

Authors:

RAMIRO ALVAREZ

National Scientific and Technical Research Council (CONICET) and Center for Studies of Political Economy and Development (CEEPYD/UNM), National University of Moreno, Argentina

FLORENCIA MÉDICI

National Scientific and Technical Research Council (CONICET) and Institute of Studies in Science, Technology, Culture and Development (CITECDE), National University of Rio Negro, Argentina

AN ALTERNATIVE VIEW ON INFLATION IN ARGENTINA IN THE NEW MILLENNIUM: THE CHALLENGES OF THE CURRENT SITUATION*

ABSTRACT

This article interprets Argentina's recent inflation process following the Classical-Structuralist approach. In this theoretical framework, the price dynamic is understood as the result of conflict between wage increases and devaluations in a price-taker economy open to trade and financial flows.

We argue that inflationary processes in Argentina during the new century, especially in the last decade, can be explained by devaluations triggered by dynamics linked to the external sector, resulting from financial deregulation processes and inflows of external liabilities. In this scenario, conflict inflation manifests through a persistent exchange rate-wage spiral.

Thus, national currency devaluations raise profit margins and price levels in a society with strong labor unions, which react by claiming wage increases. High inflation regimes lead to changes in income distribution that are incompatible with habits, history, and labor institutions, resulting in intense distributive conflict under "pendulum" governments that reflect a situation of political stalemate. Moreover, the State's capability to implement anti-inflationary policies based on an exchange rate anchor depends on the amount of the monetary authority's foreign currency reserves. The ability to intervene in the foreign exchange market aims to deal with conflicting social groups and external pressures pushing to generate devaluation.

Keywords: Argentina; Distributive Conflict; Inflation; Exchange Rate; Political Stalemate

JEL Classification: B51; E02; E31; E64; N16; O23

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RIASSUNTO

*Uno sguardo alternativo sull'inflazione in Argentina nel nuovo millennio:
le sfide della situazione attuale*

Questo articolo propone un'interpretazione del recente processo inflazionistico argentino tramite l'approccio classico-strutturalista. Sulla base di questa teoria la dinamica dei prezzi è concepita come il risultato del circolo vizioso tra aumenti salariali e svalutazioni del cambio in un'economia piccola aperta al commercio ed al mercato finanziario.

Si argomenta che i processi inflazionistici verificatisi in Argentina durante il nuovo secolo, soprattutto nell'ultimo decennio, possono essere spiegati dalle svalutazioni indotte da fattori esterni come i processi di deregolamentazione finanziaria e i flussi passivi. In questo scenario l'inflazione si manifesta con una persistente spirale tra i tassi di cambio ed i salari.

Di conseguenza, le svalutazioni della valuta nazionale aumentano i margini di profitto e il livello dei prezzi in una società dove potenti organizzazioni sindacali reagiscono a questi fenomeni con richieste di aumenti salariali. I regimi caratterizzati da un'inflazione elevata portano a dei cambiamenti nella distribuzione del reddito, i quali sono incompatibili con le abitudini, la storia e le istituzioni dei lavoratori. Ciò diventa causa di gravi conflitti in presenza di governi deboli specchio dello stallo politico del paese. Inoltre, la capacità dello Stato di applicare politiche antinflazionistiche basate sull'ancoraggio del tasso di cambio dipende dalle riserve valutarie a disposizione dell'autorità monetaria ed è finalizzata a gestire i conflitti sociali interni e le pressioni esterne alla svalutazione.

1. INTRODUCTION: ECONOMIC POLICY AND THE CURRENT CRISIS

Within the conventional theoretical framework, inflation is ascribed to fiscal deficits and monetary issuance, justifying the dismantling of the State as a solution to macroeconomic instability. This discourse is becoming increasingly accepted by the population, giving rise to political forces capable of harnessing public discontent with seemingly straightforward solutions.

According to the mainstream perspective of economic theory, rooted in the supply and demand curves of productive factors, market mechanisms drive the economic system toward full employment levels. This process entails adjusting distributive variables such as real wages and

real interest rates until markets achieve equilibrium. Since the mid-1960s, within this framework, inflation has been attributed to excessive aggregate demand, with a particular focus on fiscal deficits and monetary expansion. Thus, any anti-inflationary policy should involve fiscal consolidation, achieved through reductions in public spending, subsidy elimination, increases in interest rates, and price liberalization (Vernengo and Pérez Caldentey, 2023).

Our central hypothesis posits that, in a small open economy with conflicting claims sustained by a situation of political stalemate, exchange rate instability plays a central role in explaining the inflationary process. In contexts of a chronic shortage of foreign currency reserves held by the central bank or a high probability of default, the exchange rate becomes so volatile that it fosters unstable expectations and speculative price revisions. In peripheral economies, this dynamic is highly destabilizing concerning the distributive configuration¹ and stimulates inflation if wage claims are triggered. In this regard, the shortage of international reserves, the financial performance of the balance of payments, and the State's debt obligations are central determinants of high-inflation dynamics.

To accomplish this, we adopt the classical perspective on prices and distribution, framing Argentina as a peripheral, price-taker and open economy to financial flows. Consequently, the external sector constrains the economy, rendering it vulnerable to financial crises. Within this framework, we will argue that the cause of inflation does not stem from 'excessive' public spending. Instead, we emphasize that the solutions to Argentina's macroeconomic challenges hinge on improved public policies. These encompass productive, monetary, science and technology, and infrastructure policies.

The article will follow the structure outlined below. Section 2 will briefly explore the central concepts to support the hypotheses: price determination, technological and financial dependence, exchange rate and price expectations, and wage claims. Section 3 will reconstruct Argentina's recent inflationary history (2002-2023) in light of the concepts and mechanisms provided by the Classical-Structuralist tradition developed in section 2. Additionally, three subsections will be presented, each addressing one of the different regimes characterizing the period under analysis. Finally, we will present some conclusions and perspectives.

¹ By distributive configuration, we refer to the arrangement of distributive variables associated with different social groups that share income. Among these variables are real wages, real interest rates, net profit rates net of financial costs, and even rents associated with the ownership of non-reproducible means of production.

2. FUNDAMENTAL CONCEPTS

2.1 Inflation in the Light of the Classical Theory of Value and Distribution: Distributive Conflict in a Small Open Economy

From the modern revival of the classical tradition of value and distribution, contributions in the field of inflation theory have sought to extend the price system from the scheme of production of commodities by means of commodities (Sraffa, 1960) to a framework that explains the behavior of price variation rate (Okishio, 1977; Serrano, 2010; Stirati, 2001). In this line of thought, advances from this perspective emphasize that the nature of the inflationary phenomenon is associated with the conflict between social groups with antagonistic interests regarding income distribution.

Within the framework of Classical Theory (although this trait is common to Neoclassical Theory), normal prices should allow for the remuneration of production costs under regular conditions. These costs include monetary wages determined contemporaneously through negotiations between workers and capitalists (according to the institutional arrangement of each society), inputs (given by the dominant technology), and a rate of return on invested capital (uniform across sectors in the case of free entry, or differentiated if entry barriers exist)².

Assuming simple production and an economy closed to international trade and financial flows, an inverse relationship between the real wage and the rate of profit is derived in this price scheme (Cf. Petri, 2004, p. 208). Unlike the neoclassical tradition, the configuration of this relationship is strictly political and depends on the balance of power among different social groups. In this context, an increase in real wages (rate of profit) necessarily implies a decline in the normal rate of profit (real wages).

When the distributive configuration persists, one variable is determined by the aspirations of the social class with greater political power, while the other group's distributive variable is adjusted residually through the relative price system. In this context, price stability relies on the stability of both real wages and the profit rate. On the contrary, if there is no political predominance, no social group can impose its distributive aspirations on the rest of the society,

² It may also include the payment of an absolute rent for non-reproducible means of production.

and a state of *hegemonic vacancy* or *political stalemate* emerges (Di Tella, 1968; Portantiero, 1974). In such a scenario, price increases become persistent and widespread.

In an ongoing distributive conflict scenario, it is always possible to derive the price variation rate based on variations of both nominal wages and the profit rate (Lavoie, 1992; Okishio, 1977). Thus, the profit rate grows (remains constant or decreases) only if inflation is greater (equal to or less) than the positive variation in nominal wages (Stirati, 2001, p. 433). Additionally, in economies that include reproducible inputs, the price increase exceeding the rise in monetary wages is limited by a maximum profit rate associated with real subsistence wages. At this juncture, the rate of variation of nominal wages equals the average variation in prices to ensure that the inflationary dynamics do not jeopardize workforce reproduction.

Three crucial factors can be identified regarding the determinants of money wage variations (Serrano, 2010, pp. 399-400). Firstly, the demand for wage increases is driven by the perception that real wages fall below the desired level for workers. Without aspirational determinants, the purchasing power of wages would passively adjust concerning the distribution variables of other social groups without prompting wage reactions. Secondly, the bargaining power of political forces encompasses not only the institutional organization of the workforce – such as unions and political parties – but also the unemployment rate (Phillips, 1958). These elements help comprehend the ability of workers to achieve changes in their wages. Lastly, it is relevant to mention indexation or adjustment clauses, whether sequential or automatic, that link nominal wages to fluctuations in prices.

Concerning the profit rate, two pivotal elements come into play. Firstly, the monetary authority can influence the real interest rate by raising the nominal interest rate, resulting in higher financing and opportunity costs for productive capital, thereby causing an upswing in the gross profit rate (Panico, 1988; Pivetti, 1991; 2007). Secondly, the existence of a gap between the targeted level of net profit rate aspired by the owning class and the perceived level drives capitalists to implement price increases beyond the wage variation. Despite the constraints imposed by competition, business organizations can facilitate the coordination of price adjustments to achieve the rise of the normal profit rate.

Price dynamics can be extended to the context of price-taker economies, which are open to trade and financial flows. This extension introduces additional factors into the inflationary process,

such as the exchange rate, international prices, the risk associated with domestic financial assets, and the international interest rate. Arbitrage opportunities enabled by imports influence local selling prices of tradable goods. Consequently, the international price converted into domestic currency (calculated through the exchange rate) becomes a decisive determinant of local prices and their trajectory (Alvarez and Dvoskin, 2023; Dvoskin *et al.*, 2019)³.

By aligning the selling price with the cost of production, a monotonically decreasing relationship can be established between the profit rate and domestic wages in foreign currency. These wages are determined through negotiations between employers and workers, while the monetary authority sets the exchange rate (Vernengo, 2001). Furthermore, in a semi-industrialized price-taker economy, the real wage is directly linked to wages measured in foreign currency and, consequently, inversely proportional to the profit rate (Álvarez and Dvoskin, 2023, p. 9)⁴.

In the small-open economy framework, the depreciation of the national currency and the rise of international prices increase the price level (Diamand, 1972; Morlin, 2023). Focusing on the domestic determinants of price variation, the exchange rate dynamics can lead to sustained inflationary processes, depending on its impact on wage demands and the profit rate.

The monetary authority can regulate the exchange rate and oversee the interest rate to stabilize prices. In a scenario where institutional norms set monetary wages, this distributive configuration, unlike that of price-maker economies with free-floating exchange rates, turns the remuneration to productive capital – the so called net profit rate⁵ – into the endogenous distributive variable. However, this may need to align with the desired levels for exporting entrepreneurs.

The monetary authority can follow two strategies to improve the return rate for productive employment of capital. The first involves maintaining a depreciation rate above the growth in nominal wages. Given the real interest rate (adjusted for nominal rates to the new inflationary

³ Unlike tradable goods, production in non-tradable sectors is not subject to international competition, and their internal prices are determined by their normal production costs (including the normal profit rate). Nevertheless, in an economy that takes international prices as given and where all inputs are tradable, the normal rate of profit is determined by tradable sectors once nominal wages and the exchange rate are defined (cf. Steedman, 1999, p. 267). Consequently, the prices of non-tradable sectors will be passively adjusted to these values.

⁴ In other words, given international prices, the imposition of taxes on agrarian exports and subsidies, once exchange rate policy and wage negotiations determine the exchange rate and nominal wages, the normal profit rate and the prices are residually adjusted. Finally, the purchasing power of wage is determined (Dvoskin & Feldman, 2018a; Dvoskin *et al.*, 2019; Álvarez & Dvoskin, 2023).

⁵ Net profit rate after financial costs (*Profit of Enterprise*).

level), this measure would lead to inflation and a decrease in real wages. In practice, these policies are implemented through exchange rate rules, also known as crawling pegs (Vernengo and Perry, 2018), which usually aim explicitly to enhance the trade balance.

A second central bank strategy is reducing the nominal interest rate under a fixed exchange rate regime (or adjustable according to wage variation). This measure releases surpluses – by lessening financial costs – and increases net profit without generating a price boost through income redistribution from the financial sector to entrepreneurs.

Nevertheless, downward adjustments of interest rates in financially integrated small economies can only be a persistent phenomenon if the rate reduction prevails worldwide (Pivetti, 1991). The monetary authorities of these economies must adapt their interest rate policy to the global financial market, avoiding capital outflows and running against the local currency (Dvoskin & Feldman, 2018b; Médici, 2020; Vernengo, 2006). In this context, external determinants impose a lower limit, such as the international interest rate, inflation expectations, and the premium for imperfect substitution of currencies and financial assets (Serrano *et al.*, 2021).

In summary, financial integration complicates the strategy of lowering the interest rate to improve the net profit rate without resorting to devaluations and a fall in real wages, thereby fueling tensions between exporters and wage earners.

2.2. Inflation in the Context of Financial Dependence

The mechanisms presented in the previous section allow us to identify elements of theoretical convergence with Latin American Structuralism. Building on this convergence and following contributions such as Amico and Fiorito (2013), Crespo and Lazzarini (2016), Dvoskin and Feldman (2018a, 2018b), and Alvarez (2022), the aim of this essay is framed within the debate on the causes of inflation in price-taker economies open to trade and financial flows. We adopt a Classical-Keynesian approach that considers the particularities of peripheral or underdeveloped countries, focusing on Argentina as a specific case.

First, the notion of underdevelopment does not simply lie in a problem of slow (demand) growth due to the balance-of-payment constraint, as all countries (except the issuer of the international currency) face such a restriction. The perpetuation of underdevelopment originates in the

historical evolution of the periphery within the framework of center-periphery trade relations and is reproduced in national and international power relations (Rodríguez, 1977).

The balance of payments problems is the expression of the center-periphery system that manifests structural obstacles to achieving development, maintaining stagnation, inequalities in the world economy, and generating politically conflictive societies due to increasing unemployment levels and unequal income and wealth distribution.

In addition to technological and productive development asymmetries between peripheral and central countries, the end of Bretton Woods and the deregulation of financial markets consolidated the hegemonic role of the United States as the issuer of the global currency and the overseer of international finance (Fiori, 2018). Thus, besides its military power, the United States holds the financial power to arbitrate global capital flows by determining its interest rate (Tavares, 1997).

The technological and financial dependence of peripheral countries creates the basis for the characteristic processes of external indebtedness, instability, and currency crises, impacting long-term macroeconomic performance and increasing income distribution inequality (Tavares, 1985; 2000; Vernengo, 2006).

The first significant inflow of foreign capital into Latin America after the collapse of the gold standard occurred in a context of trade and financial openness, culminating in the 1982 debt crisis. The debt restructuring of Latin American countries through the Brady Plan in 1989 led to a new influx of financial flows in the early 1990s within the framework of reforms based on the Washington Consensus (Frenkel, 2003; Iglesias, 2006; Stiglitz, 2003). Market deregulation accentuated deindustrialization, low export dynamism, and increased dependence on imports of capital goods and inputs (Pérez Caldentey and Vernengo, 2021).

Although there are autonomous determinants of external financial flows (i.e., international market conditions), the structural current account deficits of peripheral economies reinforce this fragility, affecting the liquidity premium of their currencies. This feature limits the ability to borrow in the national currency and generates a substantial dependence on short-term capital. From 2003-2009 to 2010-2019, short-term flows went from representing 37.3 % to 52.1 % of the total flows in Latin America (Pérez Caldentey and Vernengo, 2021, p. 505). These flows are

highly pro-cyclical concerning the international financial market, causing sharp devaluations when these capitals exit suddenly.

Therefore, economic policy is subordinated to the interests of creditors. Because of financial dependency, peripheral economies must offer high interest rates on excessive short-term income, increasing future foreign currency payments. These financial flows worsen the fragility of economies, affecting macroeconomic performance, as current account deficits are a key indicator of the economy's capability to meet its commitments and thus shape the expectations of economic actors in short-term financial markets (Kaltenbrunner, 2011). The latter incentivizes accumulating assets in the currency with the highest international hierarchy. Hence,

“financial dependence is simultaneously a cause and a consequence of this trade insertion in the world economy” (Medeiros, 2008, p. 85).

Here, it is essential to establish the causal mechanisms: financial flows have an autonomous dynamic influenced by the international market condition, but the domestic situation alters this dynamic. In an economy with structural current account deficits and a deregulated financial market, external vulnerability will be exacerbated, increasing the need to finance interest payments and accumulate external assets. If policymakers encourage deregulation and do not aim to build repayment capacity, the result will be greater instability.

The shrinking of foreign reserves, primarily caused by the reversal of capital flows, fuels devaluation expectations, encourages the formation of foreign assets and exerts pressure on the exchange market. In these circumstances of external fragility, expectations of depreciation soar, compelling the central bank to raise interest rates to prevent capital outflows, benefiting financial capital⁶. The decrease in foreign reserves limits the maneuvering capacity of the monetary authority, intervening in the foreign exchange market and improving the effectiveness of interest rate increases.

Whether prompted by pressures from entrepreneurs, international creditors, or a currency crisis, devaluation ultimately occurs, resulting in a price boost across all sectors and a

⁶ These pressures can arise from the direct action of exporters seeking to force depreciation by accumulating stocks to enhance their profitability levels.

subsequent decrease in real wages. In such a scenario, a new upward revision of nominal variables occurs amid conflicts over income distribution. Devaluations trigger wage demands that, if materialized, may decrease in the net rate of return in tradable sectors, especially if the monetary authority commits to maintaining positive real interest rates. The inflation resulting from the initial devaluation can be sustained – and accelerated – if inflation expectations persist with continuous increases in nominal wages, interest rates, and new devaluation pressures.

In this regard, Tavares and Belluzzo (1986) emphasize the role of the systematic readjustments of devaluation expectations as an explanatory factor for accelerated inflation, particularly when the central bank's ability to maintain exchange rate policy is jeopardized by insufficient international reserves in a conflictive society regarding income distribution. From this perspective, explosive trajectories in the dynamics of prices are highly probable in situations of widespread indexation and automatic price readjustment, especially in freely floating exchange rate regimes. In a scenario of indexed prices, the influence of devaluation expectations (and future prices) on inflation dynamics is exacerbated as these are constantly revised upward to hedge against potential future losses in a context of high nominal volatility.

If the process accelerates, the expected margin becomes unstable and challenging to predict:

“Supply prices, planned by producers, tend to be significantly exaggerated in an attempt to anticipate a potential devaluation of liquid capital. This dynamic leads to the overall supply price departing from the ‘normality’ conditions of production price within a capitalist enterprise” (Tavares and Belluzzo, 1986, p. 8)⁷.

Thus, when inflation is accompanied by low central bank autonomy in controlling the exchange market, an endogenous process is generated, independent of demand factors.

It is worth noting that this does not simply refer to inertial inflation, as profit margins are not limited to adjustments based on past inflation since the desired margin increases. Nor does it imply inflation driven by the growth of effective margins, as in periods of high inflation, these can become decreasing. A similar process can occur with nominal wages; although being tied to longer-term contracts, their adjustment is more likely to be linked to past inflation.

⁷ Translation by the authors.

Moreover, when devaluation expectations accelerate, excess demand due to supply constraints can be recorded, resulting from accumulating inventories, mainly imported inputs or export goods. In the foreign exchange market, the depreciation of the domestic currency does not result in increased supply of foreign exchange but rather to heightened demand.

Latin American Structuralist authors (Furtado, 1959; Noyola Vázquez, 1956; Olivera, 1971; 1972; Sunkel, 1958) argue that in a context of inflation due to distributive conflict with an indexed price system and insufficient foreign currency reserves, both fiscal outcomes and the creation of means of payment become entirely endogenous. The public deficit originated from the growing gap between the diminishing purchasing power of fiscal revenues and the increasing nominal volume of public spending. Simultaneously, monetary policies adjusting the nominal interest rate to prevent runs against the currency raise government financial spending. Concerning the expansion of means of payment, in line with endogenous money theory, the nominal growth of credits granted by the banking system is closely linked to the higher production costs inherent in the context of inflationary dynamics.

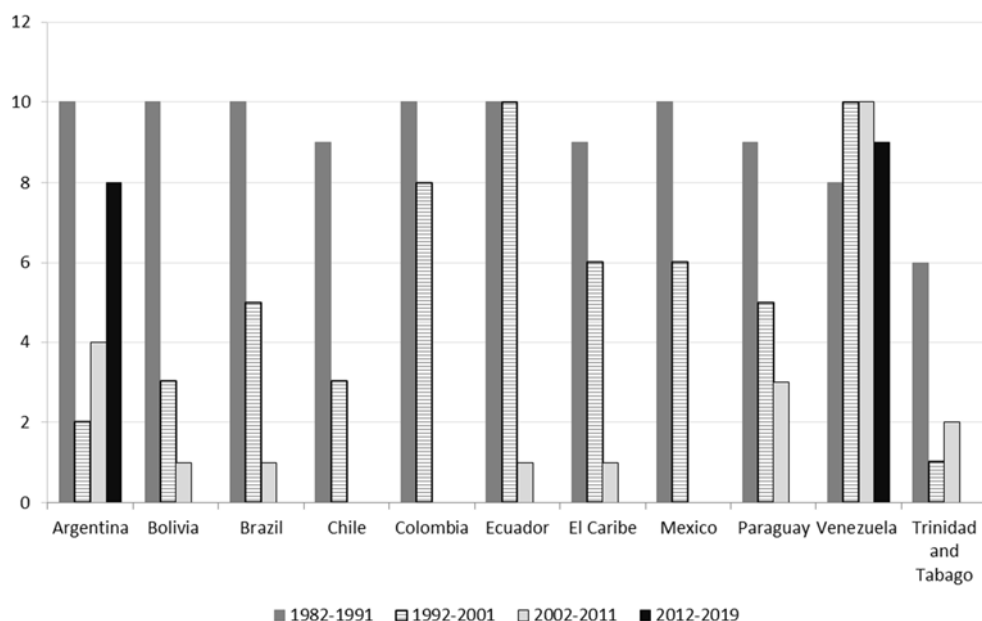
In summary, revisiting the previous section on the determinants of inflation in price-taker economies open to trade and financial flows in the light of the Classical Theory of Value and Distribution, it is crucial to consider the evolution of the exchange rate and domestic interest rate as triggers for inflationary processes. Regarding the nominal exchange rate, the dynamics of external financial flows and the global liquidity situation mainly affect the domestic currency value. Therefore, monetary authorities will seek to maintain foreign currency reserves to cope with capital outflows and mitigate devaluation expectations. For the latter objective, keeping domestic interest rates higher than international rates to cover the devaluation risk and implementing financial flow regulations are essential starting points. In this sense, price stability requires exchange rate stability.

3. THE INFLATIONARY PROCESS IN ARGENTINA (2002-2023) IN LIGHT OF THE CLASSICAL-STRUCTURALIST TRADITION

The external vulnerability of peripheral countries creates instability in the exchange rate market, a crucial element in explaining inflationary dynamics. The Argentine case, in particular, is noteworthy, as inflationary processes since the late nineties have been more intense and enduring than in the rest of South America, except for Venezuela.

The following chart shows the years in each period for South American countries that experienced double-digit inflation rates.

FIGURE 1 - *Number of Years with Inflation above One Digit*



Source: Economic Commission for Latin America and the Caribbean (ECLAC) Statistics.

Taking into account the period 2002-2019 for South American countries, only Venezuela, Suriname, and Argentina experienced sustained inflation processes exceeding one digit: Venezuela throughout the entire period (with hyperinflation in the later years), Suriname for seven years and Argentina for 12 out of the 18 years. In contrast, the remaining countries did not record more than three years with an inflation rate exceeding 10 %, especially during the early 2000s or the 2008 international crisis.

Therefore, this section aims to elucidate the inflationary dynamics in Argentina in the new millennium from an alternative perspective to the conventional tradition. Having established the triggers and causes of inflationary processes in the previous section, we will argue that Argentina, a peripheral economy open to international financial flows, exhibits external vulnerability manifested in chronic currency crises and subordination of economic policy to

external constraints. This instability leads to changes in income distribution that are incompatible with habits, history, and labor institutions, resulting in intense distributive conflict under “pendulum” governments that reflect a situation of political stalemate.

3.1 The Period 2002-2015: Exchange Rate Stability, Low Financial Openness, and Negative Interest Rate Differential

After years of high instability and recession following the 1994 Mexican crisis, the 1998 Brazilian crisis, and the 2001 Argentine crisis, the beginning of the new century presented a scenario of relative stability. The improvement in the international situation and the rise in prices of Latin America’s most important export commodities eased the external conditions. During this boom period, emerging economies accumulated part of the surpluses from capital and trade flows as foreign currency reserves. This behavior was a response from highly vulnerable economies to financial flows that had suffered significant economic impacts in the previous decades.

The accumulation of these reserves reduced the perception of risk – along with the implementation of more flexible exchange rate regimes – both locally and regionally. This scenario enabled governments, albeit to varying degrees, to have greater autonomy in improving their economic and social situations through public policies to sustain aggregate demand and enhance income distribution. Consequently, from 2003 to 2012, South American economies recorded the highest growth rates since the 1980s.

Argentina was no exception, especially considering that the crisis resulting from the end of the Convertibility Regime (1991-2001) had already lessened the external constraint through the contractionary effect inherent to currency devaluations. The improvement in terms of trade and favorable conditions of international liquidity allowed the external constraint to become non-binding for almost a decade.

In early 2002, Argentina was in a profound social crisis, with an unemployment rate of around 21.5 %. About 18.6 % of the population was underemployed, 42.7% of households lived in poverty, and 20.4 % were in extreme poverty. This situation also manifested through the precariousness of the labor market.

The continuous economic and social recovery was achieved by strengthening domestic demand. As a result, the average annual unemployment rate dropped from 20.4 % in the first quarter of 2003 to 5.9 % in 2015. Additionally, there was a significant recuperation of real wages, which had been severely eroded during the 2001 crisis.

The rise in nominal wages above the general price dynamics characterized much of the first-term period (i.e., March 2003 – March 2007), resulting in positive annual variations in real wages, as depicted in Figure 2. Wage enhancements were reinforced by policies that improved hiring conditions (Brown *et al.*, 2011). The labor share, which had declined from 44.7% in 1993 to around 32% in 2003, started to grow, reaching 51.6% in 2015 (CETyD, 2017). The strengthening of the labor market explained not only the wage and income distribution performance during this period but also the dynamic of prices. Since the end of 2005, the rising nominal wages began to be gradually transferred to prices, generating a sustained inflation process.

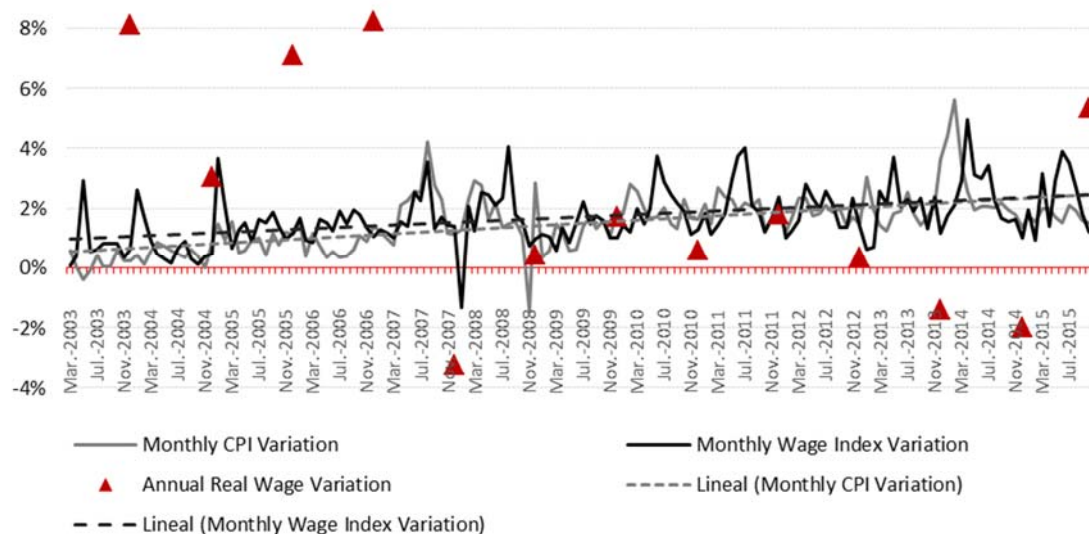
In this scenario, the pressure from business and export groups to implement a competitive exchange rate policy begins to threaten the trend toward purchasing power of wage recovery (Amico and Fiorito, 2013). Furthermore, the upturn in international prices of agricultural products in 2007 deepened distributive tensions. In a commodity-exporting economy that takes international prices from the global market, the improvement in terms of trade accelerates the dynamics of domestic prices in goods included in the wage basket, diminishing the purchasing power of wages and increasing the return rates for exporters (Dvoskin and Feldman, 2018a).

In order to buffer the impact of international inflation on domestic prices, the government of Fernández de Kirchner (2007-2015) tried unsuccessfully to impose a dynamic scheme of tax rates on agricultural exports, adjusted for rising international commodity prices (Amico and Fiorito, 2013). The exporters reacted by imposing a lockout, and Congress did not approve the new tax rate proposal. The social conflict between agricultural producers and the government, supported by unions, reinstates the political stalemate interrupted since the 1991 hyperinflationary crisis.

Faced with the impossibility of sustaining the increase in real wages by redistributing income from agro-export sectors, the policy interest rate was adjusted in such a way that the impact of growing monetary (and real) wages on the profit rate of exporters and entrepreneurs would be offset by decreasing (real) financial costs (Amico and Fiorito, 2013).

Figure 2 reveals that the trajectory of nominal wage growth remained persistently above the upward trend of inflation dynamics. However, from late 2007, there was a reduction in the gap between wage variation and inflation, resulting in a moderate improvement in real wages from 2008 to 2015 compared to those recorded between 2003 and 2007.

FIGURE 2 - *Inflation and Wage Variation in Argentina (2003-2015)*



Source: INDEC-Argentina. CPI: Consumer price inflation.

The reduction of this gap between the trends of inflation and nominal wages is attributed, on the one hand, to the restoration of a scenario of political stalemate. This situation hinders the increasing pass-through of rising wages to prices to mitigate its impact on return rates. On the other hand, the rise in international prices and then the purchase restrictions on exchange rate markets emerge as crucial factors in devaluations and inflation expectations. These elements competed with the dynamics of monetary wages, interfering with the sustainability of the recovery in workers' purchasing power initiated in 2003.

Despite the relative success in partially recovering social indicators after the 1990s, the post-convertibility policy failed to generate the necessary investments to diversify the productive structure – highly reliant on imported inputs – that would enable an improvement in international integration and trade balance performance.

Consequently, the current account deficits since 2010 (and the trade deficit since 2015)⁸ highlighted the difficulty in obtaining external financing (Table 1).

TABLE 1 - *Evolution of the External Sector, Interest Rate, and Inflation in Argentina (2002-2015)*

	Trade Account - Exports Ratio (%)	Current Account - Exports Ratio (%)	International Reserves - Imports Ratio (%)	Terms of Trade Index	Nominal Exchange Rate (quarterly average)	Inflation (%)	Interest Rate (BADLAR), deposits over \$ 1 M pesos
2002	53.9	29.9		86.4	3.44	25.9	5.1
2003	45.3	23.4	63.0	93.4	2.95	13.4	9.0
2004	29.9	7.7	60.4	100.0	2.94	4.4	10.1
2005	25.7	10.8	66.9	97.0	2.92	9.6	13.6
2006	24.7	13.9	61.0	101.3	3.07	10.9	12.4
2007	19.5	10.9	75.7	107.6	3.12	8.8	10.1
2008	17.2	8.1	70.2	120.6	3.16	8.6	13.4
2009	25.9	12.3	93.8	121.6	3.73	6.3	13.8
2010	15.6	-1.9	72.1	125.1	3.91	10.5	17.0
2011	10.1	-4.5	57.0	138.8	4.13	9.8	22.6
2012	12.6	-1.5	55.4	144.7	4.55	10.0	21.6
2013	1.1	-13.4	41.8	135.2	5.48	10.6	25.8
2014	3.5	-9.8	36.0	132.6	8.12	21.4	20.6
2015	-6.1	-23.7	41.4	126.3	9.26	21.5	34.4

Note: Calculation of the ratios on exports at current prices in dollars.

Source: Balance of Payments Statistics, Inflation (based on the Consumer Price Index). Ministry of Economy of Argentina and ECLAC.

Unlike other countries in the region, the Argentine government (2003-2015) did not encourage the inflow of external liabilities to finance current account deficits and the increasing foreign assets formation, nor did it develop a domestic currency market (De Lucchi and Vernengo, 2019). The strategies of raising interest rates and promoting capital inflows were challenging to implement in Argentina due to a) two sovereign debt restructuring processes between 2005 and 2010 and b) the international dispute with hedge funds (representing only 7 % of bondholders). Therefore, considering the conflict between real wages and profit rates, the low-interest rates (negative in real terms) attempted to ease distributive tensions at the expense of growing expectations of devaluation and capital outflow.

⁸ Mainly due to the deficits generated by the tourism, energy, and some industrial sectors.

Argentina once again encountered its major constraint to growth in the performance of its balance of payments, leading to the implementation of trade and financial controls that eroded popular support for the government within a context of economic stagnation and real wage decline.

The stable nominal exchange rate, regulated foreign exchange market, the freezing of public utility tariffs, and price controls were the main tools of the anti-inflationary policy. However, the chronic loss of international reserves weakened the government's ability to intervene in the foreign exchange market and control the currency value. These challenges, at least in part, explain the electoral defeat in 2015.

3.2 The Period 2016-2019: Exchange Rate Instability and Financial Opening

The government that took office in December 2015 inherited an economy facing binding external constraints, primarily due to the unfavorable performance of the current account in the balance of payments. At that time, inflation stood at 21%, and regulations were in place for the exchange rate and trade markets. Additionally, sustained wage claims were promoted by strong unions. However, Argentina maintained a relatively good external financial position. Public debt accounted for 52.5% of GDP, with 12.2% held by private creditors (plus an additional 3.9% from creditors who did not participate in the debt restructuring). Of the total, 36.4% were issued in foreign currency, and 13.9% constituted external public debt. The main financial challenge was the litigation with holdouts, which was eventually resolved in the early months of the new administration.

Regarding the inflation dynamics, the new government maintained a conventional diagnosis of the cause of inflation, attributing the rise in prices to an excess of global demand, particularly excessive public spending, and the issuance resulting from the fiscal deficit (De Lucchi and Vernengo, 2019)⁹. From this perspective, the anti-inflation policy aimed to achieve a gradual convergence toward fiscal consolidation through the progressive reduction of public spending

⁹ There is controversy regarding the magnitude of the fiscal deficit. According to Amico (2020), shortly after taking office, the government implemented a series of changes in accounting for the primary fiscal deficit, contrary to international standards. These reforms increased the gap between public revenues and expenditures from 1.8% to almost 7% of GDP.

and the substitution of domestic currency financing for foreign currency to avoid the so-called “monetization of the fiscal deficit”.

Under this interpretation of the causes of inflation, the monetary policymakers believed that increases in public utility rates and the devaluation resulting from the liberalization of the foreign exchange market would not lead to price boosts (Sturzenegger, 2016). Therefore, from December 2015 to July 2016, the nominal exchange rate grew by 62%¹⁰, electricity and gas prices rose by an average of 207%, and water service prices increased by 283%¹¹.

Reduction in export taxes to the agricultural sector was part of a price deregulation policy. This measure led to a growth in domestic prices of exportable agricultural goods, decreasing the purchasing power of wages and raising the capital return rate (firstly in oilseeds and eventually in the rest of productive sectors).

As a result of the economic measures, the GDP decreased by 8% in the first two quarters of 2016 compared to the last quarter of 2015. The unemployment rate increased from 6.6% in 2015 to 8.4% by 2016. As shown in Table 2, the Consumer Price Index (CPI) grew by 41% compared to the previous year, mainly driven by currency depreciation. These nominal changes were well above the variation in registered private wages, leading to a decline in purchasing power.

Instead of facing external constraints through a productive and financial policy that considered the scope and limits of these strategies, the government carried out a complete liberalization that stimulated the influx of external flows in quantities beyond what an economy can absorb (Médici, 2020)¹². This inflow of portfolio investment, attracted mainly by the high interest rates within the inflation targeting framework, played a crucial role in maintaining exchange rate stability during the first eighteen months of the administration. Moreover, these external liabilities allowed financing the current account deficits and the accumulation of external assets (Table 2).

¹⁰ The existing controls on the purchase of dollars gave rise to a parallel exchange market – known as the “blue dollar” – which, according to the economic policymakers of the new government, influenced prices in the economy. Therefore, according to this interpretation, the official exchange rate did not impact price formation, so the currency depreciation (which amounted to 40% in one day) following the exchange market liberalization would not affect prices.

¹¹ Regulated public services of the Autonomous City of Buenos Aires. Source: Statistics for the City of Buenos Aires (https://estadisticaciudad.gob.ar/eyc/?page_id=429).

¹² For a more detailed description of the measures adopted and the dynamic of the currency crisis, see Zeolla and Médici (2022).

TABLE 2 - *Evolution of the External Sector, Interest Rate, and Inflation in Argentina (2016-2022)*

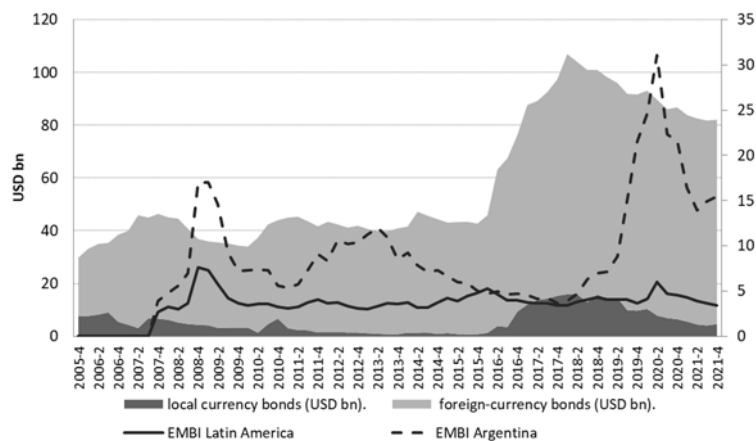
	Trade Account - Export ratio (%)	Current Account - Export ratio (%)	International Reserves - Import ratio (%)	Terms of Trade Index	Nominal Exchange Rate (quarterly average)	Inflation (%) (1)	Policy interest rate (2)
2016	-5.65	-21.16	0.43	134.2	14.77	40.50	30.94
2017	-20.42	-42.00	0.55	130.2	16.55	24.80	26.22
2018	-12.55	-35.11	0.65	131.4	28.08	47.65	44.08
2019	16.75	-4.37	0.90	130.5	48.19	53.83	65.32
2020	18.77	4.17	0.81	131.3	70.62	36.14	39.65
2021	17.25	7.59	0.57	144.0	95.07	50.94	38.00
2022	5.28	-4.17	0.40	131.3	130.54	94.79	57.06

(1) There was a change in the statistics series in 2016.

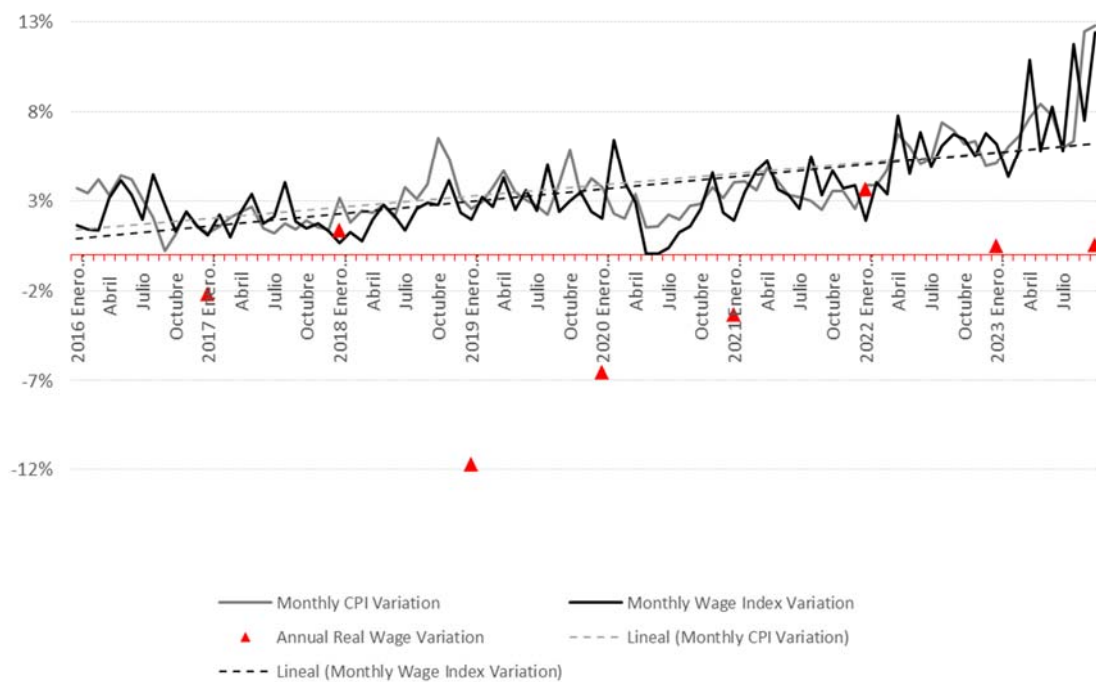
(2) The Monetary Policy Interest Rate: Until December 31, 2016, it corresponds to the interest rate of the LEBAC with a 35-day term. From January 2, 2017, to May 2, 2018, it corresponds to the midpoint of the interest rate corridor for 7-day term repos. Starting on August 8, 2018, the reference rate for monetary policy is the LELIQ rate. As of October 1, 2018, the monetary policy rate is defined as the average rate resulting from daily operations of LELIQ with financial institutions.

The deregulation of the financial sector and the erratic monetary policy led to a logic of speculative financing that worsened external vulnerability (Arestis and Glickman, 2002; Coggins, 1998; Foley, 2003; Kregel, 2004; Minsky, 1992; Williamson and Mahar, 1998). Argentina increased its debt rapidly, mostly in foreign currency, a distinctive characteristic compared to the global trend in the new millennium (Micic, 2017).

In the context of the 2017 legislative elections, exchange rate policy shifted towards increased intervention in the foreign exchange market, promoting a trend towards real appreciation and an early recovery in wages. This redistributive change is evident in Figure 4, where the annual variation in real wages shows a positive outcome for 2017, with wage dynamics surpassing those of the Consumer Price Index (CPI) in almost all of the period.

FIGURE 3 - *Foreign Holding by Currency*

Source: BIS Government Debt Statistics y
<https://www.invenomica.com.ar/>

FIGURE 4 - *Inflation and Wage Variation in Argentina (2016-2023)*

Source: INDEC-Argentina. CPI: consumer price inflation

However, several events in the early months of 2018 triggered the sudden stop. Among the most notable were the reduction of the domestic interest rate and the increase in the U.S. interest rate (which affected emerging markets). On the one hand, the decline in domestic interest rates involved abandoning the inflation targeting framework (Amico, 2020). On the other hand, the rise in U.S. interest rates resulted in a reversal of financial flows and the end of a period of international liquidity. Both facts boosted the depreciation of the peso and increased inflation.

In a situation of high accumulation of external assets by the non-financial private sector (exceeding 40% of exports) and facing a growing risk of Argentine debt, the Central Bank lost 12% of its international reserves from February to June. As a consequence, the currency depreciated by 40% during this period. The depreciation triggered an acceleration of inflation, which remained consistently above the variation in nominal wages throughout 2018 (Figure 4). The increasing exchange rate volatility quickly translated into a higher inflation rate, with peaks in September and October 2018, leading to a real wage decline of nearly 12%.

Encountering the difficulty of obtaining new financing in the international market, Argentina signed a stand-by agreement with the IMF in June 2018. The amount of the agreement became the largest in the country's history, further exacerbating external vulnerability. In this scenario, a currency run against the national currency began, associated with the IMF stigma effect, which forced intervention by the monetary authority in the foreign exchange market and led to the loss of international reserves (De Lucchi and Vernengo, 2019).

Nevertheless, the agreement limited the central bank's ability to curb the currency run. In this scenario, the IMF credit not only failed to provide greater autonomy to the Central Bank but also significantly undermined the financial sustainability of the Argentine economy and accentuated the subordination of economic policy to the interests of creditors.

After losing a third of foreign currency reserves between July and October and experiencing a defeat in the 2019 general elections, the government reintroduced exchange controls, implementing even stricter restrictions than those imposed in 2015¹³. In a dynamic similar to the final period of the Convertibility, the growth in public debt, primarily through agreements

¹³ The restrictions were implemented in two stages. The first, in September, after the primary elections, imposed a monthly purchase limit of 10 thousand dollars for individuals, and after the general elections, it was reduced to 200 dollars.

with the IMF, provided the necessary dollars to continue the dollarization of portfolios and finance the current account deficit¹⁴.

The government's decision to manage inflation dynamics through a series of policies based on demand-pull inflation theory resulted in a distributive configuration that contrasts with the 2003-2015 period. As observed in Figure 4, between 2016 and 2019, the trend of the CPI dynamics consistently exceeded the evolution of monetary wages.

In this scenario, the distributive conflict driving the price dynamics was characterized by the loss of purchasing power of wages and the redistribution of income towards ownership social groups, mainly the financial and export sectors. These sectors benefited from high real interest rates and depreciations of the national currency in a framework of persistent devaluation expectations, increasing external indebtedness, and growing external vulnerability.

In summary, by the end of 2015, Argentina faced a classic external constraint and persistent inflation that required resolution. However, the incoming government failed to address these economic challenges effectively, revealing a need for more engagement with these issues. During the last months of 2019, all economic indicators experienced alarming deterioration, primarily due to a currency run that the government could not manage. This led to the acceleration of inflation, job losses, and economic stagnation.

Finally, in a new turn of the classic Argentine pendulum (Diamand, 1985), a new government took office in December 2019 amid high macroeconomic uncertainty, inflation, and difficulties in continuing to finance the high dollar-denominated commitments.

The weight of foreign currency payment schedules, encompassing both interest and principal related to the government's external debt, intensified the external constraint. Much of the financing was allocated to sustaining the exchange rate policy and dealing with the 2019 currency crisis. These obligations became unsustainable within the financial account of the balance of payments, given the considerable external vulnerability of the economy. External commitments with private creditors and the IMF bound the government's autonomy in

¹⁴ For more information on the development of the crisis, monetary policy, and financial (de)regulation, refer to Zeolla and Médici (2022) and Amico (2020).

implementing economic policies. Besides, these commitments must be renegotiated by future administrations.

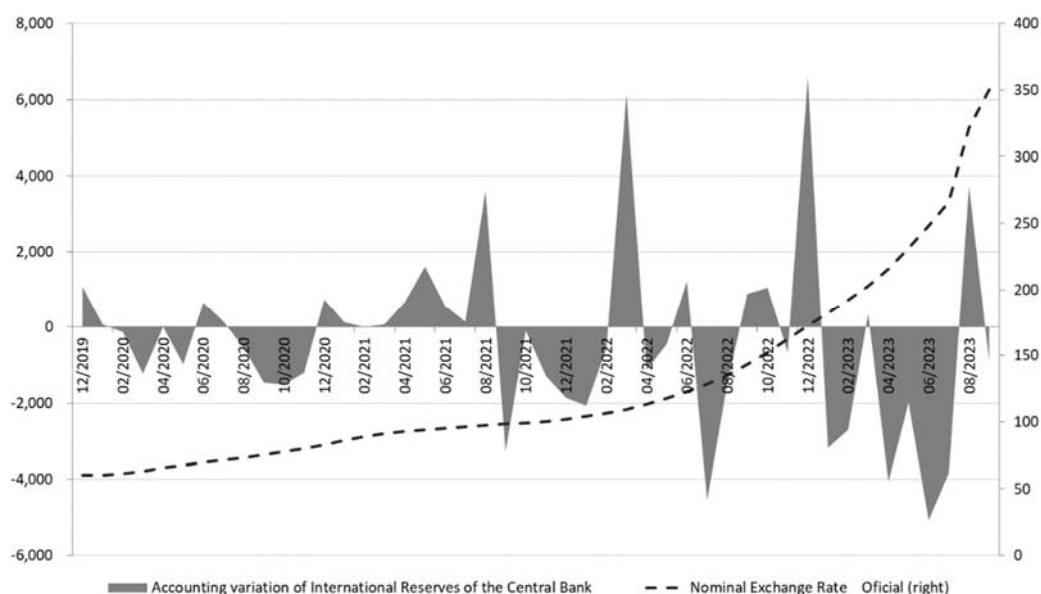
3.3 The Current Period: Impacts of External and Internal Shocks on Conflict-Driven Inflation

The administration that took office on December 10, 2019, marked the return of Peronism to power through a coalition of political forces that had fragmented at the end of Fernández de Kirchner's second term (2011-2015). In this scenario, the explicit political commitments aligned with the aspirations of the working class. These commitments included the recovery of real wages, the reduction of poverty levels, which were around 36%, the reactivation of economic activity, and the creation of more and better jobs.

However, the macroeconomic fragility worsened throughout the entire period. Between January 2020 and September 2023, the Central Bank's reserves decreased by almost 18 billion dollars, and the official nominal exchange rate depreciated by 483% (Table 2 and Figure 5).

Three facts illustrate the critical circumstances faced by the new government: a) the insufficient international reserves of the Central Bank, b) the need to address the restructuring and renegotiation of external debt, both with private creditors and multilateral credit organizations, and, finally, c) the indebtedness with the IMF, which, amid negotiations of the agreement, emerges as a potential auditor of the economic policy of the Peronist government.

Until March 2020, the income policy allowed for a recovery in real wages, as shown in Figure 4. Nevertheless, this policy was interrupted in April 2020 due to the health crisis caused by the SARS-CoV-2, when a strict lockdown was imposed. In this regard, the government prioritized the implementation of expansive fiscal policies to maintain employment and family incomes, including direct transfers (e.g., the Emergency Family Income) or assistance to finance wage costs (e.g., the Work and Production Assistance) (ECLAC, 2021; Pineda *et al.*, 2020). Monetary policy also had an expansive nature, allowing finance fiscal deficit while credit ratings were relaxed. Additionally, the central bank cut interest rates, reducing financing costs for production.

FIGURE 5 - *International Reserves Variation and Nominal Exchange Rate*

Source: External Sector Statistics Management – Central Bank of Argentina.

In the middle of rising devaluation expectations, distributive conflict escalated throughout the second half of 2020, leading to a substantial pass-through of nominal wage hikes into prices (see Figure 4).

During 2021, economic policy began the transition towards the partial lifting of restrictions on circulation. Additionally, the government focused on renegotiating with the IMF. However, a combination of income distribution conflicts, persistent expectations of devaluation, and international price increases in key sectors (such as energy and food) due to supply constraints stemming from the pandemic (Vernengo and Pérez Caldentey, 2023) solidified monthly price growths around 3.5% on average in 2021, 5.7% in 2022, and 8.2% in 2023¹⁵.

In February 2022, the price dynamics faced a new shock due to the onset of the Ukraine war. The similarity in export baskets and the decrease in Ukraine's share in the global agricultural market triggered domestic price boosts driven by international prices. The revival of wage demands to recover real wages generated a growing trend in the inflationary path, as observed in the dashed lines in Figure 4.

¹⁵ Average until October 2023. Source: INDEC-ARGENTINA.

Furthermore, the renegotiation with the IMF resulted in the signing of a new ten-year Extended Fund Facility agreement. Thus, the convergence plan towards fiscal consolidation, the adoption of a crawling-peg exchange rate policy, and discontent with the renegotiation outcome activated a political crisis within the ruling coalition, leading to the resignation of the Minister of Economy.

Finally, a severe drought between late 2022 and early 2023 exacerbated the critical shortage of international reserves due to an 11 billion dollar drop in exports during the first semester compared to the same period in 2022 (equivalent to a quarter of goods exports). As a policy response, the government implemented a temporary exchange rate scheme to enhance the profitability of traditional agricultural exports (i.e., oilseeds and their derived products) and boost reserves.

Between August 2022 and November 2023, the inflation trajectory aligned with the typical dynamics of high inflation processes described in Section 2. In sum, gradual devaluations triggered wage demands that perpetuated an inflationary dynamic in a society in conflict over income distribution. Following Tavares and Belluzzo (1986), exchange rate volatility and the growing influence (as well as the possibility of gaining the general election) of political forces advocating for the dollarization of the economy intensified expectations of devaluation, pushing inflation rates above 10 % monthly, as shown in Figure 4.

In this scenario, the monetary authority raised interest rates to prevent the accumulation of external assets, driving up financing costs and devaluation demands to improve net profit rates while workers tried to keep up. These dynamics start an inflationary spiral involving a feedback mechanism between wages, interest, and exchange rates.

Especially in 2023, a year of general elections, there was a monthly acceleration of inflation, with margin and wage adjustments reflecting expectations of increasing prices. Given the limited autonomy of the central bank to control the currency value, financial and parallel exchange rates (known as the blue dollar) nearly tripled the official value.

In this regard, Figure 4 shows a growing inflation and wage variation trend. While this consolidates a pattern of increasing high inflation, it results in a stagnation of real wages (unlike

the decline recorded in 2015-2019), characteristic of the political stalemate since the 2008 exporter's lockout.

4. CONCLUDING REMARKS

This article aims to argue that inflationary processes in Argentina during the new century, especially in the last decade, result from devaluations triggered by dynamics linked to the external sector. These dynamics, in turn, are influenced by financial deregulation processes and inflows of external liabilities. Inflation through distributive conflict manifests through persistent depreciation and wage increases in price-taker economies open to trade and financial flows. In this scenario, national currency devaluations raise profit margins in a society with strong labor unions (though unequal even within the working class), which reacts by claiming wage growth.

The State's capability of implementing anti-inflationary policies based on an exchange rate anchor – to deal with conflicting social groups and external pressures to generate a devaluation shock – depends on substantial foreign currency reserves.

In Argentina, the ongoing deterioration of real wages and the discontent arising from socio-economic issues related to the pandemic and lockdown measures have been fertile ground for the emergence of conservative factions. These groups have managed to persuade the majority of society that old radical ideas, such as the privatization of health and education systems and crucial sectors for economic development (such as energy companies), constitute the solution to all economic problems.

Upon concluding this article, Argentina is entering a new pendulum swing, as the newly elected president promises a drastic reduction in public expenditure, the elimination of the central bank, full economic liberalization, and dollarization.

We assert that austerity policies disproportionately impact workers by not addressing the destabilizing factors of inflation dynamics. The income redistribution resulting from these measures contributes to growing economic inequality and the deterioration of the population's standard of living.

In particular, devaluation, whether through the abrupt deregulation of the exchange market or the pursuit of a competitive exchange rate, is ineffective in correcting the balance of payments through increased exports and import substitution and leads to a classic contractionary adjustment. If accompanied by trade openness, we would enter a new process of productive capacity destruction and exacerbate dependence on imported inputs and basic goods.

It is also necessary to consider external debt, both in the public and private sectors. For the public sector, debt commitments will be especially burdensome from 2025, with Argentina's closed international financial market likely initiating a new debt restructuring process with private creditors and the IMF.

Currently, the debate over the role of the State in development is revived, even though ideas about the inefficiency and responsibility of productive and social policies as possible triggers for stagnation and inflation have gained strength. Even in this scenario, we emphasize the importance of deepening both the study and debates on the financial and technological dependence of Argentina and Latin American countries. It is also essential to address policy strategies in an increasingly complex global environment, reconsider the regulation of financial flows, and, in particular, advocate for the true nature of stagnation in our region.

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