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MEMORANDUM OF CONVERSATION

Participants

Argentina

Jose Alfredo Martinez de Hoz,
Minister of Economy
Aldolfo Cesar Diz, President of
the Central Bank
Francisco Soldati, Director of
the Central Bank
Dante Simone, Executive Director, IMF

U.S.

W. Michael Blumenthal, Secretary of
Treasury
C. Fred Bergsten, Assistant Secretary
of Treasury
Arnold Nachmanoff, Deputy Assistant
Secretary of Treasury
Richard Arellano, Deputy Assistant
Secretary of State
Edward Bittner, Office of Developing
Nations Finance, Treasury

Time and Place:

10:45 a.m., May 31, 1977 - U.S. Chancery,
Guatemala

Subject:

Bilateral Meeting with Argentina

Distribution:

Treasury

Messrs. Blumenthal, Bergsten, Nachmanoff,
Pelikan, Zinman, Maresca, Bittner, Dungan

State

Messrs. Arellano, Frank Thomas, Robert
Zimmerman

Aid

Ms. Phoebe Lansdale

Economic and Political Evolution

MARTINEZ DE HOZ said he was grateful for the opportunity to explain personally to Secretary Blumenthal the economic progress that Argentina has made since the Administration of Videla. He began by giving a detailed description of the political machinations leading up to the military takeover in March 1976, emphasizing that the military reluctantly assumed power when Peron's wife had lost control of the political situation and the economy had reached "rock bottom". He said he agreed to be Minister of Economy only if he had the complete political backing of the military and if he would have control

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over all ministries involving the economy. The Military inherited a legacy of terrorist organizations which Peron had backed in order to oppose the previous governments, but which ultimately got out of control.

MARTINEZ DE HOZ reiterated the economic progress which has been made under his leadership, directing our attention to a book with charts showing inter alia decrease in unemployment, decrease in monetary expansion, increase in agricultural production, energy production and export shipments, reduction in government deficit, decline in rate of inflation, and improvement in external sector. He said he was able to convince the population about the necessity of a decreased growth in real wages as the price for achieving stability.

Human Rights

SECRETARY BLUMENTHAL said he admired the progress in the economy which had been made and understands the political situation stemming from the terrorism inherited from previous governments. He cited the fact that the Bendix Corporation with which he previously had been associated, lost three employees to the terrorists. Nevertheless, the U.S. is very concerned about due process of law and the general protection of human rights. He asked Martinez de Hoz if he saw a way to move from extra legal methods of control to the normal legal process in handling terrorists.

MARTINEZ DE HOZ said that while Argentina admires U.S. traditions and laws and cited the common history, the present situation is highly abnormal stemming in part by inhibition of the judiciary to sentence terrorists because of fear of retribution against themselves and their families. The police became discouraged when terrorists brought to trial were always set free. Thus, a policy of taking no prisoners was adopted. Likewise, young military officers took matters into their own hands. Martinez de Hoz said President Videla is committed to restoring human rights. Considerable progress has been made in wiping out the two main terrorist groups and he anticipates gradual improvement in restoring human rights over the next few months.

SECRETARY BLUMENTHAL said that while we are understanding of Argentina's problem and we don't wish to interfere internally, the Carter Administration must be consistent in the pursuit of human rights. The Harkin Amendment requires us to vote against loans by the IDB for countries with gross violations except in the case of the needy. The Badillo Amendment, which already

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has passed the House would extend this law to other IFI's. While Humphrey Amendment would provide more flexibility, the Administration is as a matter of its own policy and conviction, committed to the advancement of human rights. He suggested, therefore, that it might be advisable for Argentina to postpone applications for loans until it could show some definite improvement in human rights.

MARTINEZ DE HOZ said that President Videla is committed to restoring human rights as soon as possible. Argentina has two loans in the pipeline for IDB consideration which could be held up, but he is concerned about a \$100 million loan for the National Development Bank which is being considered by the IBRD. He expressed concern that Argentina would not be able to utilize its \$300 million quota with the IBRD if the loan were delayed to the next fiscal year. He said he hoped that this loan might get through the "needy" loophole on the grounds of employment generation.

SECRETARY BLUMENTHAL responded by indicating that the IBRD loan is very likely to present problems for us.

MARTINEZ DE HOZ became somewhat defensive and asked who worries about human rights for the victims of the terrorists.

ARELLANO said there is no way of rationalizing human rights violations.

In response to Secretary Blumenthal's question about assertions of anti-semitism in Argentina, Martinez claimed there was no substance to the charges.

SECRETARY BLUMENTHAL said he believes that the U.S. position is clear. We hope to see improvement in human rights made quickly and would like to be informed concerning progress made.

IDB Salaries and INTAL

SECRETARY BLUMENTHAL reiterated U.S. opposition to any increase in salary for IDB Executive Directors and asked for Argentina's support.

MARTINEZ DE HOZ agreed to discuss salary issue with Oritz Mena with the objective of having it put aside. He then brought up the possibility of INTAL being eliminated, or transformed. Since INTAL is the only international organization located in Argentina Martinez de Hoz is anxious that it remain there in some form.

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BERGSTEN said that as the Secretary indicated in his IDB meeting speech, the U.S. wishes to study the future of INTAL.

MARTINEZ DE HOZ thanked the Secretary for being able to speak frankly about the situation in Argentina.

Edward C. Bittner

Edward C. Bittner

Approve: *cu*

As Amended: _____

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