under authoritarian rule (the so-called Argentine Revolution) and received early support from multilateral institutions and G10 governments to back an ambitious regulatory overhaul led by Minister Krieger Vasena (see Table III.1). Benefiting from a comfortable external position, Argentina fulfilled its obligations under Article VIII of the Fund's Articles and, like Chile, responded to US calls for cooperation in addressing its complex balance of payments situation. This period of favourable economic conditions, however, came to an end in the early 1970s with the re-emergence of external imbalances. At this critical juncture, and in line with the cooperative pattern established since 1955, the United States, multilateral institutions, and G10 commercial banks once again stepped in to assist Argentina in 1972.

Taking the experiences of Chile and Argentina together, Part III argues that the eventful final decade of the BWS and its cooperative dynamics extended to and included the Southern Cone throughout its industrial peak. It is undeniable that the key decisions to sustain the system of pegged exchange rates through 'patchwork schemes' were driven by the leading industrialised countries (e.g., the Gold Pool, short-term central bank support for sterling, and the BIS-based swap network).² Chapters 5 and 6, however, trace

² For a summary of the operation of the BWS in the 1960s, see Bordo, 'The Operation and Demise of the Bretton Woods System, 1958-1971'. For the key role of sterling, see Schenk, *The Decline of Sterling*, pt II and III. The final crisis of the system is described in Edwin M. Truman, 'The End of the Bretton Woods

how Chile and Argentina actively engaged with institutions and developments within the international monetary system. Multilateral institutions, developed countries (whether bilaterally or through the Paris Club), and G10 commercial banks responded cooperatively to virtually every request from Santiago and Buenos Aires for external assistance. From their temporarily improved external positions in the late 1960s, the Southern Cone even aligned its reserve policies to support the US in its complex external situation, including (in Argentina's case) central bank swap facilities.

International Monetary System', SSRN Scholarly Paper (Rochester, NY, 30 October 2017), doi:10.2139/ssrn.3061914.

CHAPTER 5

Chile's Industrial Heyday and the Last Decade of Bretton Woods (1964-1973)

“I would not press the political case for being generous to Chile if I did not think it exceptionally strong. The success of the new Christian Democrat Government under President Frei is important not only for Chile but for Latin America generally. If it fails, the way will almost certainly be open to the extreme left...”¹

UK Secretary of State Lord Stewart of Fulham

21 January 1965

5.1 Introduction

This chapter examines how Chile navigated the final decade of the BWS, with a particular focus on the two most significant administrations of the period: the government of Eduardo Frei Montalva (1964-1970) and that of Salvador Allende (1970-1973). During the Frei years, and once the country's traditional ISI model had been left behind (Chapter 3), Chile found itself better positioned to benefit from the rapid expansion of international trade in the 1960s. Favourable copper prices helped exports to double between 1964 and 1969, contributing to some of the highest GDP growth rates of the entire state-led industrialisation period (1939-1974). While the economy remained insulated from balance of payments crises until 1971, international reserves rose from a negative position in 1964 to nearly US\$400 million by 1970. The subsequent administration, however, reversed much of this progress. The failure of the Frei government to convince the electorate of the merits of the Christian Democratic project paved the way for a shift to the radical left in 1970, as the UK Secretary of State had vividly anticipated five years prior. The combination of a rapid decline in copper prices and an expansionary policy mix resulted in sizeable external imbalances, culminating in Chile's declaration of default in November 1971 and contributing to political polarisation in the early 1970s.

From a historiographical viewpoint, most economic history accounts of the Frei and Allende years focus primarily on domestic dynamics. The succession of policies is well known, from the specific economic measures of the Christian Democratic government, the agrarian reform and the complex nationalisation of copper companies.² More recently, however, historians have paid greater attention to the interplay between politics

¹ TNA FO 371/179306, Minute on Chile from Lord Stewart to Chancellor James Callaghan, 21 January 1965.

² For a relatively recent summary of the Frei government, see Carlos Huneeus and Javier Couso, eds, *Eduardo Frei Montalva: un gobierno reformista: A 50 años de la "Revolución en Libertad"* (Editorial Universitaria de Chile, 2018).

and economics in Chile-United States relations. Drawing on a wide range of archival sources, these studies offer a detailed picture of American influence on Frei's policymaking and how the copper industry became entangled in Cold War dynamics.³ Following a similar pattern, the literature on the Allende period also falls into two broad categories: works dealing with policy and institutional design, particularly the episode of hyperinflation, and political-economic studies focusing on Cold War relations and Chile's interactions with the IMF.⁴ While these are significant contributions to understanding Chile's economic trajectory between 1964 and the military coup d'état in 1973, most of these accounts deal only marginally with the eventful last decade of the postwar monetary system. Problematically, overlooking international financial relations offers only a partial view of the onset of Chile's industrial heyday and Santiago's role in global monetary developments.

Addressing this gap in the literature, this chapter first traces a series of themes that connect the Christian Democratic experience with key international developments. The first episode occurred immediately after the new authorities took office in late 1964, when Santiago officials entered negotiations with the G10 and other European countries to adjust foreign debt repayments. A second episode, typically overlooked in the historiography, concerns Chile's contribution (within its limited means) to supporting the United States' external position and propping up the US dollar. Drawing on American and IMF records, the chapter also identifies two further themes linking the Frei government to the 1960s BWS: the adoption of an innovative exchange rate regime (the crawling peg) and the implementation of the Latin American Free Trade Association clearing system among participating central banks. Together, these fresh insights offer a new layer of understanding of Chile-US relations beyond traditional accounts that focus on political or electoral considerations.

The election of Salvador Allende as President in 1970 marked a clear departure from Chile's historical political and economic patterns. Faced with a critical macroeconomic situation and a worsening external balance, officials in Santiago became less attuned to international developments during the final years of the BWS. Explicit references to the suspension of dollar convertibility in August 1971, or to subsequent efforts to reinstate

³ See Sebastián Hurtado-Torres, *The Gathering Storm: Eduardo Frei's Revolution in Liberty and Chile's Cold War* (Cornell University Press, 2020), ch. Introduction; Angela Vergara, *Copper Workers, International Business, and Domestic Politics in Cold War Chile* (University Park, Pennsylvania: The Pennsylvania State University Press, 2012).

⁴ For the Allende policies, see, for example, Patricio Meller, *Un siglo de economía política chilena (1890-1990)*, 2016, ch. 2; Sebastian Edwards, 'Inflation and the Corruption of Currency in Latin America: Chile, 1970-1973', *Journal of Policy History* 36, no. 4 (October 2024): 386-99, doi:10.1017/S0898030624000083. On the historians' side, see Tanya Harmer, *Allende's Chile and the Inter-American Cold War*, *The New Cold War History* (Chapel Hill: University of North Carolina Press, 2011); Claudia Kedar, 'Salvador Allende and the International Monetary Fund, 1970-73: The Depoliticisation and Technocratisation of Cold War Relations', *Journal of Latin American Studies* 47, no. 4 (2015): 717-47.

pegged exchange rates in the early 1970s, are largely absent from available government records.⁵ Such a situation does not mean that the government detached itself from international finance. On the contrary, Santiago officials directed considerable effort toward reaching a new agreement to restructure Chile's foreign liabilities following the suspension of debt repayments in late 1971, between the Nixon Shock and the Smithsonian Agreement that formalised the depreciation of the US dollar. Thanks to the multilateral framework provided by the Paris Club (which endured beyond the collapse of the BWS), Chile was able to retain links with international finance and major trading partners. Notably, the presence of a Marxist government at the Paris Club required a degree of accommodation and compromise from creditor nations, particularly the United States.

By examining the trajectories of the Frei and Allende governments, this chapter shows that both episodes were connected to the evolution of the international monetary system. First, this is evident in the multilateral treatment of Chile's external liabilities at the Paris Club in 1965 and 1972. While Chapter 4 made the case for the Paris Club to be considered as a late-born Bretton Woods institution, debt rescheduling in this Chapter shows how the Club operated as a Bretton Woods apparatus in the likeness of other 1960s ad hoc mechanisms. Second, Chile's support for US external economic policies aligned with systemic imbalances stemming from the de facto dollar-gold exchange standard and the patchwork schemes developed in the 1960s (e.g., the Gold Pool, swap arrangements, and short-term support for sterling).⁶ Third, both the crawling peg and the LAFTA clearing system may be viewed as responses to the challenges facing the Bretton Woods pegged system: the crawling peg offered a more flexible exchange rate mechanism, while the clearing system facilitated intra-regional payments and helped reduce the cash flow of much-needed US dollars for ISI countries.

Besides this introduction, the chapter follows a chronological order. Section two gives an overview of the Christian Democratic project, its economic policies, the external debt restructuring and Frei's regional vision through LAFTA. The next sections offer a context for the Allende government, the events that led to the declaration of default in late 1971 and the negotiations with the Paris Club in 1972. The chapter concludes with a general reflection on Chile's navigation of the last decade of the BWS.

⁵ For the end of the BWS, see Jeffrey E Garten, *Three Days at Camp David: How a Secret Meeting in 1971 Transformed the Global Economy*, 2021.

⁶ See, among others, Catherine R. Schenk, 'Coordination Failures during and after Bretton Woods', in *From Great Depression to Great Recession: The Elusive Quest for International Policy Cooperation*, ed. Atish R. Ghosh and Mahvash Saeed Qureshi (Washington, DC: International Monetary Fund, 2017), 72–75.

5.2 Frei's economic project and the 1960s international monetary system

In September 1964, the Chilean electorate chose a Christian Democrat presidential candidate for the first time in Latin American history. Under the banner of the 'Revolution in Liberty,' akin to Johnson's Great Society in America, Eduardo Frei Montalva's administration (1964-1970) introduced some of the most significant social, political, and economic reforms of the industrialisation era. Economically, Frei aimed to balance growth with domestic price stabilisation, mirroring Frondizi's earlier efforts in Argentina (see Chapter 4). To achieve this, his government overhauled the regulatory framework, promoted the so-called 'Chileanisation' of copper mining by securing state participation in US-owned companies, and pursued an ambitious agrarian reform. In addition, the Christian Democrats sought to foster non-traditional exports and deepen regional integration.⁷ Some of these policies, along with record-high copper prices, yielded notable results, strengthening Chile's trade balance and building sizeable international reserves.

Crucially, the Christian Democrats' economic project was ambitious enough to attract the attention and support of key players in the international financial system. Several authors have examined Chilean economic policies during 1964-1970, yet little attention has been given to the role of international economic actors.⁸ Nonetheless, as Hurtado-Torres has more recently pointed out, the closeness between Frei's Revolution in Liberty and US support was undeniable, both in terms of aid provision and the involvement of US diplomatic agents in Chilean politics.⁹ Within this cooperative context, this section explores four main themes closely connected to the evolution of the international financial system in the 1960s: Chile's renegotiation of external debt through the Paris Club, a multilateral forum introduced in Chapter 3; a cooperative attitude from Santiago to help America's external policies and the US dollar (within Chile's limited means); the crawling peg exchange regime; lastly, the Frei administration's regional vision and the launch of the LAFTA clearing system.

External debt refinancing: from Washington to the Paris Club

The balance of payments deficits that arose following Alessandri's stabilisation project stood among the most pressing external challenges for Frei and his economic team. As discussed in Chapter 3, the deficits recorded between 1960 and 1962 led to a significant

⁷ Sergio Molina, 'El programa económico-social y su aplicación en el gobierno del presidente Frei Montalva', in *Eduardo Frei Montalva: un gobierno reformista: A 50 años de la "Revolución en Libertad"*, ed. Carlos Huneeus and Javier Couso (Editorial Universitaria de Chile, 2018).

⁸ For the economic policies, see notably Ffrench-Davis, with more critical assessments by Behrman. See Ffrench-Davis, *Políticas económicas en Chile, 1952-1970*; Behrman, *Foreign Trade Regimes and Economic Development*.

⁹ Hurtado-Torres, *The Gathering Storm*, ch. Introduction.

increase in the CBCh's short- and medium-term obligations. External accounts returned to a certain equilibrium over the next two years, but this was accomplished only through a combination of restrictive trade policies and long-term capital inflows exceeding amortisation payments, including loans from the US AID, IDB, IBRD, and IDA. While increased support from multilateral agencies improved the overall composition of external debt by reducing the proportion of short-term commitments, it provided only temporary relief before debt maturities became unsustainable. Indeed, the IMF projected that payments of principal and interest would absorb up to 40% of prospective exchange earnings in 1965-1966, expecting a US\$70 million balance of payments deficit in 1965.¹⁰ The heavy indebtedness and repayment schedule set off alarm bells within the new government, which was also grappling with unresolved import arrears and providers' credits (Table 5.1).

Chronic weaknesses in foreign exchange and international reserve positions would have severely limited the government's plans on monetary, fiscal, and exchange policies. That is why Frei's economic team quickly began negotiations with major creditors. In October 1964, just a month after the election, a Chilean delegation met with the Fund's Acting Managing Director, Frank A. Southard. The primary objective was to secure additional financing and broader cooperation from the Fund for the renegotiation of external debt. On the first point, Southard immediately emphasised that the scope for fresh financing was extremely limited, given Chile's heavy reliance on the Fund's resources in recent years (US\$100 million).¹¹ The most the Fund could offer, eventually approved by the Board in January 1965, was a US\$36 million SBA that effectively rolled over a previous outstanding arrangement. Fully aware of these constraints, the Chilean delegation welcomed this early Fund 'seal of approval' for the new administration. "The usefulness of the Fund's cooperation and assistance," the incoming minister of finance remarked, "goes much beyond the direct financial help that it could provide."¹² This early understanding proved pivotal in negotiations with other creditor countries and key actors in the international financial system.

¹⁰ IMF SM/64/108, 22 December 1964, Part I, p. 23, and Part II, p. 39.

¹¹ IMF EBM 65/1, 6 January 1965.

¹² IMF IA, Stand-by Arrangements, Central Files, C/Chile/1760 Stand-by Arrangements, 20 October 1965.

Table 5.1

Total Chilean external debt by maturity before rescheduling in millions of US dollars
(December 1964)

Long term	832
US Agencies (AID, PL 480)	368
International Banks (IBRD, IDA, IFC)	140
Regional Bank (IDB)	103
Government bonds	221
Short- and mid-term	871
IMF	131
US Treasury	21
US (guaranteed providers' credits and intergovernmental)	209
W. Europe and Japan (guaranteed providers' credits and intergov.)	282
Banks' credits (US, UK and Switzerland)	50
Other	178
Total	1,703

Source: TNA T 312/1097, Development Corporation Report, 1 February 1965. 'Other' includes unguaranteed suppliers' credits (US\$80 million), import foreign exchange commitments (US\$94 million) and a small credit granted by Argentina (US\$4 million)

Beyond international agencies and long-term commitments, Chile's primary creditors consisted of most G10 countries and other European partners. American commitments mainly took the form of EXIMBANK loans, directed both to the public sector, including central bank compensatory financing, and to private enterprises in sectors such as steel, copper wire, energy, and nitrates. Among European lenders, Germany accounted for over US\$110 million, with loans supporting the balance of payments as well as mining and railway companies. France followed with US\$37 million, largely in the form of deferred payments to the private sector and Chile's national airline, whereas the UK extended US\$23 million. Another key contributor was Japan, which provided US\$34 million in credits for state railways, public works, and a shipping enterprise. Outside the G10, Denmark granted US\$11 million, mainly for oil exploration and the fishing industry, while Spain contributed US\$10 million, with credits taken up by the Chilean army and firms in paper, canned food, and fisheries.¹³

Among industrialised nations, the US emerged as the most receptive partner for helping the new Christian Democratic government. The American cooperative attitude

¹³ TNA T 312/1097, Development Corporation Report, 1 February 1965.

was likely driven by both political and economic considerations related to hemispheric security. As noted in Chapter 3, US interest in Latin America's development heightened following the overthrow of Fulgencio Batista in Cuba in January 1959. In 1961, President Kennedy launched the Alliance for Progress, a Marshall Plan-style initiative aimed at fostering economic growth, political reform, and democracy in the countries south of the Rio Grande. Although the programme ultimately fell short of its ambitious goals and was disbanded in 1973, it provided substantial financial support throughout the 1960s. By 1968, the Alliance had channelled over US\$9 billion, primarily through EXIMBANK, the IDB, and the PL 480 programme, with Chile receiving the largest share in per capita terms.¹⁴ This support was strongest before the escalation of the Vietnam War starting in 1966, which spurred inflationary pressures in the US and heightened concerns over exchange rate stability and balance of payments, prompting a re-evaluation of foreign aid policies.¹⁵

After securing backing from the IMF and the United States, Chilean officials sought to reschedule short- and medium-term debts. Convincing private commercial banks proved relatively straightforward, as they were quick to approve a rollover of their short-term US\$50 million loans (Table 5.1).¹⁶ By contrast, negotiations involving government-guaranteed and intergovernmental loans demanded greater coordination efforts, as G10 (plus Spain and Denmark) partners opted to act multilaterally. Following the pattern of 1956 with Argentina, creditor nations renegotiated Santiago's debt under the aegis of the Paris Club. As noted in Chapter 4, this thesis argues that the Club can be rightfully regarded as a 'late-born' Bretton Woods institution due to its fundamentally multilateral character (and an idea that had also been contemplated by postwar planners).

It is important to note some key differences between Argentina's 1956 negotiations with the Paris Club and Chile's case in 1965. Because the latter took place after the declaration of G10 convertibility (1958), the negotiations during the Frei government focused exclusively on debt rescheduling, rather than on provisions for currency transferability. Secondly, by the mid-1960s, the Club was no longer a purely European forum: beginning in 1964, both the United States and Japan joined the discussions, starting with Brazil's debt renegotiation. As explained below, the IMF also had a pivotal role at the Paris Club, with its first engagement taking place during Argentina's debt

¹⁴ Between FY1962 and FY1969, Chile received US\$743 in loans and grants. See Jeffrey Taffet, *Foreign Aid as Foreign Policy: The Alliance for Progress in Latin America* (New York: Routledge, 2007), 67–68, doi:10.4324/9780203941874.

¹⁵ See Burton Kaufman, 'Foreign Aid and the Balance-of-Payments Problem: Vietnam and Johnson's Foreign Economic Policy', in *The Johnson Years, Volume Two Vietnam, the Environment, and Science*, ed. Robert A. Divine, 1st ed. (Lawrence: University Press of Kansas, 1987), 80–110.

¹⁶ TNA T 312/1098, Bankers' credit: Brazil/Chile/Argentina, 12 March 1965

rescheduling in 1962.¹⁷

Table 5.2
Paris Club negotiations with Chile in millions of US dollars (1965)

	Total	Principal due 1965	Principal due 1966	Refinancing (%)
Large				
US	143.0	26.7	32.3	70.0–75.4
W. Germany	80.5	13.3	11.9	70.0
Upper Medium				
France	25.5	6.3	5.7	70.0
Japan	20.5	3.6	2.6	100.0
Lower Medium				
Italy	14.5	2.8	2.8	70.0
UK	12.5	6.6	5.3	70.0
Canada	11.0	1.1	1.4	88.0
Denmark	9.8	2.7	2.2	65.0
Small				
Spain	4.0	–	1.0	70.0
Other	3.2	1.6	0.8	70.0

Source: IMF SM/66/25, C1, 16 February 1966, and TNA T312/1097, 22 February 1965. Denmark's refinancing was lower than 70% because it includes principal and interest.

Aside from these differences, the debt renegotiation phases followed the same pattern established in 1956 between the Club and Argentina. Preliminary talks, in which lenders and the borrower set the general terms of the debt repayment, took place in January and February 1965. Throughout those meetings, Paris Club participating countries offered to refinance 70% of loans due in 1965-1966, alongside granting a three-year grace period. In return, Chile committed to resolving commercial and financial arrears and maintaining foreign debt at sustainable levels.¹⁸ Once a *Procès-verbal* containing all those general commitments was signed in late February 1965, Chile proceeded to negotiate directly with each creditor. These subsequent bilateral talks, it must be recalled, were conducted on a non-discriminatory or MFN basis. By strictly

¹⁷ The specific reasons for the broader involvement of international actors in Club negotiations remain to be determined.

¹⁸ Banque de France Archive, 1489200201 AR 33, Procès-verbal agree relatif a la consolidation des dettes chiliennes, 24 February 1965.

following the general multilateral guidelines, they were only intended to adapt the general terms to each creditor's legal framework and the specific nature of the loans (this explains the different percentages of refinancing in Table 5.2).

One notable feature of the Paris Club negotiations was the differing relative positions of the creditor nations. Archival records reveal that Britain, facing its own financial difficulties, was less forthcoming in supporting Santiago than surplus countries like Germany. Following the October 1964 UK election, mounting pressures on sterling led G10 central banks to extend the Bank of England US\$3 billion in short-term credit in an attempt to avoid a devaluation.¹⁹ Against this backdrop, British officials began reconsidering the UK's stance on development spending. "The Chilean exercise is important," a Bank of England official remarked, "in being the first operation case of its kind since the outbreak of our crisis, and the question arises how we wish to use it to persuade H.M.G. to cut its aid programme."²⁰ Opposing a commonly shared refinancing, the British delegation at the Paris Club meetings proposed differential percentages based on external payment constraints, arguing that they "should not be spend-thrift with the short-term support which other countries in the Club have recently made available to us."²¹ This proposal, however, was contested by Continental European members, who successfully advocated for equal treatment among creditors.²²

Besides the 'triumph' of equal treatment among creditor countries, the 1965 Paris Club negotiations also illustrate how other multilateral agencies adapted to the Club's evolving framework. Unlike the 1956 Argentine case, Chile's 1965 debt restructuring involved the participation of the IMF.²³ This involvement was threefold. Firstly, Chile's standby with the IMF noted above was understood as a prerequisite for the industrialised countries (and Spain) to initiate any debt restructuring negotiations with the Frei government. For the creditor countries, the SBA signalled concrete policy commitments and brought additional multilateral resources that helped narrow the final refinancing burden (as will be seen, this aspect changed in the Chile-Paris Club negotiations of 1971). Secondly, during the preliminary multilateral meetings, the Fund played a technical yet critical role. The IMF presented to Club members its assessment of Chile's macroeconomic performance and projections. This analysis, combined with data gathered independently by each creditor through their embassies in Santiago, helped shape the refinancing terms.²⁴ Finally, in the implementation phase following the *Procès-verbal*, the IMF acted as an 'information clearinghouse,' continuously collecting and

¹⁹ Schenk, *The Decline of Sterling*, 155–59.

²⁰ BoEA, OV160/9, Crick to Tootham and Parsons, 12 December 1964.

²¹ TNA T312/1097, Chile Debt Refinancing, 1 February 1965.

²² TNA T312/1096, Paris Talks on Chilean Debts 27th–28th January 1965.

²³ The IMF had participated previously in Paris negotiations with Argentina (1962) and Brazil (1964). It is still to be determined the internal dynamics of the Paris Club in those negotiations.

²⁴ In this way, the

circulating reports on Chile's compliance, including adherence to provisions such as ceilings on new external borrowing.²⁵

Taken together, the Fund's 'threefold involvement' with the Paris Club illustrates how these institutions cooperated to provide a multilateral and global framework for addressing developing countries' debt relief. While helping to avert imminent default, the major actors of the international financial system devised an institutional and collaborative solution to share the burden of delayed repayments. The Fund's involvement, however, also had systemic implications in line with the evolution of the BWS in the 1960s. In fact, this thesis contends that the Fund's participation in Club operations pushed it beyond multilateral coordination among G10 creditor nations. By the 1960s, it is possible to argue that the Club became an integral part of the BWS's ad hoc solutions aimed at preserving the international monetary system. While intra-G10 cooperative efforts helped to sustain the price of gold or sterling's parity, the Club addressed a missing piece in the international monetary architecture: the unsustainable accumulations of short-term liabilities by developing economies. Although neglected in the existing literature, the Club acted as another Bretton Woods 'apparatus,' like the Gold Pool or swap arrangements, to organise and devise comprehensive multilateral packages. By bringing into discussions the IMF's financial and technical support in addition to creditor governments, the Club contributed to the stability of the system by helping developing countries to avoid balance of payments crises or prevent them from default.

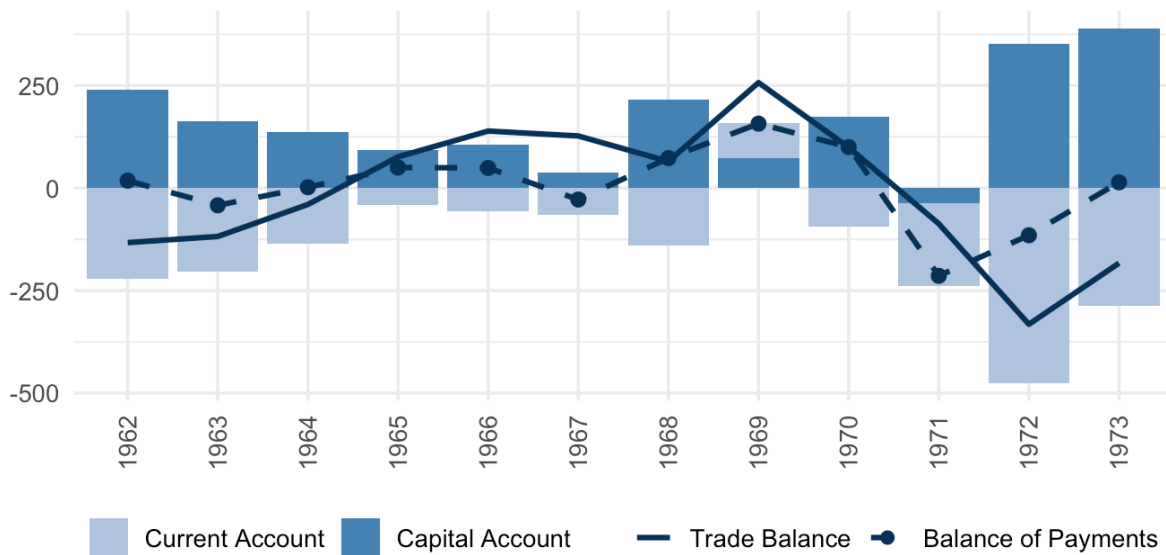
In sum, negotiations in Washington and Paris enabled Chile to enter the second half of the 1960s on a much firmer footing and to take full advantage of the improved commercial conditions during their 'industrial heyday.' Fortunately for the government, concerns about the external sector began to dissipate in the latter half of the 1960s. This improvement was bolstered by a surge in copper prices, driven by Western Europe's successful re-industrialisation and heightened military operations in Vietnam. Copper demand soared, reaching its highest real price in the entire 20th century, particularly in the London market, whose quotations Chile started to follow in August 1966. Additionally, growth in minor or non-traditional exports contributed to strengthening Chile's trade balance, which recorded consistent surpluses for the first time since the mid-1950s. The moderation of current account deficits, combined with sustained financial support from abroad and foreign investment in the copper industry, led to a balance of payments surplus during much of Frei's presidency (Figure 5.1). These favourable external conditions were complemented by effective domestic policies, particularly in the administration's early years.²⁶

²⁵ IMF IA, Country Files, C/Chile/810 Mission - Finch and Vera (Feb.), 1965.

²⁶ See Ffrench-Davis, *Políticas económicas en Chile, 1952-1970*.

Figure 5.1

Balance of payments in millions of US dollars (1962-1973)



Source: CEPAL.²⁷

Supporting the US dollar (within limited means)

Benefiting from favourable external conditions, Chile was expected to contribute to stabilising the international monetary system and supporting the US dollar. As the BWS literature notes, this was a critical period for the American currency, as US domestic fiscal and monetary policies aimed at bolstering domestic growth and employment took precedence over the goal of external equilibrium.²⁸ In this context, and within its limited means, Chile's commitment to international stability materialised in a series of policy measures aligned with US goals, including trade liberalisation, early debt repayments and efforts to maintain orderly currency markets.

In the latter half of Frei's term, reflecting the improvement of the external sector, Santiago officials implemented measures to ease import restrictions. These included expanding the list of authorised imports and shortening the mandatory deferment period.²⁹ US State Department records reveal that these trade liberalisation efforts were closely aligned with American interests in strengthening the US balance of payments. Indeed, the American embassy in Santiago closely monitored Chile's import regulations throughout the Frei administration. In 1968, for instance, the State Department explicitly requested from the American embassy in Santiago detailed commercial information, citing the need to expand American exports. Reporting back, Ambassador Rusk noted

²⁷ CEPAL, *América Latina y El Caribe*.

²⁸ Eichengreen, 'From Benign Neglect to Malignant Preoccupation'.

²⁹ IMF SM/69/41, Part I, p. 13, 7 April 1969.

that “persistent US balance of payments difficulties” demanded “that American business have the benefit of the best possible assessment of important world markets [for US exports], such as Chile.”³⁰ At the time, Chile was the fifth-largest recipient of US exports in Latin America, and future copper investments were expected to drive further imports, particularly of capital goods. Indeed, imports from the US rose from US\$200 million in 1964 to over US\$330 million in 1970, shifting Chile’s trade balance with America from a modest surplus in the early 1960s (US\$40 million) to a record deficit of over US\$170 million in 1969.

While the US aimed to improve its trade balance, American officials were also keen to strengthen the capital account position with Chile. These discussions took place against the backdrop of a rapid recovery in copper prices in 1968, when the London market quoted the metal 10% higher than in the previous year.³¹ Observing these developments closely, American State Department officials approached the CBCh in July 1968, noting that foreign exchange revenues from copper exports were exceeding forecasts. Reporting back to the State Department with satisfaction, they relayed the Chilean government’s willingness to cooperate and explore “a specific technique for assisting U.S. balance of payments at the end of the year” through “the prepayment against \$11 million due to U.S. banks during 1969.”³² In a subsequent communication to President Johnson, the US ambassador to Chile conveyed that, “to aid our balance of payments,” he had successfully persuaded Chileans to make “prepayments of both public and private debt to the U.S. of \$18,300,000.”³³

More explicitly cooperative attitudes towards US-led efforts to stabilise the international monetary system emerged in March 1968. That month marked the collapse of the Gold Pool, an ambitious effort in which the G10 massively intervened in the London market to stabilise the price of gold.³⁴ Established in 1961, the Pool had operated with occasional surpluses until late 1966, but following France’s withdrawal from the arrangement in July 1967 and renewed speculative pressures, participating countries suspended Gold Pool operations eight months later. The resulting two-tier gold market, with one fixed for official transactions and another subject to private supply and demand, introduced new uncertainties into the financial system. It also required cooperation from central banks and governments to refrain from engaging in private gold market transactions.³⁵ Otherwise, the two-tier solution would have collapsed even faster by

³⁰ NARA II RG 59, Entry A1 1613-C, Box 599, Economic Trends Report, 6 March 1968.

³¹ Kenji Takeuchi, John E. Strongman, and Shunichi Maeda, *The World Copper Industry. Its Changing Structure and Future Prospects*, World Bank Staff Commodity Working Papers (Washington D.C.: World Bank, 1986), 24.

³² NARA II RG 59, Entry A1 1613-C, Box 736, 26 July 1968.

³³ NARA II RG 59, Entry A1 1613-C, Box 465, 15 January 1969.

³⁴ Bordo, Monnet, and Naef, ‘The Gold Pool (1961–1968) and the Fall of the Bretton Woods System’.

³⁵ Michael D. Bordo, Owen F. Humpage, and Anna J. Schwartz, *Strained Relations: US Foreign-Exchange*

eroding confidence in the dollar-fixed gold value.

The CBCh swiftly aligned itself with these stabilisation efforts, driven by both national interests and external pressures. Aside from potential trade disruptions, maintaining dollar parity with gold was a key concern for Chile, as the majority of the central bank's international reserves were denominated in US dollars. According to reports presented to the Board later that year, US\$110.4 million (nearly 70% of the bank's gross foreign exchange reserves) were held in US dollars.³⁶ For this reason, after confirming that Washington had no plans to depart from America's commitment to the current parity, CBCh's manager Massad "was profuse in expression of thanks for assurances regarding US position on gold-dollar."³⁷ However, Chile's commitment to international stability also reflected direct calls from the United States. In May 1968, when consulted about its gold purchase policy from domestic producers, the CBCh promptly assured the US ambassador that it would maintain purchases at the official rate of US\$35 per ounce.³⁸ This commitment was particularly significant, as the two-tier system required official entities to avoid actions that could drive up prices in the London free market, such as price differentials or large purchases from major producers like South Africa or the USSR.³⁹

CBCh's cooperation extended beyond its gold policy. The same week the Gold Pool was closed, US officials urged the Chilean central bank to curb speculation over potential currency devaluations after Banco de Chile, one of the country's largest private banks, attempted to shift dollars into Deutsche Marks in the New York market. The bank's customers had already made substantial conversions, and the institution had oversold German currency. Anxiety in the market grew, compounded by a turbulent domestic political climate following the recent resignation of the finance minister. Thus, following American instructions, the CBCh acted fast, ending rumours of imminent cross-rate adjustments within the banking sector. This intervention earned the US government's "appreciation" because of Massad's "expression of understanding and willingness [to] cooperate in [the] maintenance [of] orderly financial markets."⁴⁰

This flight from the dollar to the Deutsche Mark was no coincidence. In Santiago, market actors were aware of the DM's undervaluation in the late 1960s. Having already been revalued in 1961, Germany's persistent surplus position throughout the decade

Operations and Monetary Policy in the Twentieth Century, National Bureau of Economic Research Monograph (Chicago: The University of Chicago Press, 2015), 181.

³⁶ CBCh Directory Minute 2, 196, 11 December 1968.

³⁷ NARA II RG 59, Entry A1 1613-C, Box 736, Gold market, 16 March 1968.

³⁸ NARA II RG 59, Entry A1 1613-C, Box 736, Central Bank Gold Policies, 20 March 1968.

³⁹ Charles A. Coombs, *The Arena of International Finance* (New York: Wiley, 1976), 160.

⁴⁰ NARA II RG 59, Entry A1 1613-C, Box 736, Gold Market Developments, 18 March 1968.

pointed to the need for another parity adjustment.⁴¹ Subsequent events confirmed these concerns: following the French devaluation in August 1969, Bonn revalued the Deutsche Mark by 9.3% only to let it float and revalued yet again in May 1971. Such parity adjustments, increasingly frequent, underscored the deepening instability of the international regime and foreshadowed its eventual collapse. Before that final crisis, however, leading economies sought ways to introduce greater exchange rate flexibility, looking into an innovative system applied in Chile as a potential solution.

The crawling peg

When Christian Democratic officials took charge of key government offices in November 1964, the mounting external threat or the need to support American external policies were not their only preoccupations. An overhaul of exchange rate policy, deemed central to managing the external sector, was also on the minds of central bank technicians. As shown in Chapters 1 and 3, Chile had already experimented with nearly all exchange rate regimes: multiple exchange rates inherited from the interwar period were followed by a dual floating regime during the Klein-Saks years, and eventually a single pegged rate was maintained for three years under the Alessandri Plan. As earlier chapters have also shown, successive governments abandoned these regimes either because they proved unfit for managing the external sector or due to the rapid exhaustion of international reserves. Reflecting on those situations, the officials who took charge of monetary policy in the mid-1960s opted for a new regime: the crawling peg or a system of flexible and gradual appreciations or depreciations of the currency. Beyond describing the functioning of the crawling peg, the following paragraphs situate the Chilean experience within global events and broader developments in the BWS that challenged the pegged exchange rate regime in the 1960s.

When considered from the viewpoint of the BWS, the establishment of the crawling peg in Chile could be seen as a timely response to systemic events and multilateral debates. Indeed, the 1960s exposed growing tensions within the pegged exchange rate system established by Bretton Woods. Although the 1944 Conference envisioned ‘fixed-but-adjustable’ exchange rates, official parity adjustments among industrialised nations remained rare in practice. The rapid expansion of capital mobility further exacerbated exchange rate misalignments, despite the persistence of capital controls in many countries. As a result, major currencies became persistently overvalued or undervalued, heightening risks to the international monetary system.⁴² Neither deficit countries (such as the US and Britain) nor surplus economies (notably Federal Germany and Japan) were

⁴¹ James, *International Monetary Cooperation since Bretton Woods*, 194.

⁴² Bordo, ‘The Operation and Demise of the Bretton Woods System, 1958-1971’, 231.

willing to adjust their pegs, partly due to conflicts with domestic policy objectives. The failure to reach a consensus on greater exchange rate flexibility, among other causes, led to the final crisis of the BWS in the early 1970s.

Before the collapse of the system, the BWS literature agrees that G10 nations engaged in discussions on introducing greater exchange rate flexibility while seeking to preserve the system's core principles. De Vries argues that by the mid-1960s, the limitations of pegged exchange rates had prompted calls for alternative monetary arrangements.⁴³ Policymakers, central bankers and academics, increasingly concerned about mounting imbalances, convened the Bellagio Group in 1964 to issue a report advocating more frequent exchange-rate adjustments.⁴⁴ One of the alternatives that emerged was the concept of a crawling peg regime, which introduced gradual, pre-announced adjustments to exchange rate parities. This mechanism aimed to prevent real currency appreciation caused by domestic inflation and to facilitate balance of payments correction without undermining market confidence or expectations. At the academic level, such a scheme was first meant to strengthen Britain's balance of payments and pound sterling, severely under pressure after the Labour election in 1964.⁴⁵ Unlike the sharp, abrupt parity adjustments seen in developed economies (Germany 1961, 1969; Britain 1967; France 1969), as well as the more frequent devaluations in developing countries, the crawling peg promised a mechanism for more orderly and gradual exchange rate realignments.

Chile became a global pioneer in implementing the innovative crawling peg regime. In April 1965, just after achieving a favourable outcome in parliamentary elections, the Frei administration secured the necessary political backing to adopt it. According to one of its architects, Ricardo Ffrench-Davis, the new regime was crucial for better managing external imbalances while mitigating the disruptive effects of abrupt exchange rate adjustments.⁴⁶ Drawing on Chile's own historical experience, the authorities sought to address the constant overvaluation of a pegged regime due to persistent inflation (like in the postwar years, Chapter 1), and the speculative attacks surrounding large yet inevitable devaluations (most recently, in 1962). The alternative option, a free-floating exchange rate, was deemed incompatible with the goal of economic planning, especially given that copper accounted for 50-60% of all foreign exchange earnings. A sudden drop

⁴³ Margaret Garritsen de Vries, *The IMF in a Changing World, 1945-85* (Washington, D.C: International Monetary Fund, 1986), 47.

⁴⁴ Robert Solomon, 'Changing Perspectives on the International Monetary System', in *International Financial Policy: Essays in Honor of Jacques J. Polak*, ed. Jacob A. Frenkel and Morris Goldstein (International Monetary Fund, 1991).

⁴⁵ John Williamson, 'The Crawling Peg in Historical Perspective', in *Exchange Rate Rules: The Theory, Performance and Prospects of the Crawling Peg*, ed. John Williamson (London: Macmillan, 1981), 7.

⁴⁶ As Deputy Manager, Ffrench-Davis was one of the most prominent officials at the CBCh during the Frei administration. Following his work at the bank, he went on to Chicago University to complete his doctoral degree. A prolific writer, Ffrench-Davis became Principal Regional Adviser at the ECLA in the 1990s.

in international copper prices would have destabilised the economy (like in 1957-1958, Chapter 3), leading to unpredictable fluctuations in the exchange rate and undermining the ability to manage both external accounts and domestic policy.⁴⁷ The crawling peg, therefore, offered a middle ground, stabilising the exchange rate by accounting for domestic inflation while avoiding speculative attacks on the escudo before sudden devaluations.⁴⁸

The adoption and implementation of the crawling peg was far from straightforward. The Chilean government was faced with the task of convincing key international partners and multilateral institutions of the policy merits, along with having to quell domestic opposition from groups that had historically benefited from sudden devaluations. Challenges arose from the outset. In a recent publication, then-CBCh's Vice President Carlos Massad revealed that the greatest resistance came from the IMF. Only after intense negotiations, which concluded after 5:00 a.m. at the vice president's own house, did the Fund agree to "give the new revolutionary [exchange rate] policy a try."⁴⁹

Unfortunately, Massad does not delve into the IMF's initial opposition to the crawling peg in 1965. However, it is reasonable to assume that the mission sent to Chile reflected the Fund's doctrinal vision on the single pegged rate by the second half of the 1960s. Evidence of such a stance became clear in multilateral discussions after the closure of the Gold Pool in March 1968. Indeed, Williamson notes that the gold crisis made US authorities increasingly concerned with the so-called 'adjustment problem' or the reluctance to alter exchange rate parities.⁵⁰ Frustrated by the partners' unwillingness to adjust the peg, G10 governments began considering more flexible alternatives (the crawling peg included) and raised these concerns to the IMF Board in the late 1960s. After several months of internal deliberation, the IMF's institutional position on members' exchange rate policies was presented to the Executive Board in May 1970. In it, the Fund adhered to a strict interpretation of the Articles of Agreement, advising all members to remain within the system of pegged rates.⁵¹

Even after its approval by Fund authorities in early 1965, debates over the functioning of the crawling peg persisted. At the core of this tension was the divide between the

⁴⁷ Ricardo Ffrench-Davis, 'Elementos Para Una Política de Comercio Exterior', *Latin American Journal of Economics-Formerly Cuadernos de Economía* 2, no. 5 (1965): 41-52.

⁴⁸ In the literature, not all specialists agree upon the benefits of the crawling regime. Behrman, for example, contests the novelty of the regime, quoting previous monthly adjustments in 1952, 1953, 1956-1959 and 1962. See Behrman, *Foreign Trade Regimes and Economic Development*, 98.

⁴⁹ Carlos Massad, 'La Revolución en Libertad en el plano monetario y financiero', in *Eduardo Frei Montalva: un gobierno reformista: A 50 años de la "Revolución en Libertad"*, ed. Carlos Huneeus and Javier Couso (Editorial Universitaria de Chile, 2018).

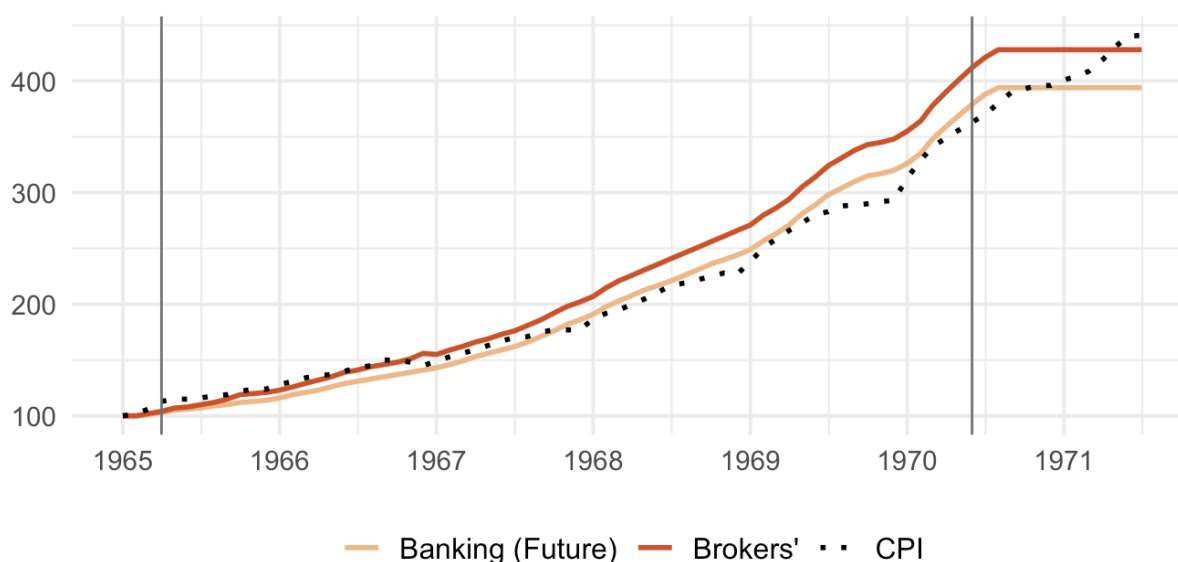
⁵⁰ Margaret Garritsen de Vries, *Balance of Payments Adjustment, 1945 to 1986: The IMF Experience* (Washington, D.C.: International Monetary Fund, 1987), 90. For a recent reference, see Eichengreen, 'Bretton Woods After 50'.

⁵¹ Williamson, 'The Crawling Peg in Historical Perspective', 22.

exchange rate's realistic level and domestic inflation. The former perspective (embraced by CBCh officials) took a longer-term view and favoured a crawling peg in line with or above the CPI, aiming to offer better exchange conditions to exporters, especially non-traditional ones. However, with a more short-term focus, critics from within and outside the government argued that a faster crawl would fuel inflation, thus offsetting potential gains for exporters. These concerns were heightened by Chile's dependence on imported goods: key consumer items such as sugar, tea, wheat, and cellulose (for newsprint), as well as oil and machinery essential to the domestic ISI project, were all shipped from abroad. During the first years of crawling, Figure 5.2 shows that the vision favouring a slower crawling prevailed: the CPI increased faster than the most relevant exchange rate (banking future). As the CBCh acknowledged, it was the "preoccupation of the [CBCh's] Board of Directors, in line with government objectives, that peg adjustments... do not interfere with domestic anti-inflationary goals."⁵²

Figure 5.2

Chile's exchange rates and CPI between January 1965 and July 1971 (Jan 1965 = 100)



Source: CBCh Annual Reports. Vertical black lines = start and end of crawling peg regime. In January 1965, the bankers' (future) = 2.85 pesos per US dollar; brokers' = 3.099 per US dollar. Most trade transactions operated through the banking rate, while the brokers' market was meant for capital transactions.

The crawling peg policy began to shift in late 1966, when the monetary authorities decided to increase the pace of the crawl. A combination of improved domestic conditions and external pressure from key partners appears to have motivated the change. On the domestic front, the government's anti-inflationary policy began to bear fruit: the CPI fell from 44% in 1965 to 17% in 1967. With domestic prices relatively more under control, key partners began to press for a more realistic exchange rate policy. IMF

⁵² CBCh Annual Report 1966, p. 68.

officials made this explicit, demanding greater exchange rate flexibility as a condition for negotiating a new US\$40 million SBA for 1966.⁵³ American AID observers, who reviewed Chile's performance quarterly before releasing funding tranches, shared these concerns. Dismissing the government's argument on rising domestic costs, they contended that "the inflationary impact of a more rapid devaluation is more likely to stem from indirect or psychological influences rather than from the direct effects of greater devaluation."⁵⁴ Fund and American concerns thus appeared to reinforce the voices within the CBCh calling for a long-term view of exchange policy. As Figure 5.2 illustrates, from August 1967, the CPI rose more slowly than the brokers' rate, and from November 1967 than the banking rate. (It remains unclear whether the sterling devaluation in the same month further encouraged the CBCh to speed up the crawling, but it would not be unreasonable to assume so.)

The crawling peg functioned as intended for nearly six years and was later reapplied in Chile with relative success in the second half of the 1970s. Its abrupt end just months before the new government took office, however, was driven largely by domestic conditions and the intense political polarisation of the late 1960s. The resumption of inflation in 1970 gave renewed support for the critical voices of the faster crawling. Although the rise in prices appeared to have been driven not only by the exchange rate mechanism but also by wage and fiscal policies, both right and left-wing critics focused on the crawling peg.⁵⁵ In August 1969, the socialist press, for example, "threw a curve denouncing the International Monetary Fund for the bad effects of its stabilization 'recipes' (read periodic devaluation) on the working class."⁵⁶ Faced with a complex electoral scenario in September 1970, the government decided to suspend the crawling peg in July and reinstate a pegged system to avoid further criticism before the election.

The experience with the crawling peg warrants a final reflection from the perspective of the BWS. It shows that the challenges to the 'fixed-but-adjustable' Bretton Woods solution were not confined to the G10 economies. Although in a different form, the 'adjustment problem' also affected developing countries, reflected in their growing disillusionment with pegged regimes. In the Southern Cone, once stabilisation programmes were adopted and the long-awaited single pegged rate achieved, Argentina and Chile ultimately proved unable to sustain it for more than three years. Although multilateral and G10 compensatory finance helped to mitigate the loss of international reserves needed to sustain the peg, significant devaluations still took place in the early

⁵³ IMF IA, Mission Vera and Staff (Nov.), Mission to Chile, p. 2, 1 December 1965.

⁵⁴ NARA II RG59, Entry A1 1614-B, Box 843, Suggested Exchange Rate Policy for 1966, 4 October 1965.

⁵⁵ For the drivers of inflation, see Rodrigo Caputo and Diego Saravia, 'The History of Chile', in *A Monetary and Fiscal History of Latin America, 1960–2017*, ed. Timothy J. Kehoe and Juan Pablo Nicolini (Minneapolis: University of Minnesota Press, 2022), 211.

⁵⁶ NARA II RG59, Entry A1 1613-C, Box 599, Biweekly Economic Review, 7 August 1969.

1960s. In Chile's case, the failure of Alessandri's pegged regime (Chapter 3) appears to have convinced the subsequent administration to experiment with a more flexible approach. The growing international challenge to the pegged system in the mid-1960s and Frei's efforts to persuade the Fund to accept a more flexible exchange rate policy were arguably two sides of the same coin. In light of these connections, the 'adjustment problem' of Bretton Woods can be seen as a truly global phenomenon, affecting (though at a different scale) both developed and developing members of the system.

LAFTA's clearing and the international monetary system

Shortly after the Paris Club granted Chile debt relief and the crawling peg regime was implemented, Frei embarked on a tour of Western Europe in the second half of 1965. His goal was to raise Chile's international profile and secure support from key economic actors, as discussed in previous sections. British officials noted his outward-looking approach and rightly described him as "much less parochially minded than [his] predecessor and genuinely interested in international affairs."⁵⁷ While Frei wanted to strengthen ties with Europe, he was equally (if not more) focused on promoting wider support towards Latin America and strengthening intra-regional cooperation.⁵⁸ His push for regional integration was political, with the goal of strengthening the position of the region *vis-à-vis* the US, but also economic. The latter stemmed from the Christian Democratic diagnosis that Chile's domestic industries could only thrive if granted access to larger markets.⁵⁹ This subsection examines a theme proposed under the LAFTA framework that was closely related to the overall evolution of the BWS: the intra-regional clearing system.

As discussed in previous chapters, a key milestone in Latin American integration was the establishment of the LAFTA in 1960. In the same way that Continental Europe established the EEC (1957), the Latin American Free Trade Association sought to deepen inter-regional economic relations by reducing barriers among members. When President Frei took office in 1964, his administration pushed for a renewed effort to advance in trade and payments throughout the bloc. Responding to Frei's concerns, in April 1965, four renowned economists, including Raúl Prebisch and IDB President Chilean Felipe Herrera, published a report advocating for regional coordination among central banks and mechanisms to address intra-regional payments imbalances. These proposals

⁵⁷ TNA FO 371/179292, President Frei, 16 June 1965.

⁵⁸ María José Henríquez and Alberto van Klaveren, 'Chile empieza a abrirse al mundo: Reformismo y pragmatismo: la política exterior de Eduardo Frei Montalva, 1964-1970', in *Eduardo Frei Montalva: un gobierno reformista: A 50 años de la "Revolución en Libertad"*, ed. Carlos Huneeus and Javier Couso (Editorial Universitaria de Chile, 2018).

⁵⁹ CBCh Annual Report 1965, p. 66.

began to take shape after the first meeting of governors of Latin American central banks in Mexico City in September 1965. At that meeting, LAFTA central banks signed an agreement setting up a multilateral compensation and reciprocal credit mechanism and the regulations of a system of multilateral clearing of balances.⁶⁰

Starting in mid-1966, the LAFTA multilateral clearing system was a major step in financial regional integration. Following the blueprint of the EPU, its basic aim was to reduce the magnitude and frequency of gross cash flows in dollars while increasing multilateral intra-regional trade.⁶¹ Under this arrangement, importers and exporters of merchandise in participating LAFTA nations made and received payments in local currency through their respective central banks. These banks, in turn, established bilateral and reciprocal credit lines with each other denominated in US dollars. Every two months (later quarterly), these bilateral balances were consolidated and netted through a multilateral clearing operation. Any net imbalances exceeding the overall credit limit were then settled immediately in US dollars. The Central Reserve Bank of Peru, acting as the Agent (like the BIS in the EPU), calculated each country's net position. It also coordinated settlement through a designated LAFTA account at the FRBNY (which was the common correspondent of each LAFTA central bank).⁶² As a result of the clearing system, each participating central bank reduced its need to hold convertible reserves abroad for intra-regional trade payments, according to an IMF staff report.⁶³

⁶⁰ IMF IA, Central Files, International Organizations, I500 Regional intergovernmental Organizations, LAFTA, 29 July 1966.

⁶¹ The following description is taken from Federal Reserve Bank of New York, Monthly Review, October 1969, pp. 217-218.

⁶² Edward S. Milenky, *The Politics of Regional Organization in Latin America: The Latin American Free Trade Association*, Praeger Special Studies in International Politics and Government (New York: Praeger, 1973), 171-72.

⁶³ IMF DM/66/43, 29 July 1966.

Table 5.3

Chilean settlements over LAFTA clearing system in millions of current dollars
(December 1969)

	Date agreement	Reciprocal credit	Credit	Debit	Balance
Argentina	Apr 1966	15.0	87.8	100.2	-12.4
Bolivia	Aug 1968	0.5	0.1	1.8	-1.7
Colombia	May 1966	0.8	5.0	6.8	-1.8
Mexico	Jun 1966	5.0	7.9	26.6	-18.7
Paraguay	Jul 1966	0.4	–	1.5	-1.5
Peru	Jul 1966	4.5	4.6	11.7	-7.1
Venezuela	Sep 1967	1.8	0.4	0.2	0.2
Uruguay	Jul 1969	0.5	0.2	1.1	-0.9
Total		28.5	106.0	149.9	-43.9

Source: own elaboration based on SM/70/109, C1, Part II, p. 89, 27 May 1970 and DM/66/43, 29 July 1966, and CBCh Monthly Bulletin December 1967 and Sep 1968.

In line with Frei's regional integration ambitions, his administration decided to maximise its use of the LAFTA clearing system. By the end of 1969, the CBCh had established bilateral credit arrangements with eight other LAFTA central banks through which all permitted payments were channelled (Table 5.3).⁶⁴ The largest reciprocal credit was with Argentina, with US\$15 million. This reflected both the largest trade share between the two and desires for economic integration that dated back to the 1940s.⁶⁵ Table 5.3 also shows that trade between October and December that year amounted in local currencies to the equivalent US\$106 million in credit (e.g., trade exports) and almost US\$150 million in debit (i.e., trade imports). With an overall deficit of -US\$43.9 million and reciprocal credits of US\$28.9 million, Chile had to transfer US\$15.4 million in US dollars (calculated by the Peruvian central bank) to the FRBNY by 1 January 1970. The fact that the overall balance was negative should not be a cause for concern: Chile's trade with Latin America had likely remained in deficit since the 1950s.⁶⁶ The relevant part of this arrangement was that the reciprocal credit system meant that Chile's net dollar transfer was lower than its gross trade deficit with LAFTA partners. Compared to the

⁶⁴ IMF SM/68/27, Part II, p. 75, 14 February 1968.

⁶⁵ In 1969, Argentina accounted for 40% of all Latin American imports. In the late 1940s, both countries signed the Treaty for Economic Cooperation in the late 1940s and, in July 1953, the Treaty of Economic Union in July 1953. See Jr Randall R. Parish, 'Democrats, Dictators, and Cooperation: The Transformation of Argentine-Chilean Relations', *Latin American Politics and Society* 48, no. 1 (2006): 150.

⁶⁶ A second reason for Chile's deficit with Latin America in the 1960s was the slow pace of trade liberalisation among other LAFTA nations.

previous regime, the CBCh effectively reduced the flows of convertible currency via the LAFTA clearing system.

As noted earlier, this multilateral arrangement was inspired by the successful experience of the EPU and its role in facilitating Europe's regional integration in the 1950s. In the 1960s, Latin American leaders such as Frei, alongside top officials and technocrats, actively studied the European experiences, with the clearing system seen as a step towards a common market.⁶⁷ In the Latin American case, these arrangements were all the more urgent amid persistent balance of payments constraints. Such was the case, as explained in Parts I and II of this thesis, of countries embracing traditional ISI programmes or facing the modernisation of import-substitution strategies via stabilisation programmes. Sharp fluctuations in international prices of commodities, droughts, strikes in key sectors, not to mention inflationary pressures, created unanticipated pressures over already delicate external equilibria. In this context, even a temporary reduction in the need for convertible currency to settle intra-regional trade provided considerable relief for central bankers and finance ministers. Easing pressure on foreign currency reserves, finally, would have helped these economies to maintain their currencies pegged (or crawling).

There is a second link between the LAFTA clearing mechanism and the broader evolution of the BWS, particularly with respect to the Fund's conditionality. Until the establishment of the LAFTA balance of payments compensatory financing came almost exclusively from extra-regional institutions. Except for the IDB or multilateral agencies with Latin American representation, the main sources of credit were US federal agencies, from AID to EXIMBANK, commercial banks on both sides of the North Atlantic, and G10 governments more generally. While these sources were helpful and cooperative, their financing mechanisms were sometimes costly and accompanied by policy conditionality. No SBA from the Fund, for example, was granted without a letter of intent, nor without the IMF staff closely monitoring policy commitments and targets. In 1960s democratic Latin America, with Chile as probably the most iconic example, progressive political parties and labour unions increasingly perceived the Fund's conditionality as conflicting with national development goals or political independence.⁶⁸ In this highly politicised economic environment, credit provision by central banks through the LAFTA mechanism helped to alleviate temporal imbalances arising from trade, while being of Latin American origin and free of 'externally imposed' policy conditions.

To recap, this section has examined four developments that linked the Frei administration in Chile to global dynamics within the 1960s BWS. Going beyond existing

⁶⁷ See, for example, Felipe Herrera, 'Basis for a Latin American Common Market', *Intereconomics* 1, no. 12 (December 1966): 20–24, doi:10.1007/BF02922788.

⁶⁸ This is clearly portrayed in the IMF-Chile relations literature. See, for example, Kofas, *Sword of Damocles*.

scholarship on the Christian Democratic government focused on the succession of policies, it showed how the 1965 negotiations between Chile and the G10 countries were critical for Chile's industrial heyday, while offering further evidence of the evolving nature of the Paris Club (at that point, a Bretton Woods 'apparatus' extending beyond coordination among creditor governments to include active IMF financial and technical involvement). The section also outlined the limited yet useful contributions of Chile and its central bank in supporting American external policies and the US dollar. Finally, both the crawling peg and the LAFTA clearing system were discussed as reflections of broader developments within the BWS, relating to the 'adjustment problem' and to regional integration efforts inspired by the EPU and European blueprints. Unfortunately, regional efforts like LAFTA lost momentum in the 1970s. One of the reasons was closely tied to growing radicalisation in Latin America, with Chile at the forefront of this shift following its turn to a radical-left alternative in the September 1970 election (and a coup d'état three years later).

5.3 Allende and the Popular Unity: a radical experiment at the end of Bretton Woods

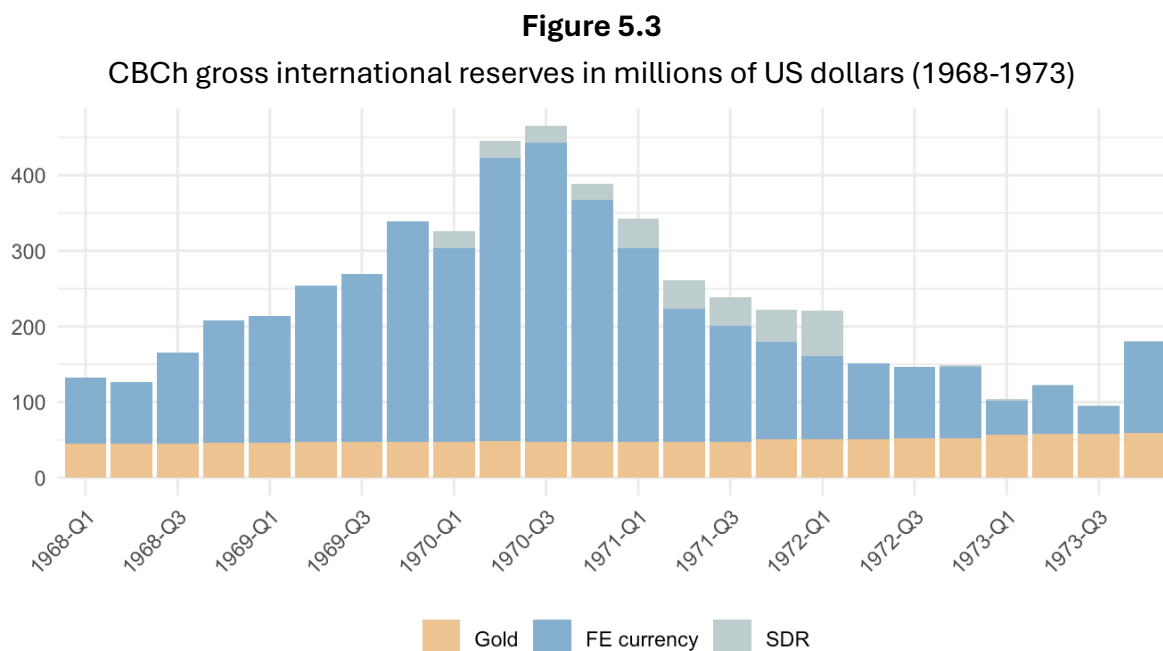
The final crisis of the BWS in the early 1970s coincided with Chile's experiment with socialism under Marxist leader Salvador Allende (1970-1973). The Popular Unity government, a coalition of left-wing parties, pursued a radical economic programme that diverged from Chile's traditional capitalist model. Allende's administration aimed to establish a planned economy by nationalising natural resources, the banking system, and key industries, accelerating agrarian reform, and tightening price controls.⁶⁹ To stimulate aggregate demand and redistribute income, the government embraced highly expansionary policies and massive wage hikes. While these measures spurred growth in 1971, the economy contracted over the next two years, with inflation reaching between 700% and 1,200% in 1973.⁷⁰ External imbalances worsened: the trade surplus vanished, and current account deficits grew beyond early 1960s levels. Copper prices contracted by 24% compared to 1970 and remained depressed until February 1973 due to the slowdown of major industrial countries.⁷¹ Much of the progress achieved during the Frei years was thus undone, as gross international reserves plummeted from US\$440 million in September 1970 to just US\$94 million three years later (Figure 5.3). Administrative

⁶⁹ Sebastian Edwards, *The Chile Project: The Story of the Chicago Boys and the Downfall of Neoliberalism* (Princeton University Press, 2023), 53–55, doi:10.1515/9780691249360.

⁷⁰ Edwards has recently suggested the upper figure as a six-month annualised rate as of December 1973. See Sebastian Edwards, 'The Debauchery of Currency and Inflation: Chile, 1970-1973', Working Paper, Working Paper Series (National Bureau of Economic Research, November 2023), doi:10.3386/w31890; Víctor I Espinosa and David O Cueva, 'The Political Economy of Fiscal Dominance: Evidence from the Chilean Government of Salvador Allende', *Economic Affairs* 44, no. 1 (2024): 118–38, doi:10.1111/ecaf.12618.

⁷¹ See CIA, *The World Copper Market*, 15 March 1974, Ref: CIA-RDP85T00875R001900020016-9.

controls returned, including postwar-like multiple exchange rates, ranging from 25 to 1,300 escudos per US dollar.⁷² Mounting social and political tensions culminated in a military coup on 11 September 1973, ending more than four decades of uninterrupted constitutional rule.



As mentioned in the introduction of this Chapter, the literature on the Allende years has analysed both the succession of economic policies and relations with the US. According to current scholarship, Santiago-Washington relations took a 180-degree turn with the rise of Allende.⁷³ From the outset, the Nixon administration sought to undermine domestic support for Allende in an attempt to prevent further spread of socialist regimes in Latin America.⁷⁴ Relations between the two nations worsened even more after mid-1971 (as did US monetary relations with the rest of the world after the Nixon shock in August 1971), when the Chilean Congress amended the constitution to authorise the outright nationalisation of the remaining American-owned copper interests. Beyond relations with the US, however, interactions between Chile and other G10 countries or the IMF are less well known. Aiming to fill that gap, the following paragraphs analyse the Paris Club negotiations of 1972. While two previous studies have described these events,

⁷² IMF SM/73/226, 10 September 1973, and CBCh Annual Report, 1971, pp. 76-7, and 1973, p. 50.

⁷³ For a summary of the policies, see, among others, Meller, *Un siglo de economía política chilena (1890-1990)*, ch. 2.

⁷⁴ Harmer, *Allende's Chile and the Inter-American Cold War*, 4-9; Patricio Navia and Rodrigo Osorio, "Make the Economy Scream"? Economic, Ideological and Social Determinants of Support for Salvador Allende in Chile, 1970-3', *Journal of Latin American Studies* 49, no. 4 (November 2017): 771-97, doi:10.1017/S0022216X17000037.

they mostly focus on the US or World Bank-US involvement.⁷⁵ Departing from strict US-Chile political relations, this analysis instead examines the attitudes of European actors, particularly Britain's mediating role in the 1972 negotiations. It also highlights how the Club was instrumental in Chile in maintaining a connection with the international financial system after the demise of the US dollar-gold convertibility in August 1971.

A Marxist government at the Paris Club

At first glance, the Allende government and its radical experiment at the end of the Bretton Woods order appeared to have detached the country from the international financial system. For the first time since 1956, when Chile signed its first SBA, Santiago did not arrange any new substantial agreement with the IMF. The potential stigma of 'foreign domination' attached to the Fund's conditional financing made such arrangements anathema to the left-wing coalition.⁷⁶ Apart from drawing on its quota and accessing the almost automatic or unconditional Compensatory Financing Facility (CFF), Chile refrained from applying for further Fund assistance until late 1973, after the military authorities had taken power.⁷⁷ Similarly, the IBRD approved its last loan to Chile in April 1970 and thereafter limited itself to disbursing funds from previously approved projects. Other lenders followed suit: in October 1970, the US EXIMBANK classified Chile as a high-risk country, and during Allende's presidency, the IDB extended only two small grants.⁷⁸ The abrupt closure of credit lines had profound consequences for Chile's foreign debt management, culminating in the declaration of a moratorium on 9 November 1971.

As dramatic as Chile's isolation from major institutional or official creditors, and particularly from the United States, may appear, this section argues that it was not absolute. Immediately following the default, Chilean authorities began to explore alternatives and sought to resume debt servicing on improved terms as soon as possible. When contacted, the G10 countries offered once again to address Chile's foreign liabilities via the Paris Club. Initially, Santiago officials wanted to avoid the Club as the recent expropriation of American copper companies posed "special problems with the

⁷⁵ Kedar suggests that there was an 'asymmetric triangle' between Chile, the US and the World Bank during these negotiations, while Michale's contribution focuses on how the Paris Club was a key instrument for Chile to maintain an open channel of communication with the US. See Kedar, 'Salvador Allende and the International Monetary Fund, 1970-73'; Daniel L. Michael, 'Nixon, Chile and Shadows of the Cold War: United States-Chilean Relations during the Government of Salvador Allende, 1970--1973', *ProQuest Dissertations and Theses* (Ph.D., The George Washington University, 2005), ProQuest Dissertations & Theses Global (304998488).

⁷⁶ Kedar, 'Salvador Allende and the International Monetary Fund, 1970-73', 731.

⁷⁷ IMF EBS/71/325, 3 December 1971. CFF was an IMF instrument established in 1963 to help members falling into payments difficulties due to export shortfalls. See Louis M. Goreux, *Compensatory Financing Facility*, Pamphlet (Washington, D.C.: International Monetary Fund, 1980).

⁷⁸ Michael, 'Nixon, Chile and Shadows of the Cold War: United States-Chilean Relations during the Government of Salvador Allende, 1970--1973', 298-319.

United States that might influence multilateral talks.”⁷⁹ Yet Santiago’s room for manoeuvre was limited, and the Allende government ultimately agreed to both the multilateral procedure and American involvement. Chile’s acceptance of the Paris Club was likely driven by the reality that Western European countries and Japan had already established this as the main forum for handling developing countries’ debt difficulties.⁸⁰ By late 1971, the Club had become a permanent mechanism in global debt governance: non-discriminatory debt rescheduling had been successfully concluded with six developing nations, four from South America (the Southern Cone plus Brazil and Peru). Notably, Paris Club multilateral negotiations outlasted the collapse of the BWS, with a further twelve debt restructurings concluded between 1972 and 1979.⁸¹

Detailed American White House tapes and State Department records, and British Foreign and Commonwealth Office documents reveal interesting aspects of the 1972 negotiations. For one thing, they depict a marked division between major creditors that Chile used to navigate their way to secure a moderate debt rescheduling. Unsurprisingly, the United States adopted a hard-line stance, reflecting Nixon’s personal scepticism of debt relief and the Club, both of which he dismissed as “ridiculous.”⁸² From the outset, US representatives pressed for maximum pressure on Chile, frustrating the softer position advocated by France and other Continental European countries, particularly Italy, whose Communist Party was a major political force. The Continental creditors, more pragmatic in their approach, prioritised securing a swift agreement to resume payments over establishing far-reaching principles on expropriation and compensation (a ‘link’ that Washington demanded). An American observer complained that the French “Chairman and Chileans [engaged] in well-coordinated and rehearsed dialogue ranging from apparent anger and irritation through begrudging reconciliation to mutual self-praise... counting on a final surge of agreement from other creditors to overcome US objections.”⁸³ Beyond procedural matters, the French were also concerned about the broader political implications for the region, fearing that an overly punitive approach might drive Santiago further left and “in the end create a “second Castro” in Latin America.”⁸⁴

European creditors were also mindful of the global political context, fearing that a prolonged dispute would damage the image of developed countries at the forthcoming UN Conference on Trade and Development (UNCTAD III). Scheduled to take place in

⁷⁹ NARA II, RG 59, Entry A1 1613-D, Box 866, Chile Debt Renegotiation, 2 December 1971.

⁸⁰ NARA II, RG 59, Entry A1 1613-D, Box 866, Chilean Debt Renegotiation - Switzerland, 8 December 1971.

⁸¹ See Club de Paris, ‘Agreements Concluded with Paris Club’, 14 July 2025, <https://clubdeparis.org/en/traitements>.

⁸² FRUS 1969-1976, Volume E-16 Documents on Chile, Conversation Among President Nixon, Secretary of the Treasury Connally, and the White House Chief of Staff, 17 January 1972.

⁸³ NARA II, RG 59, Entry A1 1613-D, Box 866, Third meeting on Chilean debt, 31 March 1972.

⁸⁴ NARA II, RG 59, Entry A1 1613-D, Box 866, Chile debt negotiation, 27 March 1972

Santiago in April 1972, UNCTAD III marked a high point for advocates of a more equitable international economic order. Third World leaders sought greater influence over the management of international crises, particularly as the concurrent breakdown of the BWS and currency realignments were eroding the value of developing countries' reserves.⁸⁵ In the general debate, some delegates explicitly linked the ongoing reforms to the marginalisation of non-aligned countries: the “peoples of the third world, who did not speak out at Bretton Woods... who do not participate today in the decisions of the Ten on the financial strategy of the Western Powers... we need a stronger instrument [UNCTAD itself] to defend our threatened interests,” in a clear reference to the Smithsonian Agreement of December 1971, an intra-G10 (instead of global) arrangement to rescue the BWS.⁸⁶ Anticipating these debates, Continental European creditors advocated for a rapid settlement with Chile to “relieve Western creditors from intense Chilean pressure at the UNCTAD meeting in Santiago.”⁸⁷ Yet bridging the gap between Chile and the US remained the central obstacle to reaching an agreement.

Amid these opposing views, the British delegation, composed of Treasury official Ronald Jones, MacGillivray (Bank of England) and Bremmer (ECGD), sought to play a mediating role. Although the American officials sent to Paris, led by Treasury Assistant Secretary for International Affairs John Hennessy, pressed their British counterparts to align with the US hard-line stance, Britain insisted on their balanced approach. This position stemmed from a combination of pragmatic considerations, including growing trade relations with Chile in 1971 and ongoing negotiations over the compensation of British assets following expropriations, like the Antofagasta railway in the north of the country. Recent debt crises elsewhere, such as Ghana's partial repudiation of its external obligations in February 1972, heightened concerns that a breakdown in talks with Chile could set a dangerous precedent. The Foreign Office also noted that the UK's concurrent application to join the EEC encouraged the British to avoid “estrang[ing] ourselves on this issue from our future partners in Europe.”⁸⁸ On the Chilean side, by mid-April, Santiago had begun to recognise the limits of its tough negotiating strategy, particularly as the expected financial support from Communist countries, akin to the aid provided to Cuba, failed to materialise. “Even with Soviet loans the balance of payments [estimates],” wrote a British official from the Santiago Embassy, “made the payment of interest impossible.”⁸⁹ With few remaining options, Allende's best course of action was to extract what concessions he could from Western European creditors, while limiting American

⁸⁵ Karen Smith, *UN Conference on Trade and Development (UNCTAD)*, Routledge Global Institutions 17 (London: Routledge, 2007), 62, doi:10.4324/9780203029770.

⁸⁶ Proceedings of the United Nations Conference on Trade and Development, Third Session, Santiago de Chile, 13 April to 21 May 1972, Volume I, p. 352.

⁸⁷ TNA FCO 7/2219, Chilean external debt, 15 February 1972, f. 80.

⁸⁸ TNA FCO 7/2221, Chilean debt renegotiation - instructions for the fourth round, 12 April 1972, f. 161.

⁸⁹ TNA FCO 7/2221, Chilean debt, 15 April 1972, f. 182.

influence over the final agreement.

Ahead of the fourth and final round of negotiations on 17-19 April, most obstacles had been removed. The breakthrough came with a compromise that allowed Chile to substitute the Fund's SBA with a policy declaration, drafted with technical assistance from the IMF, that nonetheless did not entail direct conditionality.⁹⁰ The British delegation was particularly sympathetic to Chile's political reluctance to accept an IMF Letter of Intent, not least because the UK's own Conservative government "had previously criticised the Labour administration for agreeing to a similar arrangement in 1968."⁹¹ As for the expropriation of American copper companies, there was common interest among Club members to influence developing countries not to expropriate, yet not at the expense of destroying the whole deal. The US ultimately accepted a more ambiguous formula, including a general statement on the principle of due compensation under domestic and international law.⁹² At the request of the Chileans, the final memorandum of agreement also contained a reference to UN resolution 1802 of 1962 on permanent sovereignty over natural resources.⁹³

The *Procés-verbal* between Chile and the Paris Club was signed on 18 April 1972. In it, Paris Club creditor countries agreed to reschedule 70% of the principal and interest on Chile's external debt originally falling due between November 1971 and 31 December 1972, to be repaid over eight years, including a two-year grace period. Even by adapting to the specific characteristics of the Chilean case, the 1972 negotiations fulfilled three key objectives for creditors. First, Chile recognised the entirety of its external public debt, whether owed to governments or private foreign corporations, averting a Ghana-like repudiation. Second, the deal ensured regular IMF macroeconomic reporting to participating countries, replicating the Fund's 'information clearing house' role in the 1965 negotiations. Third, the relatively short consolidation period enabled Paris Club countries to compel Santiago to reopen negotiations in late 1972 for maturities falling due the next year.⁹⁴ Slightly delayed, a new Chilean mission arrived in Paris in January 1973, but talks were ultimately cut short by the September coup. A fully US-backed Military Junta resumed the renegotiations in 1974 under different political and economic conditions.⁹⁵

⁹⁰ Kedar, 'Salvador Allende and the International Monetary Fund, 1970-73'.

⁹¹ TNA FCO 7/2220, Letter from Joseph Godber to Terence Higgins, 15 March 1972, f. 126.

⁹² Michael, 'Nixon, Chile and Shadows of the Cold War: United States-Chilean Relations during the Government of Salvador Allende, 1970--1973'.

⁹³ TNA FCO 7/2222, Memorandum of Agreement Regarding the Consolidation of Chilean Debts, 18 April 1972, f. 195.

⁹⁴ NARA II, RG 59, Entry A1 1613-D, Box 866, American Embassy in Paris to Embassy Santiago, 19 April 1972.

⁹⁵ TNA FCO 7/2431, Chile: 1973 debt renegotiations, 28 September 1973, f. 172.

Table 5.4

Net flows between Chile and international lenders in millions of US dollars (1968-1974)

	Multilateral loans	Bilateral loans	Suppliers' credits	Private institutions	Other	Total
1968	8.4	104.3	78.1	0.2	-49.3	141.7
1969	4.0	68.5	54.2	125.6	-43.5	208.8
1970	7.9	7.2	90.8	61.9	-11.8	156.0
1971	-0.3	-23.8	-11.4	5.0	-21.2	-51.7
1972	-8.2	35.0	86.8	61.8	-15.7	159.7
1973	-5.6	66.0	35.9	63.8	-22.8	137.3
1974	-5.4	171.9	140.5	-12.6	-32.8	261.6

Source: World Bank Country Study, Chile an Economy in Transition, January 1980, p. 365. Other includes public bonds and nationalisation agreements.

For Chile, the agreement helped stem the negative net capital outflows observed in 1971. Table 5.4 shows that while the net flow of funds through multilateral loans remained negative (e.g., with repayments exceeding new disbursements), fresh bilateral credits from Western European governments, suppliers, commercial banks, and, to a lesser extent, Soviet countries allowed the government to reverse the capital drain. According to IMF data, Chile refinanced US\$129 million at 5-6% interest under various bilateral agreements signed with Western Europe and Japan in late December 1972 and January 1973, and a further US\$128 million with the United States (although this latter agreement was only concluded after September 1973). Since most bilateral agreements were signed with Europe and Japan, a significant share of payments was effectively postponed. Overall, the total debt relief for 1972 amounted to US\$242 million, the equivalent of 28% of Chile's exports that year. In addition, the Paris Club agreement unlocked rescheduled payments with private banks in the US and Europe, providing a further US\$79 million in relief for 1972.⁹⁶

To summarise, this section has shown that despite the early threat of default and mounting macroeconomic imbalances, the Paris negotiations were essential for Chile. The Club, an institution created following the same multilateral and non-discriminatory principles of other Bretton Woods institutions, was instrumental for Santiago in keeping alive some ties with international finance in a hostile political context. For that to materialise, the accommodation of G10 partners and the IMF to the particular conditions of Chile was crucial (shedding light on the evolving character of the Paris Club and

⁹⁶ IMF SM/73/153, Chile - Recent Economic Developments, 29 June 1973, Appendix 3, p. 51.

foreshadowing its major role in the 1980s). In hindsight, it is worth noting that, as radical as the Allende government was, Chile's longstanding connections with major partners within the BWS described throughout this thesis arguably outweighed short-term political shifts. When the new government took power in September 1973, these same partners swiftly moved to support Chile's immediate balance of payments needs (see 1974 in Table 5.4). The US once again played a key role. In a meeting with Admiral Huerta on 11 October 1973, Secretary of State Kissinger assured that "regarding regular military equipment, food, medicine, and the debt problem, the Secretary said we [Americans] should have no difficulty in Chile." Just as America supported Frei in 1964 and Alessandri six years earlier, Kissinger concluded that "the United States was determined to see the new government succeed."⁹⁷

5.4 Conclusion

Chile's final decade within the BWS may seem puzzling, as it witnessed a dramatic shift from close cooperation with major international players to challenging the very pillars of market capitalism. This transition was closely associated with a combination of external conditions and domestic policies. After leaving behind the traditional ISI model, the Chilean economy benefited from markedly improved commercial conditions. The Vietnam War drove real copper prices to their highest levels of the century, turning the terms of trade in Chile's favour. A highly professional economic team successfully promoted non-traditional yet internationally competitive exports, which expanded alongside copper shipments. Prudent government policies enabled the country to capitalise on higher external demand for its commodities. By maintaining control over imports and benefiting from steady capital inflows, the CBCh saw its international reserves increase more than twentyfold by 1970. However, deteriorating international conditions and domestic policy choices caused a rapid reversal of Chile's external position during the Allende years. Falling copper prices, rising imports, and the virtual cessation of capital inflows compelled the government to declare a moratorium on servicing most foreign debt in late 1971.

This chapter has illustrated how the administrations of Eduardo Frei and Salvador Allende engaged with the international monetary system, highlighting the relevance of international financial developments for both governments. This engagement was more evident during the Christian Democratic years, when a relatively favourable international position enabled Santiago to actively cooperate with US external policies. Such cooperation included steps towards import liberalisation (to help the American trade balance), external debt pre-payments, and efforts to maintain orderly financial markets.

⁹⁷ FRUS 1969-1976, Volume E-11, Part II Documents on South America, 1973-1976, p. 397

However, for Chile to reach this more secure position in the first place, international assistance was essential to extend the maturities of foreign credits (an inheritance from the stabilisation programmes of the early 1960s analysed in Chapter 3). To that end, the Paris Club, a multilateral forum that can be rightfully considered as a Bretton Woods 1960s apparatus, quickly rescheduled Chile's short-term debt in 1965. Once the most pressing maturities had been extended, and benefiting from exceptionally favourable international commercial conditions, the Frei administration was able to advance its economic programme. Avoiding a return to the classical pegged rate, Chile became a global pioneer in implementing a crawling peg regime (an approach generally regarded as successful and abandoned only for political and electoral reasons). Equally significant were the major steps taken towards regional and monetary integration through the LAFTA clearing system, an initiative intended to replicate the successful EPU experience in Latin America (e.g., reducing reliance on US dollars for intra-regional trade and payments).

The Allende era, marked by severe macroeconomic imbalances and non-alignment with American leadership, diverged from the Frei administration's engagement with Bretton Woods developments. The rapid halt in multilateral and US federal agencies' assistance further worsened the already fragile economic outlook of the Marxist government, which defaulted on most of its external debt in December 1971. However, the moratorium did not prompt total exclusion from international finance. Just two months later, the Paris Club once again received Chilean officials and offered a pathway to address the country's most pressing external obligations. Notably, the 1972 Paris Club negotiations required compromise from all parties involved, including the IMF and the Nixon administration. Facilitated by a British mediating role and some European sympathy, Chile was granted partial debt relief without being subjected to IMF conditionality or the requirement to link debt rescheduling to compensation for the recently expropriated American copper companies.

Taken together, the experiences of the Frei and Allende administrations suggest that the final decade of the Bretton Woods order was not exclusively a G10 affair. While the main ad hoc mechanisms to support the system of pegged rates were indeed led by industrialised countries, the available records reveal that major systemic shifts were also observed and responded to from Santiago (and, as Chapter 6 notes, from Buenos Aires as well). Among these developments, foreign debt renegotiations arguably stood out as the clearest multilateral connection between both governments and the major actors of the international monetary system. This observation reinforces the thesis's broader argument that situates the Paris Club as an integral (yet often overlooked) component of the BWS, which, like the IMF, survived the system's final crisis in the early 1970s.

CHAPTER 6

Argentina's Economic Spring and the Last Decade of Bretton Woods (1965-1973)

“...it was hard to avoid a feeling of real sorrow in observing that the Argentine financial programs of the late 1960s, which had looked so promising for a time, had been followed by a period of more severe inflation and larger balance of payments deficits than had been experienced since Argentina had become a Fund member.”¹

William B. Dale, American Director to the IMF

14 June 1972

6.1 Introduction

In its navigation of the final decade of the BWS, Argentina experienced a rapid reversal of fortunes. As in the Chilean case discussed in Chapter 5, the country initially went through a relatively long period of prosperity or ‘economic spring.’ Between 1964 and 1970, real GDP growth averaged over 5%, outpacing most of Latin America and some industrialised countries. Much of these gains resulted from improved external trade conditions, combined with more favourable treatment of Argentina’s export sector after the traditional post-war ISI model had been abandoned (see Chapter 4). Better terms of trade and sizeable official and private capital inflows led to a rapid accumulation of gross international reserves at the CBAR, from just US\$190 million to a peak of US\$750 million in 1968. With an external position that some G10 members might have envied, officials in Buenos Aires believed Argentina had finally broken free from its recurring stop-and-go cycles.² Part of this improvement, as the next sections will explore, was due to increasing and unprecedented levels of international cooperation between Argentina and the G10. Yet the season of growth came to a sudden end in the early 1970s. Roughly coinciding with the collapse of Chile's industrial heyday, Argentina experienced a resurgence of massive imbalances and once again needed to seek external assistance.

Argentina’s economic spring has drawn the attention of economic historians and other scholars, many of whom have emphasised that this growth unfolded under authoritarian rule.³ From June 1966 to May 1973, three successive military governments

¹ IMF EBM 72/53, 14 June 1972.

² Argentina’s stop-and-go cycle refers to successive phases of foreign currency shortages, stabilisation programmes, and temporary improvements in the external balance curtailed by expansionary policies that reignited the cycle. See Martín Fiszbein, ‘La Economía Del Stop and Go: Las Ideas Estructuralistas En Argentina, 1945-1976’, *Desarrollo Económico* 55, no. 216 (2015): 187–210.

³ See, for instance, Guillermo A. O’Donnell, *El estado burocrático autoritario 1966-1973: triunfos, derrotas y crisis*, 1a ed., Colección Democracia, partidos y elecciones (Buenos Aires: Prometeo Libros, 2009).

implemented major economic reforms without the counterbalance of congressional or labour opposition.⁴ Historians agree that the early phase of the so-called ‘Argentine Revolution’ witnessed a technocratic agenda that combined short-term stabilisation with long-term development. Under the leadership of Minister Krieger Vasena, who remained in office until 1969, the government introduced a programme to curb inflation, devalue the peso, and liberalise trade and capital controls.⁵ Coupled with improved trade performance, these measures revived domestic and foreign investor interest in the Argentine market. However, despite gains across virtually all economic indicators, social conflict re-emerged in mid-1969. Pressured by labour unrest and rising political violence, the Argentine Revolution’s commitment to coherent economic policy weakened, undermining investor confidence.⁶ Disillusioned with both authoritarian governments and traditional parties, the Argentines once again placed their hopes in Juan Domingo Perón, who was elected president in September 1973. Yet despite Perón’s promises to return to postwar prosperity (Chapter 2), the country ultimately fell back into stop-and-go cycles: the economic spring was over.

Much of the eventful final decade of the BWS remains absent from historical accounts of Argentina’s economic spring. Yet, as this chapter demonstrates, the two processes were closely intertwined. The very onset of Argentina’s recovery was facilitated by instruments provided by the Bretton Woods framework. In 1965, the democratic administration of Arturo Illia (1963-1966) sought international support to restructure the external debt inherited from the Frondizi stabilisation effort. G10 partners responded promptly to Buenos Aires’ request through the Paris Club: an institution this thesis situates within the Bretton Woods architecture (see Chapter 4 and Part III). Although the 1965 Argentina-Paris Club negotiations have been acknowledged in the literature, a systematic treatment is still lacking.⁷ Drawing on new archival sources, this chapter situates the negotiations within the evolving character of the Paris Club as a Bretton Woods apparatus. In particular, it explains the changing role of the IMF in the multilateral debt reschedule process and the complex British external position in 1965.

With a longer repayment schedule, the Argentine Revolution had greater room for manoeuvre to deploy its economic programme. While the set of policies implemented by

⁴ Gerchunoff and Llach, *El Ciclo de La Ilusión y El Desencanto*, ch. VII; Geoffrey Maynard, ‘Argentina: Macroeconomic Policy, 1966-73’, in *The Political Economy of Argentina, 1946-83*, ed. Guido di Tella and Rudiger Dornbusch (London: Palgrave Macmillan UK, 1989), 166-88, doi:10.1007/978-1-349-09511-7_8.

⁵ Cortés Conde, *The Political Economy of Argentina in the Twentieth Century*, 230-33.

⁶ For the policies of the last period of the Revolution, see Mariano Filippini and Maria Angélica Olcese, ‘Transitional Economic Policies, 1971-3’, in *The Political Economy of Argentina, 1946-83*, ed. Guido di Tella and Rudiger Dornbusch (London: Palgrave Macmillan UK, 1989), 189-212, doi:10.1007/978-1-349-09511-7_8. For a general discussion of the crisis of the Revolution, see Belini and Korol, *Historia económica de la Argentina en los siglos XX y XXI*, ch. 5.

⁷ For a reference to the Paris Club and the broader international efforts of the Illia government, see García Heras, *El Fondo Monetario y el Banco Mundial en la Argentina*, ch. IV.

the military governments is well known, this analysis focuses on particular decisions taken by Minister Krieger Vasena that involved greater international cooperation. Based on British and American records, this section delves into the 1967 'credit package' provided by the IMF and G10 commercial banks, the government bonds Krieger Vasana managed to float in Frankfurt and New York and how the country fulfilled its commitments with the IMF (Article VIII). It also explores, for the first time in the literature, Buenos Aires's efforts to support US external policies via long-term investment and central bank agreements. Argentina's comfortable external position came to an end in the late 1960s. In 1971, the country recorded the largest balance of payments deficit of the Bretton Woods era and required extraordinary external assistance from the IMF and G10 partners. Despite grappling with their own external challenges, industrialised countries responded once again to Buenos Aires' calls in the early 1970s.

By analysing the trajectory of 1960s Argentina, this chapter shows that the country's industrial heyday was tied to key actors of the international monetary system and its evolving dynamics. For one thing, the 1965 Paris Club agreement played a crucial role in improving the composition of Argentina's external liabilities at the outset of its economic spring. Later on, the IMF and G10 partners lent further assistance to support Krieger Vasena's programme, a cooperative stance they would repeat in the early 1970s, when Argentina's external position deteriorated sharply. On the other hand, Buenos Aires' alignment with American balance of payments policies, mirroring Chile under Frei, connects the trajectory of the Southern Cone with intra-G10 efforts to prolong the life of the BWS.

In addition to this introduction, the chapter is divided into two main sections, each corresponding to one of the period's key governments. Section two deals with the Paris Club negotiations of May-June 1965 during Illia's administration, with a particular emphasis on how the Argentine case re-shaped the traditional treatment of the Club to debtor countries (a Fund's SBA). Section three explores how the policies of the Argentine Revolution connected the country with major actors in the international financial system, highlighting the cooperative role played by the IMF and G10 countries during and after Argentina's economic spring. The chapter concludes with a broader reflection on the country's experience during the final decade of the BWS.

6.2 Argentina's early economic spring and the Paris Club (1964-1965)

After the 18-month administration of José María Guido, Argentina returned to constitutional rule in October 1963. Upon taking office, the government of Radical Civic Union leader Arturo Illia (1963-1966) devoted itself to reactivating the economy after a recession that had lasted a year and a half. Following ECLA's model, expansionary

monetary and fiscal policies successfully boosted domestic output without triggering inflationary pressures, at least until 1966.⁸ Manufacturing, already capitalised and modernised thanks to the investment boom under Frondizi (Chapter 4), responded positively to the stimulus. Meanwhile, the traditional agricultural sector also made a substantial contribution to the government's objectives as exports surpassed the so-called 'US\$1 billion postwar ceiling.' This achievement reflected a combination of technological improvements, such as mechanisation and hybrid seeds, favourable climatic conditions, and better international prices for cereals and meat.⁹ Despite these positive developments, the Illia administration came to an abrupt end in June 1966 amid mounting inflationary pressures and a slowdown in growth.

The external balance was also a central concern for the short-lived Illia administration. Argentine officials feared that efforts to stimulate domestic output and demand would trigger a surge in imports.¹⁰ More worryingly, however, the government faced a tight schedule of foreign debt repayments that threatened the scarce reserves the CBAR had managed to accumulate. In an effort to extend the maturities of these obligations, Argentine officials reached out to their G10 counterparts. In a cooperative response, the industrialised countries invited Argentina to negotiate multilaterally at the Paris Club in 1965. The outcome of the 1965 Argentina-Paris Club talks has been acknowledged in the literature, yet not examined in detail. García Heras, drawing primarily on domestic Argentine sources such as newspapers and personal archives of officials, refers to the Paris Club only briefly within the broader context of Illia's dealings with the IBRD and IMF.¹¹ In contrast, the following analysis provides more details of the negotiations through British and American records, but also frames the Club as a Bretton Woods apparatus. It also notes the particularly complex position of Britain, which, just like in the case of Chile (Chapter 5), initially requested special (but discriminatory) treatment at the Club.

Argentina's special request at the Paris Club

In April 1964, CBAR President Félix Elizalde travelled to London to discuss matters arising from a British loan obtained the previous year. Beyond addressing technical details, Elizalde reassured sceptical British officials that President Illia's policies would allow

⁸ Belini and Korol, *Historia económica de la Argentina en los siglos XX y XXI*, ch. 4.

⁹ Cortés Conde, *The Political Economy of Argentina in the Twentieth Century*, 227.

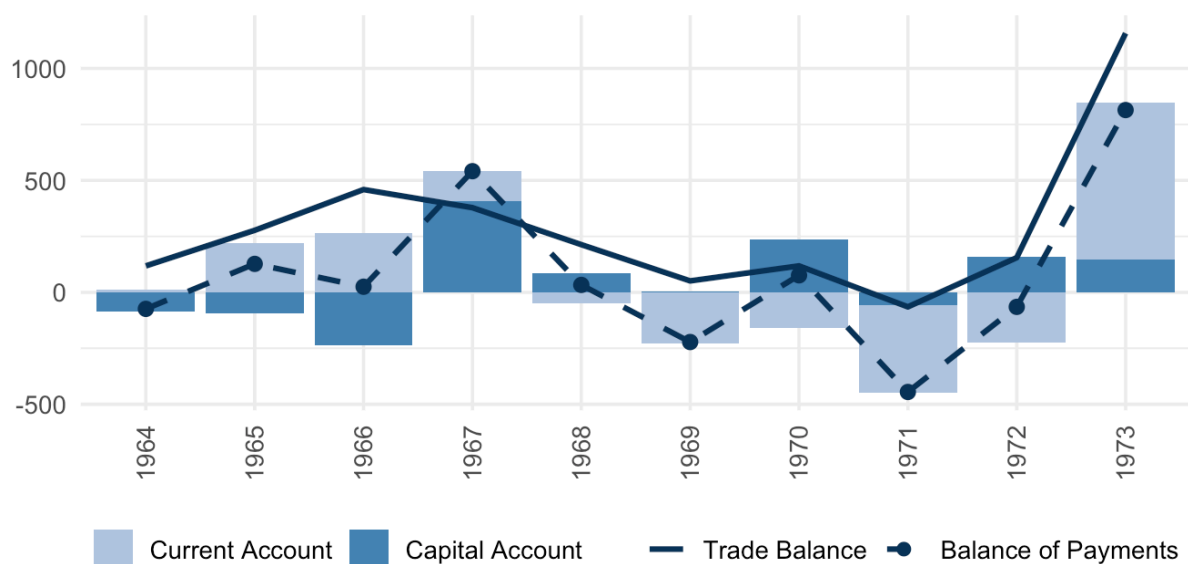
¹⁰ For the CBAR measures, see Juan Odisio, 'El Banco Central y La Búsqueda de La Promoción Del Desarrollo 1955-1966: Complejización Para Un Accionar Estratégico', in *Historia Necesaria Del Banco Central de La República Argentina: Entre La Búsqueda de La Estabilidad y La Promoción Del Desarrollo*, ed. Marcelo Rougier and Florencia Sember, Primera edición (Ciudad de Buenos Aires, Argentina: Ediciones CICCUS, 2018), 236.

¹¹ García Heras, *El Fondo Monetario y el Banco Mundial en la Argentina*, 139–40.

Argentina to meet its debt commitments comfortably for at least a couple of years.¹² In the medium term, Elizalde correctly anticipated that improving trade conditions would strengthen the country's international position, helping to secure a positive balance of payments in the years that followed (Figure 6.1). However, in the short term, his optimism quickly proved misplaced. In the second half of 1964, the external situation deteriorated markedly: that year, the current account barely remained in surplus, and the overall balance of payments showed a deficit of US\$74 million. By early 1965, Argentina faced the imminent maturity of substantial liabilities contracted during Frondizi's stabilisation programme (Chapter 3), with repayments estimated to absorb up to half of the export receipts.¹³ Buenos Aires understood that a timely repayment of these debts would have severely constrained the government's economic programme and depleted most of CBAR convertible reserves, with the danger of repeating the dramatic balance of payments crisis of 1962 (or a potential default).

Figure 6.1

Argentina's balance of payments in millions of US dollars (1964-1973)



Source: CEPAL.¹⁴

With these concerns in mind, Argentina once again turned to multilateral institutions and its principal trading partners for support through debt restructuring. Following a path similar to that of the Frei administration in Chile (Chapter 5), the Illia government swiftly secured a rollover of repayments with the IMF in May 1965 and negotiated the postponement of maturities with commercial banks on both sides of the North Atlantic.¹⁵

¹² TNA T312/669, Note of a Meeting held in Mr. Goldman's Room at the Treasury, 1 April 1964.

¹³ Alieto Aldo Guadagni, 'Economic Policy during Illia's Period in Office, 1963-6', in *The Political Economy of Argentina, 1946-83*, ed. Guido di Tella and Rudiger Dornbusch (London: Palgrave Macmillan UK, 1989), 152, doi:10.1007/978-1-349-09511-7_8.

¹⁴ CEPAL, *América Latina y El Caribe*, 198.

¹⁵ CBAR Annual Report 1965, p. 67, and IMF EBM 65/28, 26 May 1965.

In parallel, officials in Buenos Aires requested that G10 trading partners reschedule government-to-government and officially guaranteed credits. After initial doubts, the industrialised countries responded cooperatively and in a non-discriminatory fashion, inviting Argentina to present its case before the Paris Club. Multilateral negotiations took place between May and June 1965, culminating in the signing of a non-discriminatory *Procès-verbal* that refinanced over US\$70 million in liabilities falling due within the 1965 calendar year. The following paragraphs examine these negotiations in greater detail, with particular attention given to Argentina's 'special request' to bypass regular Club procedures by limiting the IMF's involvement in the overall restructuring package.

When European partners first learned of Argentina's request for a new refinancing operation, they likely responded with consternation. Not only had CBAR President Elizalde recently expressed confidence in Argentina's external outlook, but the memory of a prior refinancing granted in 1962 was still fresh. Their scepticism, however, contrasted with the conclusions of an IBRD mission to Buenos Aires, which had reviewed Illia's Five-Year National Development Plan (1965-1969). The mission's final report warned that, given Argentina's "exceptionally unfavorable structure" of external obligations, the country would face repayments of US\$1.8 billion on public and private accounts between 1965 and 1967.¹⁶ In private correspondence, IMF officials assured the IBRD of their readiness to support and lead Argentina's attempts to renegotiate its obligations.¹⁷ Backed by multilateral diagnosis and support, the Argentine authorities formally notified their principal creditors in the United States, Europe, and Japan of their intention to refinance roughly US\$380 million in liabilities falling due in 1965 and 1966.

The creditor nations carefully studied Argentina's refinancing request, raising concerns about the scale of the operation. While it was common for borrowing countries to inflate figures at the outset of negotiations, the objections voiced by creditors offer insight into the intended function of the Paris Club. British officials, after reviewing the proposal, questioned both the size of the requested support and its intended use. An internal Bank of England analysis observed that the refinancing appeared aimed at covering financial arrears and bolstering CBAR reserves, rather than addressing immediate balance of payments needs. The report concluded that creditor assistance "should be limited to the amount strictly necessary for balance of payments purposes," with a maximum ceiling of US\$120 million.¹⁸ Echoing these concerns, the American position emphasised that granting the full amount would allow Argentina to avoid any compensatory finance from the Fund. With a critical tone, US Treasury officials remarked

¹⁶ The final version of this report was published in May. See Argentina - Economic position and prospects (Vol. 1 of 5): Main Report, Western hemisphere (South America) series, no. WH 144, World Bank, pp. 45 and 51.

¹⁷ IMF IA, Country Files, C/Argentina/810 Mission - Sacchetti and Staff, 27 January 1965

¹⁸ BoEA 4A102/2, f. 2, Argentine Debt Proposals, 3 May 1965.

that “debt relief of the magnitude suggested... would obviate the need of the GOA [government of Argentina] to enter into a stand-by agreement with the IMF.”¹⁹ Taken together, these views reaffirmed the prevailing understanding of the Paris Club’s role up to 1965: to provide limited, short-term relief complementary to multilateral assistance, in particular, via an IMF SBA.

It was precisely this second feature, direct IMF financial participation, that Argentina challenged in its 1965 negotiations with the Club. As economic historians have shown, Illia and his economic team viewed the policy conditionality attached to a potential SBA as both economically damaging and politically unviable.²⁰ In exchange for an SBA, the Fund demanded stronger anti-inflationary measures, as consumer prices had risen by 26% year-over-year by May 1965. The IMF staff advised the government to restrict the money supply by imposing ceilings on bank credit.²¹ This recommendation, however, was immediately contested by Illia’s advisers, who feared that contractionary policies would provoke a recession in the industrial sectors the administration had pledged to support. Politically, the Illia administration also dreaded that accepting IMF conditionality would expose it to fierce criticism and potentially destabilise the administration. In private talks with an EXIMBANK representative, Argentine officials stressed that the Fund’s role should be limited so as “not to give the impression that [the] Argentine government is being forced to buckle under to the IMF as a condition of obtaining refunding assistance.”²²

Although creditor governments were aware of these constraints through their embassies, Argentina’s resistance posed a serious challenge to the functioning of the Paris Club. Not only because the Fund’s direct contribution via SBA would have meant a US\$100 million saving from the creditors, but also because of a matter of core procedural norm within the Club.²³ As a matter of fact, the 1965 Chile-Club negotiation concluded just a couple of months before, did entail an SBA as a reassurance to creditor countries of future sound policies (Chapter 5). The SBA was therefore seen as a “fundamental point of principle” at Paris, so much so that British officials warned of “a major crisis... in the making,” noting that without an IMF agreement, “there is every prospect of [Argentina] defaulting on her repurchase obligations [from previous SBAs] to the Fund and on her debts generally.”²⁴

¹⁹ NARA II RG 56, Entry UD 13W 109, Box 16, Proposed U.S. Position on Argentine Debt Restructuring, 7 April 1965.

²⁰ Gerchunoff and Llach, *El Ciclo de La Ilusión y El Desencanto*, ch. V; García Heras, *El Fondo Monetario y el Banco Mundial en la Argentina*, 120–41.

²¹ IMF SM/65/39, Part I, p. 19, 12 May 1965.

²² NARA II RG 56, Entry UD 13W, Box 16, Memorandum of Conversation Argentina - Visit of Financial Mission, 6 May 1965.

²³ TNA T 312/1086, Minutes of a Meeting held at the Foreign Office on 7 May on Argentine Debt Refinancing, 7 May 1965.

²⁴ BoEA 4A102/1, f. 144, Leslie Crick to Rootham and Parsons, 20 April 1965,

Convincing the Club partners to proceed without direct financial backing from the IMF proved challenging. British records reveal that London initially adopted a hard-line stance, attempting to rally other European creditors to insist on Argentina securing an SBA as a precondition for any debt restructuring. At one point, both the Foreign Office and the Treasury appeared willing to risk an Argentine default, with only the Board of Trade arguing for continued engagement, citing that the country “was too important as a trading partner... to allow trade to grind to a halt.”²⁵ It was exactly that point that Argentina tried to leverage. Aware of Britain’s own fragile external position in 1965, then on the brink of seeking American support in September, the Argentine delegation sought to appeal to London’s own interests.²⁶ During a meeting at the Foreign Office, they pointed to “several big purchases pending which might be made in the UK” and suggested that “refinance might thus help the UK’s balance of payments.”²⁷ But these arguments were insufficient to secure British support in the absence of multilateral financing and the policy discipline it entailed. The risk of yet another refinance seemed too real, especially considering how generous the UK had already been with Buenos Aires. As one Treasury official put it: “over the last seven years Argentina had had more assistance from H.M.G. than had all the rest of Latin American countries put together.”²⁸

Even if the historically cooperative stance from London had not entirely eroded, it was clearly no longer strong enough to translate into support for Argentina at the Club level. Amid this apparent impasse, Buenos Aires received unexpected backing from IMF Managing Director Pierre-Paul Schweitzer. In mid-May, Schweitzer convened a meeting with representatives of the creditor countries, urging them “not [to] use the conclusion of a standby agreement as a negotiating weapon.”²⁹ His main concern was that by making an SBA a precondition, the Club would effectively pressure the Fund to dilute its conditionality and accept subpar policies.³⁰ These arguments seem to have convinced the other countries of the Club. When the British delegation attended the first of the three negotiation rounds at the end of May, it found itself entirely isolated. One member reported back to London that “in view of the wish of the U.S.A. to provide partial assistance without insisting upon a prior agreement between Argentina and the I.M.F., the Italians’ desire to provide some assistance immediately, the weakening attitude of the Germans and the French saying nothing, the UK would find it impossible to pursue [a mandatory SBA]... and would have to fall in with the others.”³¹ In the end, just like the 1965 negotiations with Chile (Chapter 5), the multilateral and non-discriminatory principles

²⁵ BoEA 4A102/2, f. 35, Meeting held at the Foreign Office.

²⁶ Schenk, *The Decline of Sterling*, 166–67.

²⁷ TNA T 312/1087, Minutes of a meeting held in Lord Walston’s Office on Wednesday, 12 May 1965.

²⁸ TNA T 312/1087, Argentina: Debt Refinancing Talks, 14 May 1965.

²⁹ BoEA 4A102/2, f. 58, Telegram from Washington to Foreign Office, 16 May 1965.

³⁰ BoEA 4A102/2, f. 62, IMF: Argentina, 17 May 1965.

³¹ BoEA 4A102/3, f. 140, Argentina: Debt Refinance, 8 June 1965.

embedded in the Paris Club procedures overrode Britain's hard-line position.

Once the main impasse over the Fund's involvement had been resolved, attention turned to the core features of the debt restructuring, which were discussed throughout the second half of June. During the second round, Argentina presented a policy statement prepared in collaboration with IMF staff.³² In this document, Buenos Aires pledged to maintain a minimum level of international reserves, strengthen controls over foreign borrowing, and reduce arrears on financial remittances. To keep the Club informed of its progress, Argentina committed to providing monthly updates via the IMF (thus reinforcing the Fund's role as an 'information clearinghouse'). At the third meeting, held on 26 June, the creditor countries agreed on a common *Procès-verbal* to refinance 60% of the principal payments due in 1965 on suppliers' credits and on loans from official or government-guaranteed sources, to be repaid in five annual instalments beginning in January 1968.³³ By reordering Argentina's maturities, the Paris Club once again addressed the missing piece in the postwar international order concerning developing countries' risky accumulation of short-term liabilities. In this way, as Chapter 5 explained, the Club acted as a Bretton Woods apparatus insofar as it contributed to the stability of the system by avoiding balance of payments crises and preventing imminent defaults.

In total, as Table 6.1 shows, these arrangements resulted in over US\$75 million in refinancing. The largest contributors were Italy and the United States (through EXIMBANK), followed by Japan and the United Kingdom, with interest rates ranging from 5% to 8.5%. As explained in Chapter 4, this variation reflected the outcomes of bilateral negotiations between Argentina and each creditor. While the *Procès-verbal* upheld the Paris Club's non-discriminatory principle (requiring 60% total refinance and *pari passu* repayment across all participating countries in a bond-like manner), negotiations with individual creditors allowed for adjustments to fit their respective legal frameworks. These talks also typically adapted the final interest rate to reflect the terms of the original loans, which were likewise denominated in G10 currencies.³⁴

³² García Heras describes the IMF-Argentina relations during this period in detail. See García Heras, *El Fondo Monetario y el Banco Mundial en la Argentina*, 139.

³³ NARA II RG 56, Entry UD 13W 109, Box 16, Vol 5, English Text of Agreed Note on Argentine Debt Refinancing, 17 August 1965.

³⁴ A more comprehensive explanation of the interest rate differentials lies beyond the scope of this dissertation, as it would require archival research in each of the participating countries.

Table 6.1

Paris Club negotiations with Argentina in millions of US dollars (1965)

	Debt Subject to Refinancing	Refinancing (60%)	Interest (Annual %)
France	13.1	7.9	5.00
Germany	13.3	8.0	7.00
Italy	30.5	18.3	8.50
Japan	17.0	10.2	5.75
Netherlands	1.1	0.7	5.75
Switzerland	4.6	2.8	5.00
UK	16.3	9.8	*
US (EXIMBANK)	30.0	18.0	5.50
Total	125.9	75.5	

Source: IMF SM/71/64, p. 24, 12 March 1971. Debt subject to refinancing refers to capital maturities due in 1965 (excluding previous debt already refinanced). Britain's interest rate was set at a variable rate of 0.125% above the cost of borrowing to the UK government.

To recap, this section has examined the period immediately preceding Argentina's economic spring. The analysis showed how, at this critical juncture, international cooperation contributed to an improved composition of Argentina's external debt in 1965. In achieving this, Buenos Aires drew on one of the tools provided by the BWS: the Paris Club, an institution this dissertation situates within the Bretton Woods network due to its multilateral character and its role as an apparatus in the likeness of other ad hoc mechanisms deployed in the 1960s. Beyond enabling Argentina to enter the subsequent economic boom on firmer footing, the 1965 negotiations also marked a milestone in the evolution of the Paris Club itself (and signalled the difficult British external situation). Remarkably, owing to Argentina's specific domestic circumstances, the talks redefined the role and degree of IMF involvement in Club operations (e.g., no SBA). This achievement, however, did little to appease domestic critics of the government.³⁵ Political instability persisted, culminating in yet another military coup in June 1966. Argentina's navigation of the final years of the Bretton Woods era would thus unfold under three successive military regimes.

6.3 The Argentine Revolution and international cooperation (1966-1973)

The military coup of June 1966 ushered in nearly seven years of authoritarian rule under

³⁵ Torre, 'Argentina since 1946', 298.

the banner of the Argentine Revolution. Until the democratic reopening in 1973, three military figures occupied the presidency: Juan Carlos Onganía (1966-1970), Roberto Levingston (1970-1971), and Alejandro Lanusse (1971-1972). During the Onganía years, it seemed that the country had finally overcome its recurrent recessions and balance of payments crises and embarked on a path of sustained growth.³⁶ However, Argentina's developmentalist momentum was increasingly threatened by social unrest and political violence, including the kidnapping and assassination of former president Aramburu by a guerrilla group in June 1970.³⁷ Both Levingston and Lanusse sought to revitalise the Revolution but failed to present a viable alternative to the country's deepening instability. By the early 1970s, only one figure appeared capable of restoring order: Juan Domingo Perón, exiled since his overthrow in 1955, was elected president in September 1973.

Argentina's industrial heyday under authoritarian rule has been extensively studied. From a political economy perspective, O'Donnell famously introduced the concept of the 'bureaucratic-authoritarian state' to describe the interplay between technocratic economic leadership and dismantled civil society institutions.³⁸ While foundational for understanding the relationship between economic and political variables, accounts like O'Donnell's overlook how the governments of the Argentine Revolution navigated the turbulent final years of the international monetary system. Only García Heras has explored some of these connections, focusing primarily on the sequence of Argentina's negotiations with the IMF and IBRD and their missions, and drawing largely on domestic sources.³⁹ This author highlights the crucial role of Minister Krieger Vasena, particularly his close ties to international finance and commercial banks, as well as his pragmatic mix of orthodox and Keynesian policies in the pursuit of stabilisation.

A focus on multilateral institutions or specific figures alone, however, leads to important gaps in understanding how G10 governments, central banks and commercial banks followed the same pattern of cooperation opened in 1955 (Chapter 4). The first subsection thus examines the economic programme implemented under the influential Minister Krieger Vasena until his dismissal in 1969. Relying on American and British records, it highlights the cooperative stance of Argentina's main partners, the IMF and

³⁶ For economic history accounts of the Argentine Revolution policies, see Cortés Conde, *The Political Economy of Argentina in the Twentieth Century*, 230–40; Gerchunoff and Llach, *El Ciclo de La Ilusión y El Desencanto*, ch. V.

³⁷ Hernán Confino and Marina Franco, 'Guerrillas in Argentina: A History of Four Decades (1950–1980)', in *Latin American Guerrilla Movements* (Routledge, 2019), 104.

³⁸ O'Donnell, *El estado burocrático autoritario 1966-1973*, ch. Introducción. For an alternative view of the interactions between state and markets, and the impossibility of economic modernisation and political democracy in Argentina, see William C. Smith, *Authoritarianism and the Crisis of the Argentine Political Economy* (Stanford, Calif: Stanford University Press, 1991), ch. 1.

³⁹ García Heras, *El Fondo Monetario y el Banco Mundial en la Argentina*, 147–80; García Heras, *Deuda Externa, Crisis y Política*, ch. Preludio. Brenta also describe the IMF-Argentina packages. See Brenta, *Historia de las relaciones entre Argentina y el FMI*.

G10 commercial banks. Thanks to this initial support, Argentina went further by aligning its policies with the Fund's standards (Article VIII) and securing additional funding through the Eurobond market. The ultimate goal was to convince foreign investors of the merits of the Argentine Revolution, sound economic policies, and the bright prospects of the Argentine economic spring. Along these lines, and mirroring Frei's cooperative attitude (Chapter 5) but on a larger scale, Buenos Aires was able to extend support to the US balance of payments through long-term investments and central bank agreements. The second subsection considers Argentina's response to the most severe balance of payments crisis it faced during the Bretton Woods era, in 1971. As in the 1965 cooperative episode, international partners, starting with the United States, but also including the IMF and G10 commercial banks, once again provided critical support.

Cooperation during the Krieger Vasena years (1967-1969)

Two months after his appointment in January 1967, Economy and Labour Minister Krieger Vasena introduced the most successful stabilisation plan of the postwar era in Argentina. It combined fiscal, monetary, income and commercial policies to confront annual inflation nearing 30%. The government pursued fiscal restraint and tighter banking credit while negotiating a wage and price freeze with unions and businesses to curb cost-push inflation.⁴⁰ In what Krieger Vasena termed the 'last devaluation' of the peso, the Argentine currency was devalued by 40% against the US dollar on 13 March 1967, after which nearly all restrictions on current account and capital transactions were phased out (Figure 6.2). To mitigate the risks of these policies, the CBAR secured additional short-term financing from the IMF and industrialised countries. The timely implementation of these measures yielded results even beyond the government's and partners' expectations. Inflation was controlled without severely affecting economic activity, and net international reserves expanded beyond trade balance gains due to private short-term capital inflows (Figure 6.1).⁴¹ Reflecting on these indicators, the Fund's staff did not spare any praise by concluding that "Argentina has made a great deal of progress toward eliminating inflation, strengthening the balance of payments position, and laying the bases for a rapid and sustained rate of growth."⁴² The economic spring had arrived and remained in full bloom until 1969.

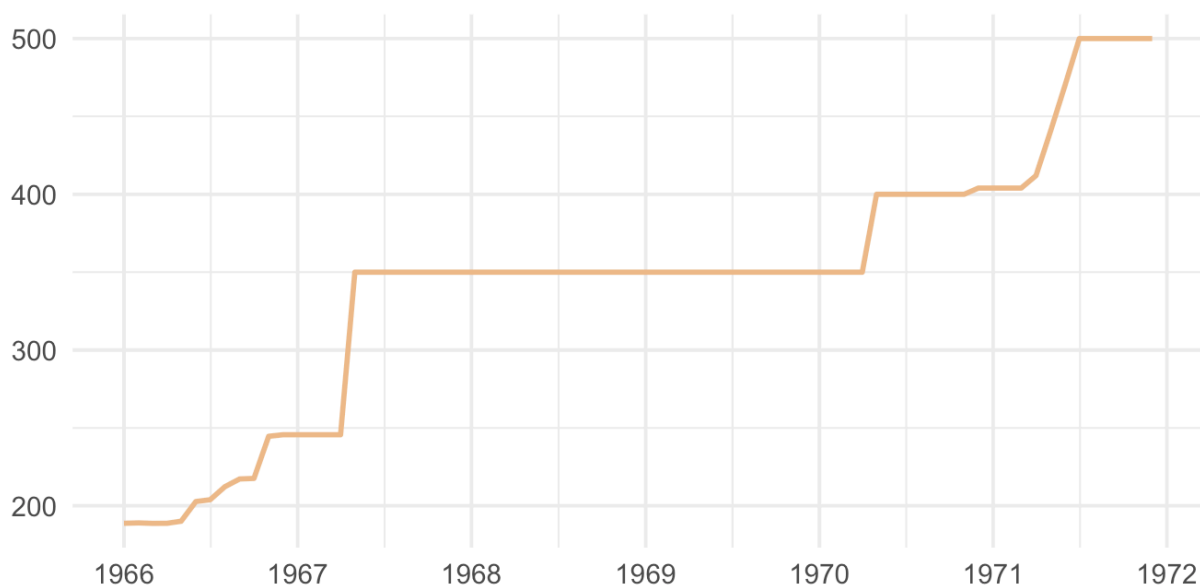
⁴⁰ Maynard, 'Argentina: Macroeconomic Policy, 1966-73', 168.

⁴¹ These included foreign short-term credits to domestic firms and the repatriation of Argentine capital. IMF EBS/63/92, Appendix, pp. 76-77, 1 April 1968.

⁴² EBS 69/46, 5 March 1969, p. 21

Figure 6.2

Argentina's exchange rates in pesos per US dollar (1966-1971)



Source: CBAR Annual Reports. Data for 1966-1969 reflect monthly averages; 1970-1971 are end-of-month values. In September 1971, Argentina abandoned the single rate and returned to the multiple exchange rate system. In January 1970, Argentine authorities implemented a monetary reform: the 'peso moneda nacional' was replaced by the 'peso ley' at a rate of 100 to 1 (e.g. in January 1970, the exchange rate shifted from 350 pesos moneda nacional to 3.5 pesos ley per US dollar). This chart presents all figures in the original peso moneda nacional.

Crucially, the implementation and evolution of Krieger Vasena's plan relied heavily on international support. Archival records permit the reconstruction of the series of negotiations the government and traditional partners undertook in the late 1960s, revealing how multilateral institutions, G10 governments, and international banks actively supported the Argentine Revolution's programme. Krieger Vasena's crusade began in January 1967, when he presented the Argentine Revolution's economic programme at the Alliance for Progress annual meeting in Washington, attended by officials from multilateral institutions and the OECD's Development Assistance Committee.⁴³ In order to convince the G10 countries of Argentina's true commitment to restoring investor confidence, the minister welcomed an early IMF mission to assist the government in the liberal policy design. Buenos Aires' openness to collaboration was noted by the Fund staff, whose mission leader remarked he could not recall any occasion in which the attitude of the Argentine authorities was friendlier.⁴⁴ Such an attitude soon paid off, as the IMF Board swiftly approved a US\$125 million SBA on 1 May, the largest package for Argentina to date. During the session, the American director acknowledged being "impressed by the exchange reform of March,"⁴⁵ which in just two months had

⁴³ BoEA 4A102/8, Six months after the Argentine military revolution of June 28th, 1966, 9 January f. 1A:9.

⁴⁴ IMF IA, Mission to Argentina, C/Argentina/810 Mission - Del Canto and Staff, 11 March 1967.

⁴⁵ IMF EBM 67/28, 1 May 1968.

already spurred capital inflows exceeding the US\$100 million reserve target for the entire year. This early Fund endorsement proved to be key for accessing additional financing from the G10.

Although willing to cooperate, Argentina's main partners did not extend international support easily, as many were dealing with external challenges of their own. The case of US public support is particularly revealing. The American federal contribution to Krieger Vasena's programme took the form of a US\$75 million credit line from the US Treasury, signed on 2 May 1967. The bilateral agreement created an Exchange Stabilisation Fund through which the FRBNY would purchase pesos from the CBAR *pari passu* with Argentina's drawings from the IMF (echoing earlier arrangements between Washington and both Buenos Aires and Santiago analysed in previous chapters). However, contrasting with those Exchange Funds, the 1967 dollar-peso agreement adopted a more conditional approach necessary to protect, an internal memorandum reads, "the US balance of payments from any adverse impact."⁴⁶ According to the agreement, any peso purchase required prior consultation and approval from the US Treasury. Meanwhile, British confidential records commenting on the operation noted that the Exchange Fund was never intended for active use but "for window dressing only."⁴⁷ That neither Buenos Aires nor Washington made the agreement public was a deliberate strategy to preserve market confidence and secure financing from private banks on both sides of the Atlantic.

The European composition of Argentina's 'package deal' involved a series of standby credit lines granted by commercial banks to the CBAR. As with the banks' involvement in the Frondizi Plan described in Chapter 4, these were short-term loans (totalling US\$100 million), which Argentine authorities pledged to immediately deposit in the respective institutions. While the banks profited from a 2% interest rate spread (between the credit and deposit rates), the primary objective was to expand the CBAR's balance sheet and report a higher level of gross international reserves (Figure 6.3, see the increase in foreign exchange in 1967-Q2). This provided Argentine officials with additional backing for the pegged peso and a buffer against potential external shocks, like commodity price fluctuations. From the bank's perspective, the risk associated with the operation was limited due to its short-term nature (one year, with the option of renewal) and the fact that Argentine authorities treated the funds as a second line of defence, to be drawn only after exhausting the US\$100 million SBA noted above.⁴⁸ Furthermore, although neither the Bank of England nor the UK Treasury records explicitly mentioned it, the banks might also have benefited from diversification, improved relations with the CBAR, and potential opportunities to expand their activities in the increasingly attractive Argentine market.

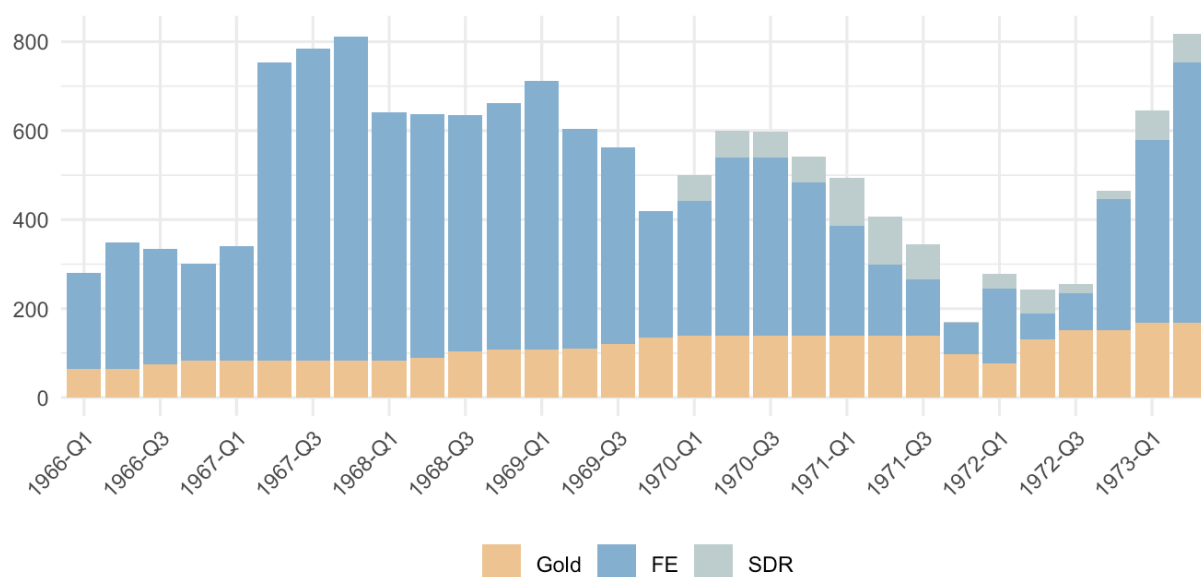
⁴⁶ NARA II RG59, Entry A1 1613-C, Box 716, Buenos Aires Embassy, From Treasury for Gordon, 18 April 1967.

⁴⁷ BoEA 4A102/9, f. 41V, Telegram British Embassy Washington to Foreign Office, 12 May 1967.

⁴⁸ TNA FCO 7/166, Argentine stand-by credit, 18 April 1967.

Figure 6.3

CBAR's gross international reserves in millions of US dollars (1966-1973)



Source: IMF IFS.

An interesting feature of the 1967 standby loan compared with the one in 1959 was the currency composition of such standby credits. In the Frondizi package, each G10 European country had extended loans in its own national currency. By contrast, in 1967, some of these loans were denominated in Eurodollars, notably those from Italian and British banks (Table 6.2). This shift reflected the evolving nature of the international financial system and the expansion of global liquidity during the 1960s. Eurodollars were US dollars deposited outside the United States, primarily in London-based banks, and subsequently lent to third parties in the UK or abroad on a short-term basis.⁴⁹ Throughout the 1960s, the market expanded rapidly, as Eurodollar loans were not subject to US domestic banking regulations or to UK capital outflow controls, unlike sterling-denominated loans. Indeed, it was precisely because of these controls that UK banks did not lend in their own currency as many of their Continental counterparts did. Facing a fragile balance of payments position, which Britain had only stabilised after a US\$900 million swap arrangement in September 1966, UK monetary authorities did not authorise London banks to on-lend in sterling.⁵⁰ As one Treasury official put it, “when our own external position has only just started to improve significantly... it would be odd indeed to run the risk of attrition of the expected small surplus of this year for the sake of Argentina.”⁵¹

⁴⁹ For a description of Eurodollars, see Battilossi, ‘International Money Markets’, 270–71.

⁵⁰ For the swap arrangement, see Schenk, *The Decline of Sterling*, 172.

⁵¹ BoEA 4A102/8, to S. Goldman to Morse, 6 April 1967, f. 38O.

Table 6.2

Commercial banks' standby loans to Argentina in millions of US dollars (April 1967)

Country	Currency	Contribution (US dollars or equivalent)
Belgium	Belgian franc	7
Canada	Canadian dollar	5
France	French franc	7
Germany	Deutsche Mark	22
Netherlands	Guilder	7
Italy	US dollar (Euro-dollar)	14
Spain	Peseta (convertible)	5
Switzerland	Swiss franc	9
Sweden	Krona	4
UK	US dollar (Euro-dollar)	20
<i>Non-US contribution</i>		<i>100</i>
US	US dollar	100
Total		200

Source: TNA FCO 7/166, Argentine stand-by credit, 18 April 1967. In a separate contract, the CBAR secured an additional US\$5 million (in yen) from the Bank of Tokyo.⁵²

After securing multilateral and G10 banks' support and leveraging the bright prospects of the Argentine economy, the Onganía government saw in the international capital market an additional source of revenue. The pegged rate, increasing international reserves, investment-friendly regulations, and a positive trade balance were all used as arguments to re-enter the bond market. Three issues were made in 1967-1968, as Table 6.3 shows. The first bond was floated in Frankfurt in December 1967; this 12-year issue of DM 100 million (US\$25 million) carried a relatively high yield of 7.81%, exceeding that of comparable economies such as Mexico, whose bonds yielded around 7.3%. According to American sources, the bond faced a complex collocation due to growing competition for capital in European markets, as "American firms were competing for available capital funds in Europe."⁵³ This challenge was closely tied to the broader instability of the international monetary system in the late 1960s. In part triggered by the sterling

⁵² CBAR DM 324, Book February-June 1967.

⁵³ NARA II RG 59, Entry A 1613-C, Box 717, Krieger Vasena's Trip to Europe, 16 December 1967. Also see Chris O'Malley, *Bonds without Borders: A History of the Eurobond Market*, 1st edn, Wiley Finance Series (Newark: Wiley, 2014), 24, doi:10.1002/9781119010845.

devaluation of November 1967, US monetary authorities tightened capital regulations, with the resulting monetary disruptions reverberating across international financial markets, including the Eurobond market.⁵⁴

Despite the difficulties with the December 1967 bond, Krieger Vasena remained convinced that the fundamentals of the economic spring compared favourably with the difficulties of most G10 economies. Indeed, such a statement was shared by the G10 countries and multilateral institutions. On 17 May 1968, the same day the Gold Pool collapsed and the fixed link to gold at the foundation of the BWS ended, an official of the Bank of England remarked: “These are not easy days for us, but it has been good to see that at least one country, Argentina, has seen its economic situation stabilise... and what is happening is proving that good policies tend to produce good results.”⁵⁵ A month earlier, in connection with a request by Argentina discussed by the IMF Board, the American Director Dale openly praised Buenos Aires’ progress, labelling it as a “spectacular improvement in the balance of payments in 1967, and in 1968 a further impressive increase in net reserves.”⁵⁶ The optimism also reached the private sector. A confidential study conducted by the National City Bank in April 1968 concluded that “with all its problems, Argentina is still the number one bet in Latin America for US investment interests.”⁵⁷

Table 6.3

Argentine government bonds in millions of US dollars (1967-1968)

Date	Location (Currency)	USD Equiv.	Length (years)	Coupon	Price (% Face)	YTM
Dec-67	Frankfurt (DM)	25	12	7%	95%	7.61%
Jun-68	New York (USD)	25	5	8%	99%	8.24%
Sep-68	Frankfurt (DM)	25	10	7%	97.25%	7.38%
Nov-68	Frankfurt (USD)	25	5	7.25%	97%	7.97%

Source: BOEA 4A102/12, f. 18K. YTM = yield to maturity (own calculations).

Krieger Vasena’s assessment proved accurate, and his persistence paid off. In 1968, Argentina successfully floated the remaining three bonds of the operation (Table 6.3). The first of these, issued in New York in late June for US\$25 million, marked Argentina’s return to that market after a 30-year absence. Even though the New York bond proved more

⁵⁴ For the sterling devaluation, see Naef, *An Exchange Rate History of the United Kingdom*, 148–60.

⁵⁵ BoEA 4A102/11, Leslie Crick to Pedro Real, 17 May 1968.

⁵⁶ IMF EBM 68/73, 15 April 1968.

⁵⁷ NARA II RG 59, Entry A1 1613-C, Box 718, First National City Bank of New York Prognosis of Argentine Situation, 3 April 1968.

expensive than anticipated, Argentine authorities were determined to access this market to bolster investor confidence.⁵⁸ Incidentally, the higher costs associated with issuing in New York were not unique to Argentina but reflected broader structural constraints of the BWS in the 1960s, namely the persistent US balance of payments deficit and mounting inflationary pressures. To address the former, the Interest Equalization Tax (IET), enacted in 1963 and extended through 1974, imposed a levy on the purchase of foreign securities by US investors, effectively discouraging non-US borrowers from raising capital in American markets.⁵⁹ Meanwhile, inflation concerns prompted the Federal Reserve to tighten monetary policy, raising the discount rate from 4.5% to 5.5% between February and June.⁶⁰ These restrictive measures help explain why the New York bond had a shorter maturity and a higher coupon rate and yield than the Deutsche Mark and Eurodollar bonds Argentina issued later that year. Although more costly than in Europe, the American bond was key for Argentine officials insofar as the country could establish its credit reputation in New York so as to be able to tap that market in the future.⁶¹

Concomitant with the bond operations, and partly contributing to their success, the Argentine government took major steps to fulfil its international commitments and, subsequently, to support the US balance of payments. In terms of the former, Krieger Vasena's bold liberalisation of exchange and trade restrictions enabled Argentina to secure approval for the application of Article VIII of the IMF's Articles of Agreement in August 1968 and to become a Contracting Party to the GATT two months later.⁶² The adoption of Article VIII was particularly significant: it placed Argentina in the same category as Western European economies and made it the first South American ISI-oriented country to declare its currency fully convertible for current account transactions. Owing to this and Argentina's strong export performance, the peso became actively drawn by other Fund members, including the UK under its US\$1.4 billion SBA,⁶³ as well as by Bolivia, Colombia, Chile, Nicaragua, India, and Burma.⁶⁴ As the most utilised Latin American currency within the Fund, Argentine peso holdings at the IMF fell below 75% of the country's quota, thereby formally entering the 'super gold tranche'

⁵⁸ BoEA 4A102/11, Bankers' Standby and Bond Issues, 14 May 1968, f. 46B.

⁵⁹ Richard Pomp, 'The United States Interest Equalization Tax', *Bulletin for International Fiscal Documentation* XXVIII, nos 3–14 (1 January 1974).

⁶⁰ Allan H. Meltzer, *A History of the Federal Reserve, Vol. 2, Book 2, 1970-1986* (Chicago: University of Chicago Press, 2009), 532–33.

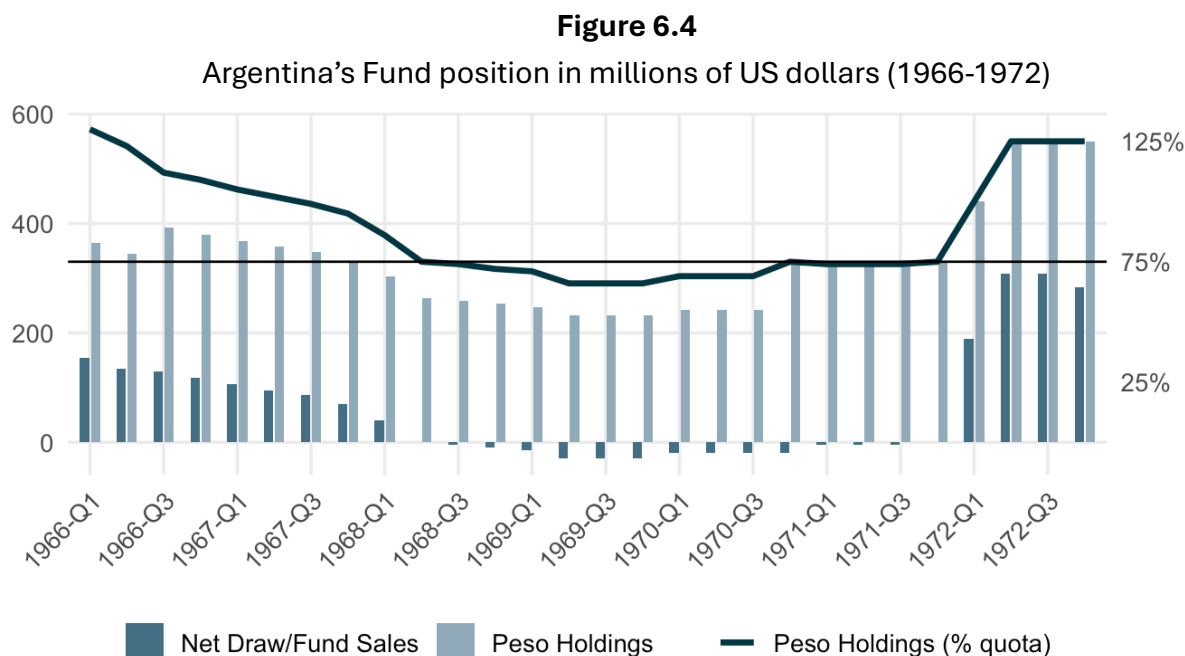
⁶¹ NARA II RG 59, Entry A1 1613-C, Box 717, GOA Financial Plan, 12 June 1968.

⁶² See a brief reference in Marcelo Rougier and Juan Odisio, 'En El Auge de La Industrialización Sustitutiva 1967-1976', in *Historia Necesaria Del Banco Central de La República Argentina: Entre La Búsqueda de La Estabilidad y La Promoción Del Desarrollo*, ed. Marcelo Rougier and Florencia Sember, Primera edición (Ciudad de Buenos Aires, Argentina: Ediciones CICCUS, 2018), 255–56.

⁶³ Schenk, *The Decline of Sterling*, 174–94.

⁶⁴ ES 1,139, 25 June 1968, pp. 6-7. IMF EBM 23 October 1968 and EBS/68/267, Burma - Purchase Transaction, 18 October 1968.

position (Figure 6.4, rhs).⁶⁵ In other words, Argentina had become a net creditor to the IMF, a milestone that, in the words of French Executive Director Jean de Maulde, served as “a measure of the success of Argentina’s policies.”⁶⁶



Source: IMF IFS. The percentage of quota excludes net compensatory drawing; below 75% of peso holdings as a proportion of quota means super gold tranche.

Another indication of the success of Krieger Vasena’s policies and the Argentine economic spring was the country’s growing role in international financial cooperation. Throughout 1967 and 1968, Argentina contributed to easing the US balance of payments deficit by employing mechanisms also used by G10 members.⁶⁷ This included a shift in Argentina’s international reserves policy and the creation of peso-dollar swap facilities. Regarding the policy of international reserves, in December 1967 Argentina shifted US\$50 million of short-term dollar holdings into long-term certificates of deposit (CDs) “as a part of cooperation on [the] US balance of payments problem,”⁶⁸ followed by similar operations in 1968 up to US\$200 million. In response, Secretary Fowler of the US Treasury thanked Krieger Vasena for his “warm cooperation” and evidence of “broader concern with the overall health of the international monetary system.”⁶⁹ In the same communication, however, Fowler expressed his concern over Argentina’s desire to increase its gold holdings directly from the US or in London in the midst of a critical period

⁶⁵ IMF Annual Report 1969, p. 153.

⁶⁶ IMF EBM/69/19, 21 March 1969.

⁶⁷ Eichengreen, *Globalizing Capital*, 120–21.

⁶⁸ NARA II RG 59, Entry A1 1613-C, Box 716, Central Bank Reserves Policy, 13 December 1967.

⁶⁹ NARA II RG 56, Entry UD 13W 109, Box 15, Letter to Argentine Economy Krieger Vasena, 18 January 1868.

of speculative attacks in the gold market, a move that could have been “misinterpreted as a sign of weakening of confidence in the dollar.”⁷⁰ In response, the CBAR cooperated by reducing its planned gold purchases from US\$60 million to US\$30 million over the course of 1968. This adjustment aligned with Argentina’s broader interests, as Krieger Vasena remarked, “all would suffer if [the] dollar devalued.”⁷¹

Besides shaping CBAR reserve policy to assist the US balance of payments, Argentina also agreed to participate in a dollar-peso swap arrangement. In April 1968, the US Treasury US\$75 million agreement was renewed for another year, but it also included reciprocal currency swap facilities, which enabled either the US or Argentina to draw the currency of the other country.⁷² This operation was an integral part of the concurrent network of swap agreements the US had established since 1962 with G10 central banks and the BIS to finance currency interventions and manage dollar liquidity.⁷³ For Argentina, this operation was in line with previous policies to engage more actively internationally, showing foreign investment the attractiveness of sound economic policies and the opportunities of the Argentine market during its economic spring. Meanwhile, the Americans view the arrangement as a facility that could be activated to provide a positive balance of payments impact.⁷⁴ In effect, under the peso-dollar swap, the CBAR authorised a US\$37.5 million operation to the US Treasury in late June 1968. As per the request of US authorities, the other US\$37.5 million was made up of debt prepayment and additional long-term investments.⁷⁵ All this operation meant a full US\$75 million Argentine contribution to the US balance of payments in 1968, making Argentina the single largest swap operation with Latin American countries, above Mexico (US\$23 million) and Venezuela (US\$41 million).⁷⁶

In all likelihood, Washington would have welcomed the continuation of Argentina’s cooperative stance. Unfortunately, the country’s improved position quickly evaporated in the second half of 1969. The turning point has traditionally been linked with the resignation of Krieger Vasena in June 1969.⁷⁷ Nonetheless, given the openness of the Argentine economy, international conditions could also have played a role in this final crisis. Global interest rates rose sharply in 1969 and 1970, driven by the US monetary authorities’ commitment to curb inflation through monetary restraint.⁷⁸ At the same time,

⁷⁰ Bis.

⁷¹ NARA II RG 59, Entry A1 1613-C, Box 718, GOA Gold Purchase Plan, 25 January 1968.

⁷² NARA II RG 59, Entry A1 1613, Box 718, Exchange Agreement with Argentina, 30 April 1968.

⁷³ Robert N. McCauley and Catherine R. Schenk, *Central Bank Swaps Then and Now: Swaps and Dollar Liquidity in the 1960s*, SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, 1 April 2020), 2–3, <https://papers.ssrn.com/abstract=3571416>.

⁷⁴ NARA II RG 56, Entry UD 13W 109, Box 15, ESF Agreement with Argentina, 8 April 1968.

⁷⁵ NARA II RG 59, Entry UD 13W 103, Memorandum Treasury and CBAR President, 3 May 1968

⁷⁶ NARA II RG 56, Entry UD 13W 103, Latin American ESF Swap Operations During 1968, 3 January 1969.

⁷⁷ Gerchunoff and Lluch, *El Ciclo de La Ilusión y El Desencanto*, VII.

⁷⁸ Allan H. Meltzer, *A History of the Federal Reserve. Vol. 2, Book 1, 1951-1969* (Chicago: University of

France's devaluation in August and Germany's revaluation in October intensified speculative capital flows among and into developed markets.⁷⁹ Argentina was particularly exposed to these global shocks as Krieger Vasena had dismantled all capital controls. The situation was further aggravated by pressure from the Onganía government on commercial banks with excess reserves to lower interest rates in an attempt to stimulate domestic activity.⁸⁰ As a consequence, short-term capital flows, which had reached US\$254 million in 1967 and US\$134 million in 1968, turned negative in 1969 (-US\$79 million). As the months passed and investors increasingly sought more favourable opportunities abroad, it became evident that Argentina's economic spring was coming to an end.

Argentina and international support at the outset of the BWS (1971-1973)

The early 1970s were a turbulent period for both the BWS and Argentina. The international monetary system collapsed among the G10 following the Nixon Shock (August 1971), the Smithsonian Agreement (December 1971), the floating of sterling (June 1972), and ultimately the abandonment of the pegged exchange rate regime.⁸¹ In Buenos Aires, the Argentine Revolution sought to prolong its hold by replacing President Onganía with Brigadier Roberto Levingston in June 1970. Although his government lasted only nine months, Levingston's economic policy marked a sharp departure from Krieger Vasena's project. His finance minister, development economist Aldo Ferrer, implemented expansionary policies that revived inflation and aimed to 'Argentinise' the economy. These measures, which granted preferential treatment to domestic businesses, triggered deep mistrust among foreign investors, particularly in the commercial and banking sectors.⁸² Capital flight intensified, compounding a deteriorating current account due to a weak trade balance and a deficit in factor income, thus threatening the continuation of the programme (Figure 6.1).⁸³ The nationalist experiment of 1970-1971 came to an end with the arrival of General Alejandro Lanusse, who led the final government of the Argentine Revolution (March 1971 to May 1972) under the promise of a return to

Chicago Press, 2009), 560.

⁷⁹ IMF Annual Report 1970, pp. 91-92.

⁸⁰ IMF IA, Argentina - Article VIII Consultation Discussions, 23 August 1969.

⁸¹ The Smithsonian Agreement was an arrangement that allowed wider fluctuations around the dollar peg but ultimately failed to preserve the BWS. See Margaret Garritsen de Vries, *The International Monetary Fund 1972-1978. Cooperation on Trial*, vol. I: Narrative and Analysis (Washington, D.C.: International Monetary Fund, 1996), 11, doi:10.5089/9781451922684.073.

⁸² See Marcelo N. Rougier Voilláz and Juan Carlos Odisio, 'Del dicho al hecho: El "modelo integrado y abierto" de Aldo Ferrer y la política económica en la Argentina de la segunda posguerra', *América Latina en la historia económica* 19, no. 1 (April 2012): 99-130. Also TNA FCO 7/1878, Argentina: Annual Review for 1970, pp. 3-4.

⁸³ Filippini and Olcese, 'Transitional Economic Policies, 1971-3'.

democratic rule.

Amid the nationalistic policy shift, the collapse of the BWS amplified the endogenous imbalances that followed the Krieger Vasena years. Currency realignments affected several dimensions of Argentina's economy, notably trade, international reserves, and external debt. As Rougier and Odisio note, two-thirds of Argentina's foreign trade was conducted with countries whose currencies were revalued.⁸⁴ This external shock put additional pressure on Argentina's current account by raising the costs of imported goods and services. Following the first wave of currency revaluations under the Smithsonian Agreement of December 1971, the IMF estimated that US\$80 million of the US\$400 million in new public and private debt contracted by Argentina that year stemmed solely from exchange rate realignments.⁸⁵ As in the case of Chile, more specific effects of currency realignments are difficult to determine due to domestic imbalances (CPI recorded 35% in 1971 and 59% in 1972) and the complexity of Argentina's dual and mixed exchange rate regime in place since September 1971, which might have swamped some revaluations.⁸⁶

A methodological note is warranted when addressing the final crisis of both the BWS and Argentina. Available Argentine sources tend to suggest that the Lanusse government and the central bank were primarily focused on domestic developments. Inflation, labour unrest, the resurgence of Peronism, and terrorist attacks likely dominated the agenda of Buenos Aires officials. These circumstances may explain the absence of commentary on the implications of the Smithsonian Agreement or on central bank reporting changes following the revaluations or sterling's flotation.⁸⁷ Further complicating matters, foreign partners' sources are less forthcoming during this period. Although the US embassy continued monitoring and reporting on economic developments, the Bank of England records (a key source for understanding Argentina's financial and monetary affairs) suddenly ended in June 1969.⁸⁸ These limitations do not imply that Buenos Aires disengaged from the major actors of the international monetary system. On the contrary, the available evidence reveals that the Argentine Revolution actively negotiated with major partners solutions to address Argentina's growing external imbalances in the early 1970s. The next paragraphs examine these efforts in greater detail.

By the end of 1971, the government entered negotiations with international partners from a highly vulnerable position. Gross international reserves at the CBAR had fallen to

⁸⁴ Rougier and Odisio, 'En El Auge de La Industrialización Sustitutiva 1967-1976', 273–74.

⁸⁵ IMF SM/72/63, 12 March 1972.

⁸⁶ This effect was mentioned in internal discussions at the US Department of State level. See NARA II RG 59, Entry A1 1613-D, Box 841, Implications for US trade of recent monetary developments, 9 March 1972.

⁸⁷ It is likely that further information may be found in Argentine officials' private archives.

⁸⁸ At the request of the author, archivist of the Bank of England confirmed that post June 1969 records are not available.

just US\$171 million, the lowest level since 1965, while consumer price inflation reached 40% (Figure 6.3). The British embassy illustrated this grim picture by highlighting that “there has been an enormous flight of capital and reserves... foreign business is cutting down or pulling out. The major foreign meat packing plants which have played so a large role in Argentine economic history have been bankrupted or are going somewhere else.”⁸⁹ In the midst of a balance of payments crisis, the largest the country experienced as an IMF member, the Argentine government dispatched a special emissary to Washington in September 1971, a month after the Nixon shock. At the same time that developed countries rushed to the US capital to contain the collapse of the BWS, the Argentine mission arrived to request urgent financial assistance from the United States and other G10 countries.⁹⁰ In a meeting with the Assistant Secretary of the Treasury, the emissary “stressed that President Lanusse is sending a political ‘SOS’ message to the US requesting urgent assistance.”⁹¹

At this critical juncture, and despite grappling with challenges of their own, G10 partners and the IMF appeared willing to cooperate once again. The United States responded swiftly to Argentina’s call for support, granting US\$100 million via EXIMBANK’s Cooperative Financial Facility in February 1972.⁹² Records reveal that American cooperation was motivated by several considerations. First, during the Krieger Vasena years, US investment had poured into the country: by mid-1973, American capital accounted for half of the total US\$1.3 billion in foreign investment, primarily concentrated in industry and banking.⁹³ Supporting Argentina thus aligned with the protection of American economic interests. Second, there was a political dimension: from the outset, the Lanusse administration presented itself as the final government of the Argentine Revolution, tasked with preparing the country for a return to democratic rule. For that reason, the US embassy promptly recommended that Washington “adopt [a] positive posture... to prevent probable GOA [Government of Argentina] turn to economic autarky and in longer term to bolster stability [of the] Lanusse regime and its plans to return country to elected government.”⁹⁴ Third, in light of Argentina’s earlier efforts to support the American external position between 1967 and 1969, US backing in the early 1970s was seen as a gesture of reciprocity. Embassy officials, in

⁸⁹ TNA, FCO 7/2188, Argentina: annual review for 1971, p. 4.

⁹⁰ IMF SM/72/63, 13 March 1972.

⁹¹ NARA II RG 59, Entry A1 1613-D, Box 716, Argentine special emissary discussed financial problems with Assistant Secretary Petty, 10 September 1971.

⁹² NARA II RG 59, Entry A1 1613-D, Box 840, “\$100 Million Cooperative Financing Facility for Banco Central de la Republica Argentina”, 15 February 1972. The CFF was a programme by which the EXIMBANK extended lines of credit to foreign banks, allowing them to make loans to Argentine purchasers of American goods and services. See Robert S. Rendell, ‘Eximbank Assistance to Trade and Investment in Eastern Europe’, *The International Lawyer* 10, no. 1 (1976): 79–84.

⁹³ NARA II RG 59, Entry A1 1613-D, Box 840, Major U.S. Investments in Argentina, 7 May 1973.

⁹⁴ NARA II RG 59, Entry A1 1613-D, Box 716, Argentine economic program and financial mission, 25 January 1972.

correspondence with the State Department, noted that the “record indicates beneficial use by U.S. of Argentine balance of payments assistance,” concluding that “the opportune time to reciprocate may have arrived.”⁹⁵

At the multilateral level, the Lanusse administration designed an economic programme to be implemented throughout 1972 and until the democratic elections scheduled for March 1973. Aiming to secure US\$1 billion in external financing, an economic team led by the CBAR governor worked closely with the IMF to prepare a letter of intent acceptable to the Fund’s Executive Board. To persuade the multilateral institution, the government introduced a series of measures in advance of the Board’s deliberations, including an increase in domestic interest rates and a sharp devaluation of the effective exchange rate in March 1972 (Figure 6.2).⁹⁶ However, due to mounting domestic criticism, the weakened Lanusse administration was unable to commit to deeper policy reforms, such as credit ceilings, that might have secured access to an SBA. Fortunately for Argentina, its previous net creditor position with the Fund (e.g., its super gold tranche) allowed access to multilateral compensatory financing without major policy conditionality. Alongside a virtually automatic gold tranche disbursement earlier in the year and CFF drawings authorised in March, Argentina received over US\$360 million from the IMF in 1972 (Figure 6.4).

Although substantial, US federal support via EXIMBANK or IMF funding was not enough to cover Argentina’s external needs. Once again, Buenos Aires turned to private commercial banks to meet its debt obligations, finance public and private current payments, and contain capital outflows. Replicating the 1967 operation, the idea was for the CBAR to contract standby credits with G10 commercial banks. These credits were not for immediate use but were to be deposited in the respective banks, thereby boosting the central bank’s reserves (operating as a second line of defence). When the Argentine delegation reached Europe, the task was complex, though “not beyond the bounds of possibility,” as British observers put it, since “the City still have some faith in Argentina’s long-term prospects.”⁹⁷ After several months of negotiations and visits to European capitals, Argentine officials secured 5-year standby loans for the equivalent US\$149 million, with an additional US\$41 million from Canada and Japan (Table 6.4). The largest contributors were Italy, Britain, and Japan. The first two, as this dissertation has shown, had long-standing financial ties and ongoing trade relations with Argentina, and the same applied to Germany. Japanese banks, by contrast, may have joined the standby package to help share the burden of assistance in light of growing commercial links with Buenos

⁹⁵ NARA II RG 59, Entry A1 1613-D, Box 842, Argentina/U.S. swaps, 8 June 1971.

⁹⁶ Since September 1971, Argentina readopted a multiple exchange rate regime. IMF SM/72/64, Cor. 2, 15 March 1972, p. 58.

⁹⁷ TNA FCO 7/2188, H. M. Hunter to Sir Michael Hadow, 4 February 1972.

Aires: between 1964 and 1973, Japanese imports into Argentina rose from 2% to 14%.⁹⁸

Table 6.4

Commercial banks' standby loans to Argentina in millions of US dollars (November 1972)

Country	Currency	Contribution (US dollars or equivalent)
UK	US dollar (Euro-dollar)	30
France	US dollar (Euro-dollar)	20
Belgium	Belgian franc	2
Sweden	Krona	2
Switzerland	Swiss franc	11
Italy	US dollar (Euro-dollar)	35
Netherlands	Guilder	8
Spain	US dollar (Euro-dollar)*	19
Japan	US dollar (Euro-dollar)	31
Germany	Deutsche Mark	27
Canada	US dollar (Euro-dollar)	10
<i>Non-US contribution**</i>		200
US	US dollars	145
Total		345

Source: NARA II RG 59, Entry A1 1613-D, Box 716, Monthly Economic Report October 1972, 24 November 1972, and Box 840, Finance: Argentine Foreign Borrowing, 9 November 1972. * Only US\$10 million in Euro-dollars, the rest in convertible pesetas. ** Individual non-US contributions do not sum to 200 due to changes in rates against the US dollar, which here are calculated using FRED St. Louis quotations as of 1 October 1972.

On the other side of the Atlantic, by contrast, the conditions initially demanded by the banks nearly derailed the entire operation. Among them was the requirement that Argentina strictly adhere to macroeconomic targets, with non-compliance providing the banks with grounds to withdraw.⁹⁹ The New York banks, in particular, insisted on even stricter safeguards than their European counterparts. Loan disbursements were to be made in quarterly tranches, each conditional on Argentina's performance against

⁹⁸ Ferreres, *Dos Siglos de Economía Argentina: 1810-2018*.

⁹⁹ NARA II RG 59, Entry A1 1613-D, Box 716, Argentine economy - status and prospects, 24 August 1972.

benchmarks set in agreement with the IMF.¹⁰⁰ These institutions appeared especially concerned with obtaining firm assurances before Argentina phased out the capital controls it had reimposed in the early 1970s, and probably other policy commitments to control inflationary pressures. After several months of intense negotiations, the government persuaded New York banks to relax their demands. Instead of specific policy commitments, the final agreement only required Argentina to maintain a minimum level of international reserves at the CBAR.¹⁰¹

A final interesting feature of the 1972 credit package to Argentina is how it reflected the broader evolution of the international financial system following the Nixon shock. Compared to the 1967 arrangement, two developments stand out: the relatively lower participation of the United States (less than 50%, unlike during the Krieger Vasena years) and the greater reliance on Eurodollars. Although not explicitly acknowledged in the sources, the increased involvement of non-US banks may signal both a greater interest of new major partners (Japan) and a shift in the US stance toward sharing the burden of supporting developing countries in need of external assistance.¹⁰² In terms of currency composition, the erosion of the gold-dollar link and the collapse of fixed parities created new incentives for banks to expand international operations, particularly in the Eurodollar market.¹⁰³ Table 6.4 reflects this shift: whereas in 1967 two-thirds of non-US contributions were denominated in Eurodollars, by 1972 this share had risen to 86%. Notably, this offshore market not only endured the final years of Bretton Woods but also withstood attempts to regulate offshore money creation, emerging from the crisis strengthened.¹⁰⁴ Indeed, according to the BIS annual report, by 1972 the Eurodollar market had grown to nearly US\$100 billion, driven largely by the persistence of America's external payments deficit.¹⁰⁵

After the difficult 1970-1972 period, Argentina was able to weather its most acute external difficulties and meet its debt obligations, thanks in large part to international assistance. By mid-1973, the external situation had improved significantly. This was not as a result of more rigorous domestic policies, but due to favourable international conditions. In particular, improved prices for agricultural commodities, especially beef, brought the current account into surplus for the first time since 1967.¹⁰⁶ When 77-year-old Juan Domingo Perón assumed the presidency for a third time in October 1973, the

¹⁰⁰ NARA II RG 59, Entry A1 1613-D, Box 839, Preliminary Report on New York Banks, 9 February 1972.

¹⁰¹ NARA II RG 59, Entry A1 1613-D, Box 841, 16 October 1972.

¹⁰² In the same way, it would reflect the US retreat from international monetary leadership under the policy of 'benign neglect'. See James, *International Monetary Cooperation since Bretton Woods*, ch. 9.

¹⁰³ *Ibid.*, 239.

¹⁰⁴ Benjamin Braun, Krampf Arie, and Steffen and Murau, 'Financial Globalization as Positive Integration: Monetary Technocrats and the Eurodollar Market in the 1970s', *Review of International Political Economy* 28, no. 4 (4 July 2021): 794–819, doi:10.1080/09692290.2020.1740291.

¹⁰⁵ BIS Forty-Third Annual Report (1973).

¹⁰⁶ NARA II RG 59, Entry A1 1613-D, Box 861, Balance of Payments, Argentina, 31 October 1973.

outlook seemed promising, evoking the wartime boom of his first administration (Chapter 2). Yet Perón, who passed away in 1974, would not live to witness how misplaced that comparison was. External imbalances re-emerged as early as 1975, and another military coup the following year, marking the resumption of Argentina's familiar cyclical pattern: the economic spring had finally come to an end.

In summary, this section has shed light on how the Argentine Revolution navigated the final decade of the BWS during the country's economic spring. It first examined the international cooperation that supported several of Krieger Vasena's policies between 1967 and 1969. Beyond traditional multilateral financing, Argentina drew on the US Treasury's Exchange Stabilisation Fund and standby loans from G10 commercial banks. A strong peso and favourable trade outlook made Argentina an attractive destination for foreign investment, resulting in a positive balance of payments and record-high international reserves. Building on this improved external position, Buenos Aires issued government bonds, fulfilled its IMF commitments under Article VIII, and supported US efforts to address its balance of payments problems and defend the dollar. However, similar to the case of Chile (Chapter 5), domestic unrest and external shocks curtailed the momentum of Argentina's industrial spring. The Nixon shock, the Smithsonian Agreement, and the floating of sterling likely added further complications. Available sources, however, do not clarify to what extent Argentine authorities responded to these final disruptions of the BWS. By contrast, the record clearly shows that Argentina's international partners moved swiftly in 1971-72 to provide financial assistance through the EXIMBANK, the IMF, and, once again, commercial banks via the Eurodollar market.

6.4 Conclusion

Argentina navigated the final decade of Bretton Woods while transitioning from a position of relative external strength to one of acute balance of payments crisis. Before the collapse of the Onganía government in 1970, both local and international observers believed the country had at last achieved a measure of domestic and external stability. International conditions for traditional exports had markedly improved since 1964, reflected in favourable terms of trade and rates of growth that would have been enviable even among G10 countries. Seeking to capitalise on these conditions, the economic team led by Krieger Vasena pursued bold liberalisation policies, which attracted official and private foreign investment until 1969. However, the authoritarian government proved incapable of appeasing political domestic demands from unions and students, and violence broke out on the streets. The last two governments of the Argentine Revolution (1966-1973), experimenting with different economic formulas and leadership, ultimately proved incapable of making the economic spring last longer. Instead, they witnessed the most severe balance of payments crisis of the postwar era.

This chapter has shown how the governments of Arturo Illia and the Argentine Revolution actively engaged with institutions and developments within the international monetary system. Although short-lived (1963-1966), Illia's administration played a crucial role in reorganising Argentina's external liabilities at the onset of the country's economic spring. To this end, Argentine officials were invited to present their case at the Paris Club, an informal institution this thesis frames within the broader Bretton Woods multilateral framework and as an apparatus similar to other ad hoc mechanisms in the 1960s. The 1965 multilateral negotiations, which took place shortly before the Chile-Paris Club talks during the Frei government (Chapter 5), marked a departure from previous arrangements. Reflecting the Club's evolving nature, the Argentine case introduced a shift in how G10 countries treated developing-country debt. Owing to domestic political opposition, the Illia government was unable to attach an IMF SBA to the debt restructuring package. Despite resistance from key G10 members (particularly Britain, given its own external difficulties), the Club ultimately agreed to a solution involving reduced policy conditionality.

International cooperation was therefore central to Argentina's subsequent economic spring under authoritarian rule. G10 external assistance remained a consistent feature throughout the country's industrial heyday. Krieger Vasena's successful economic programme and bold reforms received early and decisive support from multilateral institutions and G10 commercial banks. At a time when some industrialised deficit countries were struggling within the pegged exchange-rate system, Argentina was seen as a promising market, thanks to both its policy stability and favourable commercial outlook. Benefiting from a strong external position, Argentina fulfilled its IMF commitments by declaring the peso convertible in 1968, with Fund members actively drawing on the currency and placing Argentina in the 'super gold tranche position,' a status shared by hard currencies such as the Deutsche Mark. Furthermore, as in the Chilean case (though on a larger scale), Buenos Aires aligned itself with US external policies through long-term investments in America and central bank arrangements, including peso-dollar swaps. Unfortunately, the available records do not allow for a precise assessment of how major shocks at the very end of the BWS, from the Nixon shock to sterling's flotation, affected Argentina. By contrast, the evidence suggests that when the Argentine Revolution began to falter after Onganía, the IMF and G10 countries again extended extraordinary external support, reaffirming the cooperative relations that had been in place since 1955 (Chapter 4).

Argentina's trajectory since the mid-1960s, and the enduring pattern of international cooperation throughout its economic spring, suggest that the final decade of the BWS extended beyond intra-G10 negotiations and the management of their currencies. Actively exploring the opportunities offered by the international financial system,

Argentine officials drew not only on the multilateral mechanisms of Bretton Woods but also engaged with the system's major players. Argentina's active role in the evolving global financial system of the late 1960s was attested by US federal backing via EXIMBANK and the Treasury, standby loans from G10 commercial banks, access to the bond markets in Europe and New York, and growing participation in the Eurodollar market. As in the Chilean case, nonetheless, Argentina's engagement with international developments became less visible following the onset of domestic turmoil in the early 1970s. Yet it is highly likely that the end of the country's economic spring and the sequence of external shocks in the international monetary system (from the sterling 1967 devaluation to its eventual flotation in 1972) were closely interrelated developments.

CONCLUSION

The global BWS and Latin America's Southern Cone

Operating between 1945 and 1973, the BWS stands out as the only global financial order emerging from international deliberation in the history of globalisation. It was a system characterised by pegged exchange rates, convertibility for current account transactions and tolerance for controls on capital movements perceived as destabilising. Compared with the previous gold standard regime, the BWS granted governments greater discretionary powers in pursuit of domestic goals (full employment, growth, welfare states). Central to the operation and evolution of the BWS were the US dollar and the pound sterling. The former was the sole currency fully convertible until 1958 and the only one directly backed by gold at US\$35 per ounce, while the latter remained an important international reserve currency for the entire period. A final key feature of the postwar monetary order was the crucial (yet limited) role of the IMF in assisting member countries facing short-term balance of payments fluctuations, and of the IBRD in providing development finance. Participation in the BWS via IMF/IBRD membership made countries eligible for multilateral technical and financial support in exchange for committing to agreed-upon rules, most clearly outlined in the Fund's Articles of Agreement.

Conventional accounts of the postwar monetary system tend to emphasise the role played by G10 countries, especially those nations issuing international reserve currencies. In seeking to explain the main shifts and turns of the BWS, economic historians are correct in highlighting that the policy choices of industrialised capitalist nations shaped critical aspects of the international monetary order. Scholarship on the BWS, however, offers limited insight into the extent to which systemic dynamics, from the postwar dollar shortage to the 1960s patchwork schemes, may have shaped developing regions (and vice-versa). Centred on the experience of the Southern Cone of Latin America and drawing on extensive archival records, this thesis contributes to filling that gap by examining Chile's and Argentina's active and strategic navigation of the postwar financial order. In doing so, it re-centres traditional North Atlantic accounts on the BWS and gives fresh insights into the broader operation of the global financial order after 1945. In analysing how these import-substitution economies navigated Bretton Woods while maintaining discriminatory regulatory frameworks, the study reveals a system that was truly global (and highly flexible). The capacity of the postwar order, multilateral institutions and key G10 systemic leaders to adapt to and cooperate with these diverse economic realities and development strategies, finally, sheds new light on the reasons for Bretton Woods' stability (see last section).

Before distilling the insights from the main parts of this dissertation, it is crucial to keep in view two core features of the Southern Cone economies during the three decades following the Second World War: the import-substitution development strategy and their commercial and monetary alignments with major G10 countries. In addition, this section closes by addressing the current historiographical vacuum in understanding international financial relations in postwar Latin America.

Arguably, the most distinctive feature of the Southern Cone's postwar navigation derived from its import-substitution development strategy. Although mostly agreeing with the general benefits of non-discriminatory practices for international trade and payments, policymakers in Santiago and Buenos Aires remained deeply committed to supporting domestic manufacturing even at the expense of the export sector. The aftermath of the Great Depression left an indelible mark on several generations of public officials and postwar governments, who reacted with scepticism to early calls for deregulation after 1945. Fragile balance of payments positions, the by-product of slim and price-volatile export baskets, lent further credit to investing in local industries and providing employment to growing urban populations in the context of expanding voting rights. External discriminatory regulations also became tools for dealing with domestic macroeconomic disequilibria, most notably inflation, as different social and political groups pushed for income redistribution. Unfortunately for officials on both sides of the Andes, shielding their economies did not prevent exogenous shocks (prices, strikes, droughts) from disrupting domestic activity, with stop-and-go cycles being particularly dramatic in Argentina. Only in the 1960s, after Santiago and Buenos Aires decided to undertake comprehensive stabilisation programmes, was there a clearer convergence between the government's priorities and Bretton Woods rules.

A second aspect that influenced much of the Southern Cone's navigation was the particular combination of commercial relations and foreign investment in each country. Significant American investments in Chile's mining sector, dating back to the 1920s, left the country in a relatively strong position to face the postwar monetary maze. Most of Chile's export receipts were denominated in US dollars, the most coveted currency among import-substituting economies (and elsewhere) for purchases of fuel, critical inputs, and machinery from the dollar area. While US investments provided crucial capital, they came at a cost to Chile's current account: net income payments due to profit repatriation remained in deficit for virtually the entire Bretton Woods era. By contrast, Argentina's nationalisations in the second half of the 1940s tied its balance of payments more closely to movements in the trade balance. Yet Buenos Aires faced its own challenges, as much of Argentina's produce competed with that of the United States and other exporters in international markets. Instead of turning to Washington, Argentina decided to stay closer to Britain in an Anglo-Argentine partnership that endured through

most of the Bretton Woods era, until the UK's accession to the EEC in early 1973. Although relevant for understanding certain reactions to systemic shocks or cooperative efforts, the differing post-1945 alignments of Chile and Argentina should not be viewed as totally independent navigations of the postwar order: the common ISI model and its discriminatory regulations were far more significant features for both nations.

A final feature of Latin America's Southern Cone during the Bretton Woods era is historiographical. Just as the literature on the BWS tends to omit developing regions, postwar Latin American economic historiography appears largely isolated from global financial developments. Most historical accounts, whether monographs or journal articles, analyse the post-1945 economic evolution primarily in terms of domestic policies or developments.⁶⁹³ In a period of inward-looking development, in which the traditional export sector was overshadowed by local industries, privileging domestic explanations is, to some extent, justifiable. However, in light of recent findings in financial history on the BWS and beyond, postwar historical accounts that exclude references to the postwar dollar shortage, currency areas, convertibility of major currencies, or monetary ad hoc arrangements of the 1960s inevitably provide a limited picture for assessing the ISI period in Latin America. While the following paragraph aims to present a more global architecture of the Bretton Woods order by tracing the Southern Cone's trajectories, it also offers novel insights into the relationship between the import-substitution project and international financial developments.

The Southern Cone's navigation in three acts (1945-1973)

The culmination of the Bretton Woods Conference in 1944 brought high expectations for the recovery of world trade on a non-discriminatory basis. Yet harsh economic realities and global imbalances in the immediate postwar period quickly rendered the wartime planners' blueprints obsolete. The American push to achieve rapid current account convertibility in major industrial nations came to a sudden end in 1947, following the sterling crisis of August that year. Henceforth, and for much of the 1950s, the system's leaders not only tolerated regional solutions but also encouraged limited or discriminatory arrangements (e.g., EPU, Sterling Area).⁶⁹⁴ Part I of this dissertation suggests that this early history of the BWS had a clear impact on the trajectories of the Southern Cone and on the capacities of Chile and Argentina to pursue their ISI strategies. The starting point of the two South American nations was nonetheless different: Chile

⁶⁹³ The main exception, as mentioned in the Introduction, is scholarship on IMF-country relations. While crucial for understanding how Santiago and Buenos Aires accessed credit tranches and SBAs, the operation of the BWS extended far beyond specific relations with multilateral agencies, encompassing major G10 partners and international commercial banks.

⁶⁹⁴ Schenk, *International Economic Relations since 1945*, ch. 2.

became a member of the system from its inception, whereas Argentina's wartime prolonged neutrality and continental ambitions excluded it from partaking in the 1944 Conference, delaying its membership by a decade.

Founding member Chile approached the immediate postwar period with historic enthusiasm. Officials in Santiago recalled that earlier attempts to join an international monetary system (1895–1898; 1925–1931) had ended in frustration and disenchantment. This time, at least on paper, the promises of agreed-upon rules and additional development finance augured a more beneficial relationship for all parties involved. However, as Chapter 1 outlines, Chilean officials quickly realised that the gap between interwar discriminatory regulations and the system of (single) pegged exchange rates was far greater than expected. Although welcoming IMF missions to propose avenues for reform, the multiple exchange rate system and other NTBs ultimately prevailed. For countries like Chile, severely affected by the Great Depression and pursuing ISI projects reliant on external revenue, Bretton Woods seemed, if not 'too little', then certainly 'too late.' By 1945, multiple rates were already embedded in the country's regulatory system and served as a crucial source of government revenue. To compound matters, Chile's external situation did little to facilitate the transition: already in 1946, the country experienced its first balance of payments crisis in the postwar era.

On the other side of the Andes, the government of Juan Domingo Perón viewed the hungry postwar world as an opportunity for Argentina to seize. Free from multilateral obligations, officials in Buenos Aires pursued a bold 'bilateral-nationalistic strategy,' a programme that encompassed foreign asset nationalisations, debt repatriation and capital exports. Chapter 2 emphasises that both the origins of this strategy and its eventual crisis in the late 1940s were closely intertwined with developments in the international monetary system. More specifically, Argentina's fortunes followed closely those of Britain and sterling. While convertible sterling enabled the implementation of Perón's bilateral approach, the August 1947 crisis left Buenos Aires in a highly unfavourable position vis-à-vis the dollar area. The collapse of the triangular trade and payments system with the United States and the United Kingdom left Perón's government with a surplus of sterling but dollar-denominated arrears. Argentina's rapprochement with the United States in the late 1940s (often interpreted as the result of an 'Anglo-American bloc' against Perón's continental leadership) was instead a direct consequence of the early evolution of the BWS, the dollar shortage and the consolidation of currency zones.

The trajectories of the Southern Cone in the immediate postwar years warrant a final observation. From a comparative perspective, Chile and Argentina appeared to be in a much more comfortable position to overhaul their regulatory systems than war-torn Western European countries. Wartime overseas demand had filled central banks'

coffers, while forecasts for global demand for mining and agricultural products appeared stable, even under more conservative estimates. Besides the ‘too little, too late’ (path dependence) argument brought forward above, developing economies would probably expect a more comprehensive international arrangement on commodities as a precondition for giving up their NTBs. A mechanism for stabilisation of raw products was, in fact, among the main goals of Latin American delegations at Bretton Woods.⁶⁹⁵ Although beyond the scope of this dissertation, it seems reasonable to suggest that ITO’s failure to materialise as the third leg of the postwar order (besides the IMF and IBRD) had systemic repercussions in delaying ISI economies from an early convergence with Bretton Woods norms.

Throughout the 1950s, multilateral institutions and leading industrialised nations observed with satisfaction their progress in reducing discriminatory current account practices. G10 officials believed that America’s bet on Western Europe’s reconstruction and temporary discriminatory arrangements had proved to be the right one. Intra-EPU trade liberalisation advanced rapidly, and a more balanced distribution of international reserves convinced Western European policymakers to phase out restrictions on payments with the dollar area. In December 1958, most G10 nations informed the rest of the world of their decision to declare their currencies fully convertible for current account transactions: the convertible phase of Bretton Woods had begun.⁶⁹⁶ Part II of this study emphasises that the movement toward freer trade and payments was not confined to the G10 but was shared by the Southern Cone economies. Adopting the form of stabilisation programmes aimed at modernising the traditional postwar ISI model, both Chile and Argentina decided that the time had come to converge with global norms. A distinctive feature of the Southern Cone’s drive to align its regulations with Bretton Woods standards was the unprecedented level of international cooperation from multilateral institutions and G10 partners.

By the mid-1950s, a mood of growing frustration was shared by government officials in Santiago. The low rate of real per capita growth, coupled with the end of the Korean War boom, called for an urgent change in economic policy. Amid a rapid rise in domestic prices, the government turned to foreign advisers to design Chile’s first stabilisation programme in 1955, followed by a second attempt in 1959. While conventional accounts tend to criticise these programmes severely, Chapter 3 offers a more nuanced view. Even if they fell short of their promises of macroeconomic stability and sustained growth, the programmes were crucial vehicles for reforming the country’s most discriminatory version of the import-substitution strategy. NTBs were rapidly simplified, the complex system of multiple exchange rates was finally phased out, and most trade started to be

⁶⁹⁵ Helleiner, ‘The Latin American Origins of Bretton Woods’, 87.

⁶⁹⁶ Bordo, ‘The Bretton Woods International Monetary System: A Historical Overview’, 49–50.

conducted in hard currencies. In all likelihood, Chile's own resources would have been insufficient to dismantle a discriminatory regulatory system that had been in place since the 1930s. Support from the IMF, the American Treasury, the US EXIMBANK, and New York commercial banks was essential in modernising Chile's ISI and bringing the country's regulatory system closer to non-discriminatory principles at a time when G10 countries had reached currency convertibility.

In September 1955, news from Buenos Aires took international observers aback: Perón's ten-year regime had come to a sudden end. Mirroring developments in Santiago, the new provisional authorities wasted no time in attempting to modernise the country's highly discriminatory system and improve conditions for the export sector. Yet, unlike Chile, Argentina's non-strategic commodities, paired with larger ISI-related import needs, had led Buenos Aires to craft one of the most complex networks of bilateralism in the Western Hemisphere. Fortunately for the provisional authorities, European partners rose to the occasion by granting greater currency-transfer facilities via the Paris Club as early as 1956, an episode rarely explained in the historiography (see below). Chapter 4 regards this cooperative effort, developed in parallel with membership in the Bretton Woods institutions, as a crucial step in reintegrating Argentina into the international financial system beyond the ad hoc bilateral mechanisms of the Perón era. This reintegration was later consolidated by Frondizi's democratic government, whose administration resumed the effort to modernise the country's traditional ISI model. As in Chile (but on a larger scale), the G10 was quick to provide extraordinary resources to support Argentina's economic overhaul in a way that more closely resembled Bretton Woods' non-discriminatory rules.

By moving Chile and Argentina away from interwar discriminatory arrangements, this thesis contends that the late-1950s Southern Cone stabilisation programmes can rightfully be placed within the same global or systemic push towards multilateralism that led to G10 convertibility. A key finding of Part II (and Part III) is to uncover the origins, systemic relevance, and early evolution of the Paris Club in Argentina's transition to a multilateral trade and payments regime. Normally referred to in isolation from concurrent international financial developments, the Club is solely described as an informal forum of creditor nations created to assist developing countries with their payment difficulties.⁶⁹⁷ Archival evidence, however, allows for a richer characterisation that links this major milestone in global debt governance to broader BWS developments.

Indeed, both the working procedures and the principles established in earlier debt restructurings with the Southern Cone (Argentina 1956, 1965; Chile 1965, 1973) suggest that the Club operated according to the same cooperative, non-discriminatory and

⁶⁹⁷ Definition taken from its official webpage. See Club de Paris, 'History', accessed 29 July 2025, <https://clubdeparis.org/en/communications/page/historical-development>.

multilateral principles that underpinned the 1944 Conference. Chapter 4 stresses the Club's currency transferability granted to Argentina on the eve of G10 convertibility and how the consolidation of external liabilities adopted bond-like features (*pari passu*), portraying it as a late-born Bretton Woods institution. The fact that US wartime planners at some point considered debt rescheduling as part of the postwar arrangements also supports this argument. Chapters 5 and 6 explain the crucial and evolving IMF technical and financial involvement in debt rescheduling with Chile and Argentina, highlighting how the Club operated as a Bretton Woods apparatus. Similar to other multilateral arrangements aimed at propping up the international monetary system, the Paris Club focused on the accumulation of foreign liabilities with potentially destabilising effects for developing economies. It offered a permanent framework that brought together debtor nations, creditor governments, the IMF, and other international bodies to devise a more sustainable debt repayment and interest rate. Reflecting on those elements, this dissertation contends that the Paris Club may appropriately be regarded as an integral part of the BWS and an institution that, like the IMF, ultimately survived the end of the system in the early 1970s. These historical roots, finally, allow for a better understanding of the crucial role of the Paris Club in sovereign borrowing more globally in the 1980s and to date.

Although a major step for postwar economic globalisation, the fully functional BWS inaugurated by G10 convertibility in 1958 did not operate without obstacles. By contrast, the system of pegged exchange rates survived until the early 1970s only through increasingly costly 'patchwork schemes' among industrialised nations, from the Gold Pool to persistent multilateral short-term assistance for the pound sterling. However, when the United States deemed that continued international support was no longer worthwhile, it unilaterally broke the gold-dollar link, triggering a domino effect that culminated in the system's collapse in 1973.⁶⁹⁸ Part III of this dissertation examines how the cooperative final decade of the BWS, particularly the years prior to 1971, was not confined to intra-G10 arrangements but also extended to Argentina and Chile. For the Southern Cone, a key feature of this period was its industrial heyday, conventionally attributed to more appropriate domestic policies combined with improved external conditions. Yet, as Part III shows, multilateral and G10 cooperation is equally important for understanding the Southern Cone's most prosperous postwar period and its alignment with US external policies in the late 1960s.

In 1964, Eduardo Frei's Revolution in Liberty received massive and historic support from the Chilean electorate. The Christian Democratic project, arguably the most ambitious and successful of the ISI era, clung to international support from the outset. The Paris Club offered a swift yet essential debt restructuring in 1965, giving the Santiago

⁶⁹⁸ For a summary of the end of the BWS and its lessons, see Eichengreen, *Globalizing Capital*, 119–26.

authorities much-needed breathing room to initiate a regulatory overhaul with IMF assistance. An innovative crawling exchange rate and LAFTA clearing likely helped Chile to accumulate record levels of international reserves and improved prospects for trade expansion. From that position, and concurrently with G10 'patchwork schemes,' Santiago acted quickly to respond to Washington's calls for cooperation through trade liberalisation, early debt repayments and changes in CBCh's reserve policy (episodes almost entirely neglected in historical accounts). Although Chile-US relations took a sharp turn with the election of Marxist Salvador Allende in 1970, records suggest that international assistance continued even under a government that challenged the very pillars of market capitalism. After Chile defaulted on its external obligations in late 1971, the Paris Club again provided Santiago with debt relief in mid-1972.

In mid-1960s Buenos Aires, few were fully convinced that democracy was a prerequisite for economic prosperity. Aware of this perception, the military that ousted President Illia in June 1966 remained in power for seven years. The so-called Argentine Revolution entrusted the economy to a leading technocratic figure committed to freeing the country from its postwar stop-and-go cycles. Having benefited from an earlier debt restructuring in 1964, Minister Krieger Vasena sought international cooperation to support a new peso parity decreed in March 1967. In an effort to demonstrate policy consistency and the attractiveness of the Argentine market at a time when some G10 countries struggled with currency realignments, Buenos Aires fulfilled its IMF commitments and approved Article VIII in 1968. A rapid increase in international reserves led Buenos Aires to align with Washington's balance of payments policies and to support the US dollar via CBAR reserve policy, long-term investments and even a swap central bank arrangement mirroring those among the G10. Unfortunately for Buenos Aires, this economic spring began to fade in 1969 as social and political violence eroded military authority. External conditions worsened markedly in the early 1970s and were weathered only through a new credit package from G10 commercial banks, most of which extended standby loans in Eurodollars.

In September 1973, just twelve days apart, the Southern Cone witnessed two major political earthquakes: a coup d'état in Chile and the election of Perón in Argentina. These September events were not isolated but rather the culmination of three years of economic disarray, marked by nationalistic tendencies, social turmoil and political polarisation. This thesis argues that such conditions obscure a clear view of the final years of the BWS. Rather than commenting on the Nixon Shock, the Smithsonian Agreement or sterling's flotation, available government records focus on electoral analyses, rapid shifts in domestic policies, inflation and hemispheric defence considerations in both Southern Cone nations. It is reasonable to suggest that even amid dramatic domestic changes, the end of the pegged rate system and currency

realignments in 1971-1972 acted as additional external shocks to the vulnerable Southern Cone. Although requiring further research, it is evident that the US dollar devaluation dealt a blow to central banks' foreign exchange reserves, while revaluations increased public and private foreign liabilities denominated in Deutsche Marks or yen. But probably more relevant, post-1973 authorities faced not only a less predictable international environment (currency flotation, oil shocks, interest rate hikes) but also a less cooperative one. In all likelihood, stable exchange rates and a cooperative international environment were dearly missed in Santiago and Buenos Aires when the Debt Crisis erupted in the early 1980s and the subsequent lost decade began.

The postwar order beyond the pegged rates: multilateralism and cooperation

In May 1979, Raúl Prebisch addressed the Fifth UN Conference on Trade and Development in Manila, Philippines, delivering a message that called for greater trade among the Global South. In his remarks, Latin America's most renowned economist of the ISI era took the opportunity to briefly reflect on the Bretton Woods experience. At a time when the G10 had definitively abandoned the system of pegged exchange rates, Prebisch recalled the postwar monetary order with a mixture of frustration and gloom. For him, the BWS rested on the illusion that an international monetary system and its institutions could be founded on principles beneficial to both the 'core' and the 'periphery.' The central problem, the former ECLA Executive Director argued, was the mistaken assumption that "what is good for the centers will also be good for the periphery."⁶⁹⁹

To a certain extent, Prebisch's overall assessment of the postwar regime was fairly accurate. The BWS can rightly be described as an illusion if the blueprints defined at the 1944 Conference are taken as its benchmark. Both the G10 trajectories and those of the Southern Cone confirm this assessment. For the latter, even the most basic rule of the system, the single pegged rate, was rarely achieved and never maintained without risking the exhaustion of central banks' working international reserves. Even after G10 convertibility was established, discriminatory devices and restrictions on current account transactions prevented Chile from accepting the Fund's Article VIII until 1977, while Argentina did so only in 1968 (with restrictions returning two years later).

Yet Prebisch's notion of a 'Bretton Woods illusion' seems ill-suited to capture the complex, multi-layered monetary and financial interactions between developed and developing countries from 1945 to 1973. Focusing on Latin America's Southern Cone, a key finding of this dissertation is the crucial role of multilateralism and cooperation

⁶⁹⁹ Prebisch, 'Structural Change Within the South', 242. This quote is also in the Introduction's epigraph.

between Bretton Woods institutions and industrialised countries, on the one hand, and Chile and Argentina, on the other. As evidenced in previous sections, from 1955 onwards, virtually all Southern Cone governments relied on permanent and systematic external assistance from both multilateral institutions and G10 nations. Postwar cooperation, initially developed between the US and Western Europe through the ERP, soon after it also reached the Southern Cone. As the then IMF Director of the Western Hemisphere Department, Chilean Jorge del Canto, observed in 1964, “the policies of the leading industrial countries in the postwar years have led to a revival of Latin American confidence in the benefits to be derived from a closer relationship between the industrial and the developing countries.”⁷⁰⁰ When considering the BWS beyond the G10, this closer relationship, grounded in multilateralism and cooperation, emerges as the most distinctive feature of the postwar order.

The expansion of cooperative mechanisms towards developing regions may also help to explain Bretton Woods’ well-known stability. Financial historians have demonstrated that such stability was only possible through central bank coordination and costly patchwork schemes, but developing-country experiences provide a more political-economic perspective. For ISI nations, the BWS was first and foremost a flexible international monetary regime. Member countries, particularly developing nations after 1958, did not encounter insurmountable obstacles to preserving discriminatory restrictions by claiming Article XIV of the Fund’s Articles. While certain expansionary monetary and fiscal policies did prevent the Southern Cone and other countries from accessing higher IMF tranches, multilateral assistance and critical G10 cooperation were rarely denied on the basis of longstanding interwar NTBs. In fact, records show a pattern of compromise from the part of multilateral officials, particularly when stabilisation programmes failed. But more importantly, domestic policies never put Bretton Woods membership at risk, not even when Argentina turned to nationalistic policies after 1970 and Chile challenged the very concept of private property the same year. Permanent membership in a context of multilateralism and cooperation granted the BWS a sense of political and international legitimacy among non-G10 nations, helping to understand the remarkable stability of the postwar order.

A final historiographical note should be added. For Latin American postwar economic history literature, cooperation and multilateralism may appear contentious, if not naïve, concepts. Following Prebisch’s framework, regional historians have normally portrayed the capitalist world system through the normative categories of ‘centre’ and ‘periphery,’ where extraordinary international assistance is viewed as a vehicle for advancing orthodox policies aligned with the exclusive interests of industrialised nations and multilateral institutions. In response to such concerns, it is true that extra-G10 (as well

⁷⁰⁰ Del Canto, ‘Latin America and the Fund’, 65.

as intra-G10) cooperation consistently sought to promote economic policies in line with global norms while pursuing industrialised countries' own objectives. In the case of the Southern Cone, this dissertation has shown that G10 partners supported economic plans in Santiago and Buenos Aires based on the potential benefits of stable markets for expanding trade, investment, and hemispheric security.

At the same time, however, this project clearly explains how essential international support was for the Southern Cone's own (never imposed) efforts to modernise its traditional ISI economies (Part II), and how these reforms were crucial for enabling them to make the most of their industrial heyday (Part III). Along these lines, and in the same spirit that inspired the 1960s patchwork schemes to sustain the BWS, major G10 partners and the IMF consolidated the functions of the Paris Club as a Bretton Woods apparatus, quickly offering both Chile and Argentina more manageable foreign liabilities to support their balance of payments and avoid isolation from financial markets (even for a Marxist government in 1970s Chile). In other words, the episodes unveiled throughout this thesis offer a more nuanced view of the postwar order at odds with the conventional 'centre-periphery' cleavage. Cooperation and multilateralism were beneficial for both industrialised and Southern Cone economies, even if to different degrees and pursued with dissimilar goals. The postwar order set in motion an international financial system advantageous to nations pursuing different development strategies and was, for that very reason, far from an illusion.

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