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The Argentinian case

The history of an economy plagued by inflation and the impact of the Russo-Ukrainian war

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Abstract

Year 2022 has been full of events, mostly negative, but which have undoubtedly led to a clearer awareness of the global economic and financial balance. Global powers had not yet fully recovered from the recurring lockdowns due to Covid-19 when the outbreak of war between Russia and Ukraine happened. One of the topics that was most discussed and heard about has been inflation. Some countries have not suffered from this phenomenon in a clearly perceptible way for many years, which made them more sensitive to the recent shock than other countries more used to constant inflationary trends. In the latter group is possible to find Argentina.

This thesis project stems from the interest in analyzing how a country that in the early 1900s represented one of the most promising emerging states in the world, found itself, less than a century later, characterised by latent inflation, which on a couple of occasions escalated into hyperinflation, and reeling from one of the most grand defaults in modern history. This troubled history is presented with a view to shed light on the current implications of inflation for Argentinian growth and development.

The first part of the work describes in theoretical terms what inflation is, the two main approaches that can be used to defining it and an insight into hyperinflation, especially in the Latin America area. Secondly, the behavior and the actions undertaken by the governments that have led Argentina starting from 1950 will be addressed, with a specific focus over the economic policies implemented in response to the country's socio-economic conditions. The third part of the work is more oriented over the agricultural sector that has been the most reliable one in term of State revenue and fiscal contribution. Finally, an analysis over which are the effect that the Russia-Ukraine war have had on this specific sector will be carried out in order to define which are the impact on the Argentina's economy.

Finally, conclusion are drawn on the problems that Argentina's economy is still facing today and how, although closely related to what is presented in this paper, the current war seems to rather surprisingly represent an opportunity for the country.

Introduction

Considering 2022, it can be said that it has been a year full of events, mostly negative, but which have undoubtedly led to a clearer awareness of the global economic and financial balance. The main global powers had not yet fully recovered from the recurring lockdowns due to Covid-19, that have undermined the network of trade connections, when the outbreak of war between Russia and Ukraine forced countries to take a position in terms of alliances, sanctions and economic support. One of the topics that was most discussed and heard about was inflation. Some countries have not suffered from this phenomenon in a clearly perceptible way for many years, which made them more sensitive to the recent shock than other countries more used to constant inflationary trends.

From the results of a survey administered to people of European, South American and US origin, it is possible to observe how different cultures influenced these individuals' awareness of inflation.

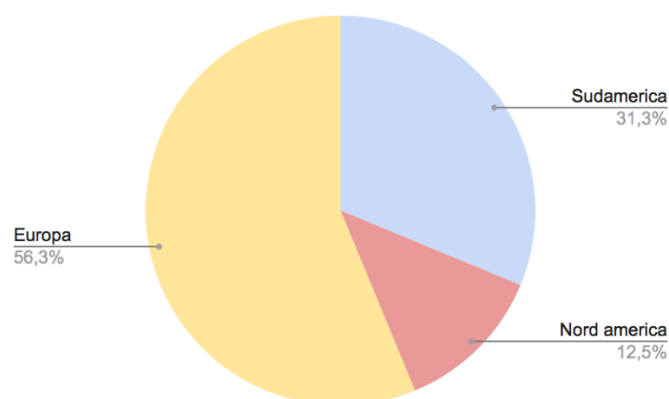


Figure 1 - Country of origin of respondents

It can be seen that in the US, the topic of inflation started to be of public interest from the year 2022 onwards, as 50% of the respondents said they had never heard of it before, while only 33% admitted they had started to consider this concept in the last 5 years. Furthermore, when asked how much inflation influenced their past consumption choices on a scale from 1 to 10, it emerged that in the past the influence of this phenomenon on the choices of these individuals was only partial, with an average of 5.7, while today, the same respondents, when predicting instead the impact of inflation on their future consumption, reached an average vote of 8.5.

The same trends were not observed in Europe or South America. As will be seen later in this thesis, the regions of Latin America, and Argentina in particular, suffer from a complex history characterised by power struggles and unstable economies that have been unable to create concrete systems to foster an efficient development of the region. Most of the interviewed people are aged 18 to 25 and despite this, about 60% of South Americans have been aware of the presence of inflation in their country of origin for at least 5 years while 7% have always been aware of it. In addition, South American respondents have reached a 6.5 average vote when asked the same question we considered before for US citizens, and when estimating future impact the average grade reached 8.5.

The following dissertation aims at explaining the results obtained through an analysis of the underlying conditions of the Argentinian economy. The work focuses specifically on how inflation has impacted the country's economic history, shining a spotlight on the agricultural market, which, as we will see, represents the main sector on which the trade balance depends. Finally, it will be analysed how the current global socio-political situation, especially the Russian-Ukrainian war, affects more or less directly the South American country's economic condition.

The first part of the thesis develops, on a theoretical level, the definition of inflation, both with a monetary and a non-monetary approach, delving in particular on the concept of hyperinflation and the indexes used in Argentina to measure both.

In the second chapter the economic and political history of the country, starting from the year 1960, year of the start of Peron's second mandate as president, will be covered considering both the social conditions that brought on the elections of the different presidents and the economic policies implemented by them. Further considerations will be made on the eventual positive or negative (or indifferent) effects of such policies.

The third part is a focus on the agricultural sector, with an introduction on its role in Argentina's development throughout its history, an analysis of the economic norms regulating the sector and its impact on the international trade balance.

The fourth, and final, section instead considers the Ukrainian war first with respect to its impact on the countries directly involved in the conflict, considering the economic consequences and the effects of the sanctions implemented by other countries.

After that, the impact on a larger scale on both Europe and on a global level, considering the ways different Central Banks tried to counter the negative externalities, is addressed.

Finally, the paper will focus on the effects of the conflict on South America with a spotlight on Argentina with respect to its relations with both countries involved in the war and the impact on its trade balance, especially through the effects on agriculture.

1. Inflation

In the first chapter of this work, the definition and the theories behind the concept of inflation will be taken into consideration in order to prepare the readers to better understand different situations that will be stated and deepened in the following chapters.

Firstly, the two main stream of thought about Inflation will be analyzed and compared in order to define commonalities and differences; secondly, the concept of hyperinflation will be developed because this extreme condition affected deeply the history of Argentina, a country that will be focal throughout the whole work. Finally, the parameters and the method used to evaluate the performance of inflation of the previously mentioned country will be considered.

1.1 Definition of Inflation

Inflation is, with his opposite deflation, one of the most relevant macroeconomic parameters and its most basic definition is “the rising of prices over the whole economy”. The economist Adam Tooze defined it as the general upward pressure on all prices, independent of idiosyncratic supply shocks. Moreover, he stated that “Inflation is always a monetary phenomenon because money is the denominator against which we judge a general movement of the price of goods. Inflation can be defined as a shift in the terms of trade between money and goods, as experienced by a particular group of people and captured by a particular statistical apparatus”. (Tooze, 2021)

From the definition stated above is possible to highlight three concepts:

1. The raising of prices
2. The persistence of inflation over time
3. The “generality” of the increase

Focusing on the first concept is important to understand the difference between the raise in price, in the sense of inflation, and high prices. The latter is a relative-price changes and it is not a monetary phenomenon; it is due to individual adjustment that price have over the flow of the supply and demand for various goods. A rising relative price indicates that demand is outstripping the supply while a decreasing in the relative price denotes the opposite. For these reasons relative-prices changes transmit

important information that help the efficient allocation of resources throughout any market economy. On the other hand, inflation is not providing any useful information but, in the contrary, can distort the reality leading economies and people over unsound economic choices. (Humpage, 2008)

Considering the second point, in order to be able to talk about inflation the price increase has to be lingering, or recurrent, and for this reason an inflationary economy has to be analyzed throughout a long period of time. Persistence is usually seen as referring to the duration of shocks hitting inflation and the European Central Bank states that exist two different approaches to evaluate it. The first one defines inflation persistence in the context of a univariate time-series, and it is called *Univariate approach*, while the second one uses an econometric model and for this is called *Multivariate approach*. The main difference is that in the first one, shocks to inflation are identified as a summary measure of all shock affecting inflation in a given period while, on the other hand, the multivariate approach try to identify the different shocks hitting inflation to carry out a shock-specific analysis. (Marques, 2004)

Finally, the third point refers to the fact that all prices have to increase even though this do happen at the same time or at the same rate. (Pablo, 1980, p. 147-148)

Nowadays there is no complete and well-formed theory of price formation; mainly because price decisions do not depend exclusively on variables that can be verified by observation, but also on the behavior of individuals and on the expectations that each of these makes of the others.

The approach that this work is going to follow is based on the classification of different theories, that explain the causes of inflation, carried out by the economists Blanchard and Enrri. In their work they identified two categories: one that have a monetary approach, called *Monetarism*, and two related to a non-monetary approach, the *Models of struggle for distribution* and *Structuralist models*. The three theories will be examined in depth in the following paragraphs but could be useful to anticipate that the first theory states that governments can work on obtaining economic stability by targeting the growth rate of the money supply. On the other hand, the set of non-monetary

approach focus more over the structure of the society and how the latter can affect the general levels in prices and the principal economic parameters.

1.1 Monetary approach

Throughout this paragraph the basis and fundament of the first theory will be explained in order to have an overview on the mechanism that, under this point of view, affect and regulate any economy.

One of the basic assumptions of the monetarist approach is the *Quantity Theory of Money* and for this reason the first part of this paragraph will be devoted deepening it. The focal point of it holds that the price of goods and services is directly linked to an economy's money supply in nominal terms; in other words, this states that an increase in the money supply will result in the same increase in inflation, all else being equal. As inflation rises, purchasing power¹ decreases. The formula that is able to express this relation is called *The Fisher Equation* and is:

$$M * V = P * T$$

Where M is the quantity of money, V is the speed money flows around the economy, P is the level of prices and T is the number of transactions that occur on the market.

If the parameters V and T are considered as constant, or exogenous, it is easy to see how a change in the quantity of money affects the average level of prices. (Barone, 2022)

From this equation both the *Classical Theory* and the *Keynesian Theory* start to define the behaviors of economies, and the impact of inflation over them, with one main difference. While for the Classical theorists, prices vary proportionally with changes in the money supply, for the Keynesians the speed of money is not stable and, consequently, the changes in the money supply do not necessarily affect prices but impact the levels of production and employment. Let's now develop in a better way these two theories in order to figure out how the previously stated differences affect their way of explaining economic conditions. (Blanchard & Enrri, 2005)

¹ Purchasing power is the value of a currency expressed in terms of the amount of goods or services that one unit of currency can buy. When the purchasing power of a unit of currency decreases, it requires more units of currency to buy the same quantity of goods or services.

1.1.1 The Classical Theory of Inflation

Let's start by defining in broader terms the *Classical Theory of Money* and, later on, the definition of inflation under this point of view will be assessed.

This school of thought find its main exponent in Adam Smith and has, as fundamental concept, the idea that economy is capable of self-regulating. Under this theory both consumers and firms take decisions in order to maximize their own self-interest, either in form of utilities or profits, throughout voluntary exchange on the market. This also means that economy can always reach the *natural level of real GDP*². This doctrine stands on two beliefs:

1. Say's Law

It states that when an economy produces a certain level of real GDP it also generates the income needed to purchase that level of real GDP.

The problem with this statement arises by the fact that no one guarantees that all the income produced by the economy will be spent on the market but a fraction of it could be saved; as a consequence of it, the demand for certain goods and services will be less than the supply. If this happens the suppliers will reduce their level of production and subsequently the number of resources employed. When this happens the equilibrium level of real GDP also falls below its natural level and consequently the economy may not achieve the natural level of it. As a solution to this issue the classical theorists respond that the savings are turned into investment expenditures which still are part of the real GDP.

2. Interest rates, wages and prices are flexible

The flexibility of the interest rate keeps the money market in equilibrium all the time and thus prevents a value of real GDP different from its natural one; the same happens with wages rate in the labor market. For this main reason the economy is always able to adjust without any outside influence or government

² This is the level of real GDP obtained when all the economy's resources are fully employed

intervention and finally, under this theory, any form of unemployment is a voluntary one. (The Classical Theory, s.d.)

After the previous introduction over the Classical Theory fundament let's now introduce the concept of Inflation. To do so it is necessary to state the concept of money that for both Classical and Neoclassical Theory is identified as a trading instrument and an instrument to evaluate products or services, such as a standard. So that, the demand for money depends on the income of population and on the synchronization of payments and takings and, due to the fact that both of them depend on the disposable income, also the demand for money is a function of it.

Under this ideology Inflation, in its simpler meaning, is related to an excessive growth in the quantity of money in circulation. More accurately, *Classical Theory of Inflation* explains how the aggregate price level gets determined through the interaction between money supply and demand. Considering Figure 2, it shows on the x-axis the quantity of money M and on the y-axis the price of money, or the price of “a dollar” in real terms. It explains that, when the price of a good goes up, so when $P_0 \rightarrow P_1$ with $P_1 > P_0$, the “price” of money falls and the quantity of money demand rises.

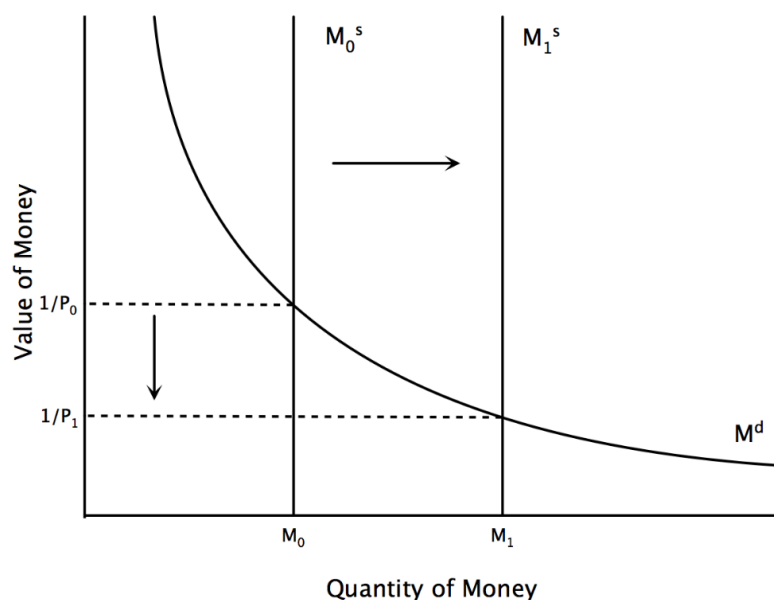


Figure 2 - The classical theory of inflation

Thanks to this graph is possible to see how the Classical Theory is able to explain the inflation concept without considering interest rate, unemployment or any other variables but simply reveals that it is just a debasement of the currency. (Ireland, 2014)

1.1.2 The Keynesian Theory of Inflation

The second theory of *Monetarism* that will be covered in this work is the *Keynesian Theory* and, as in the paragraph The Classical Theory of Inflation, the fundament of it will be considered first and later the concept of Inflation will be introduced.

Keynes's theory takes the Classical Theory as a starting point but argue that the market is not always able to self-regulate when unpredicted fluctuation happened. Moreover, unlike the previous approach, Keynesian state that the government has the duty to intervene whenever the economy cannot reach the equilibrium itself. Let's start by defining the principal tenets of this theory:

1. Aggregate demand is influenced by both public and private economic decisions and sometimes behave wrongly. Regarding the former, the most common are Fiscal and Monetary policies that are considered the most common strategies to stabilize economies
2. Change in Aggregate Demand exercise its strongest effect, on the short-run, over real output and employment level but not on prices
3. Prices and wages respond slowly to changes in supply and demand and this usually result in shortages and surpluses especially on labor

Focusing on the relationship between aggregate income and expenditure the main argument of this model is that the economy's equilibrium level of output, or real GDP, may not correspond to the natural level of real GDP. Calling the model at the base of this theory *Income-Expenditure Model*, is possible to state that the equilibrium level of real GDP is the level of it that is consistent with the current level of aggregate expenditure. (Blinder, s.d.)

If the current level of aggregate expenditure is not sufficient to purchase all of the real GDP supplied, output will be cut back until the two levels are equal; hence, the equilibrium will be somewhere below the natural level. In this situation, according to the Classical Theory analyzed above, prices will fall, reducing producer costs and increasing the supply until it is again equal to the natural level of real GDP. But, what Keynesian believe, is that prices and, as a consequence, also wages are not flexible, but

they are sticky and for this reason they reject also the Say's Law stating that economy is self-regulating.

The *Income-Expenditure model* considers the relationship between autonomous expenditure, or Aggregate Demand, and current real national income expressing the first as the contribution of *Consumer Spending C*, *Private Investment* and *Corporate Spending I*, *Government Spending* on public goods and social services *G* and *Net Exports Nx*.

$$AD = C + I + G + Nx$$

While the first three parameters can be considered as independent of the current income, the consumption depends on it and have to be expressed, in its aggregate form, as:

$$AC = C + mpc(Y)$$

Where *C* is the autonomous consumption expenditure, *Y* is the real income and *mpc* is the marginal propensity to consume which is a fraction of the change of *Y*.

The total Aggregate Expenditure is written as:

$$AE = A + mpc(Y)$$

Where *A* is the total Autonomous Expenditure, or the *AD* as it is expressed in the previous formula.

Under the Keynesian model the equilibrium level of real GDP, which can be identified as *Y**, is found by setting the national income *Y* equal to the aggregate expenditure, so *Y=AE*. Starting from this point is possible to obtain that *Y** is equal to the level of Autonomous Expenditure *A* multiplied by the Keynesian multiplier *m*:

$$Y = A + mpc(Y)$$

$$Y^* = A * \frac{1}{1 - mpc} = A * m$$

To better understand the formula is possible to think that the *mpc* is always included between 0 and 1 and so on, the Keynesian multiplier *m* is always greater than 1. This imply that the real GDP at equilibrium is always a multiple of *A*. (The Keynesian Theory, s.d.)

Let's now return to the main topics of this paragraph, which is to illustrate the concept of Inflation under Keynesian Theory. According to the latter, an increase in effective demand can change, beside the employment, the expected price and output. The way in which these parameters are affected by a change in effective demand are going to be stated below in order to eventually define the concept of *true inflation*:

- Elasticity of employment, shows the relation and the velocity at which employment level change with relation to a change in the demand of the market:

$$E_e = \frac{dN}{dDw} * \frac{Dw}{N}$$

- Elasticity of expected price in term of wage units, correlate the variation in the level of prices to the change in the effective demand by using as a unit of measure the wage unit:

$$E'_p = \frac{dPw}{dDw} * \frac{Dw}{pw}$$

- Elasticity of output, express how the level of output that introduced in the market change with relation to a change in the level of demand:

$$E_o = \frac{dO}{dDw} * \frac{Dw}{O}$$

After those first three equations is possible remember that the product between Output and Price, in term of wage unit, is equal to market demand and so the sum between the elasticity of output and of expected price, in response to a change in effective demand, is equal to one:

$$E_o + E'_p = \frac{dO}{dDw} * \frac{Dw}{O} + \frac{dPw}{dDw} * \frac{Dw}{Pw} = 1$$

Before giving the proper definition of *true inflation*, Keynes define two more parameters that show the elasticity of money-to-wage rates and of price level again, as the above, in relation to a change in demand.

- Elasticity of money-wage, explain how a change in the AD impact the money-wage rates:

$$E_w = \frac{dw}{dD} * \frac{D}{w}$$

- Elasticity of the price level in reaction to changes in aggregate demand:

$$E_p = \frac{dp}{dD} * \frac{D}{p} = 1 - E_o(1 - E_w)$$

This latter equation can also be transformed by using some of the parameters above and, thanks to this substitution, it shows that a change in price level depend on the elasticity of output and of wages and so, more generally, it defines how price level change in response to changes in quantity of money present in the market.

Finally, is possible to define the elasticity of price with respect to changes in quantity of money as:

$$E = \frac{dP}{dM} * \frac{M}{P} = E_d(1 - E_e * E_o + E_e * E_o * E_w)$$

Keynes calls this equation the *Generalized Statement of the Quantity Theory of Money* and starting from this defined true inflation as the condition in which a further increase in the quantity of effective demand produces no increase in output but entirely spends itself on an increase in the cost-unit fully proportionate to the first. In other terms, when E is equal to 1 it means that the price level will change proportionally to the change in the quantity of money. (Lin, 1967)

Graphically this outcome can be explained considering the AD and AS curves as plotted in the Figure 3; when the aggregate demand overcome the aggregate supply the excess of first cause inflation because from this an *inflationary gap* arises. This latter is the gap by which actual aggregate demand exceeds the aggregate demand required to establish full employment equilibrium. Considering again the graph below, the level AD is the one that leads to an equilibrium in the market, marked as E, but if one of the components of the aggregate demand increase then also the whole level of it will shift upward. The gap between the two AD lines is the *Inflationary Gap*; the larger the gap is, the stronger the inflationary pressure will be. (Chand, s.d.)

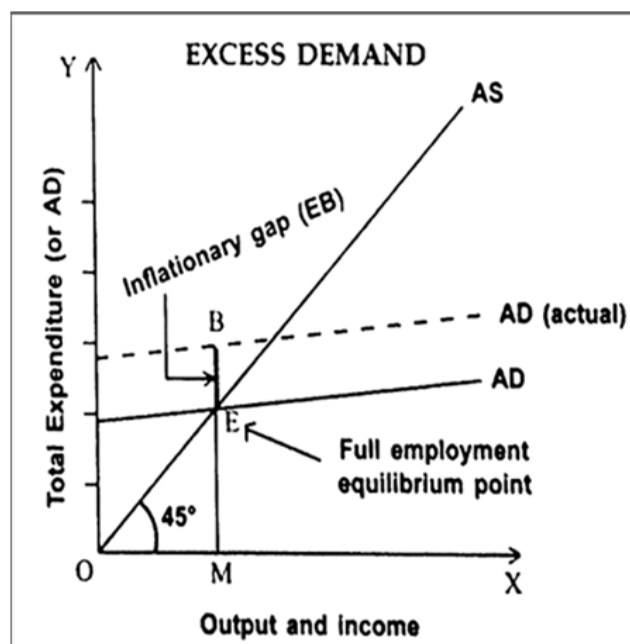


Figure 3 - Excess of aggregate demand in the market

Some factors that may lead to an excess demand are:

- Rise in the propensity to consume $\rightarrow C$ increase
- Increase in Government expenditure $\rightarrow G$ increase
- Increase in level of investment $\rightarrow I$ increase, this is usually due to decrease in rate of interest
- Fall in Imports or Rise in Exports $\rightarrow Nx$ increase

1.1.3 The Phillips Curve

Throughout this chapter, the two main theories of *Monetarism*, their definition and their explanation of how change in real GDP influence economies have been developed however, until now, no instrument that actually shows it in visual terms has been introduced. The aim of this paragraph is to present the *Phillips curve* and its fundamental role in analyze economies.

In 1959 A.W. Phillips draw a diagram showing the evolution of the relation between the inflation rate and the unemployment level in Great Britain from 1861 to 1957 and discovered a clear negative correlation. This diagram took the name of Phillips's Curve and became important in the Macroeconomics field because it was able to explain that, in the short-run, with economic growth also comes inflation, which in turn lead to more jobs and less unemployment.

The equation behind this theory is represented by the relationship between inflation rate, π_t , expected inflation rate, π_t^e , and unemployment rate, u_t :

$$\pi_t = \pi_t^e + (\mu + z) - \alpha u_t$$

The α parameter show the effects of unemployment over inflation, the higher it is and the stronger are the negative effect. From this equation is possible to state that if an economy is experiencing an increase in the inflation rate, it will also suffer a decrease in the unemployment rate and both these effects are mainly due to an increase in the consumer disposable income and the subsequent increase in aggregate demand.

The first model of the Phillips's curve took into consideration a period of time where the average inflation rate was close to zero so it is reasonable to rewrite the previous equation by considering that the expected parameter will be zero next year as well, $\pi_t^e = 0$, and so the equation will be:

$$\pi_t = (\mu + z) - \alpha u_t$$

So, given the expected prices, a reduction in unemployment rate causes a rise in nominal wages, which in turn causes an increase in prices compared to previous year that means, in other term, an increase in inflation. This mechanism is also called *Spiral of wages and prices*. (Blanchard & Enrri, 2005)

This model has stayed in place till the early 1970s, where the situation in the world, but especially in United States, was characterized by relatively high unemployment and extremely high wage increases, and this represented a point well off the Phillips curve. Is possible to identify two main reason why this happened; the first is that during the 1970s the oil price increased, and this led firms to increase their costs, so to raise the value of μ . The second reason was that firms and employee started to change their perspective over future expectation of inflation rate due to a change in own inflation process. If in the past the average level of inflation was approximately zero, starting from the 70s this value became more persistent and systematically positive. This expectation lead peoples to change their behaviors in a way that only theoretically is synchronized along all the different sectors; as said that if everyone expects prices to rise 2% over the next years, also businesses will want to raise prices by at least 2% and also workers, unions, etc. In reality this situation is quite different because what really matters is the inflation rate; for these reasons is possible to state that the expectation rate of inflation is one of the parameters that affect the most the actual level of this variable and that is the most difficult parameters to work over when it comes to defeat inflation. (Pablo, 1980)

With this last paragraph about the Phillips Curve is possible to conclude the first section of this Chapter about the different theories of *Monetarism*; let's now move over a different set of theory that consider inflation under a Non-Monetary approach.

1.2 Non - Monetary approach

This second category include two different approaches, the first focused over the conflict for the *Distribution of Income* and the second has a more *Structuralist Approach*.

1.2.1 Competition from distribution of income

The Theory of Inflation due to Distributional Competition emphasizes the increase in cost components, such as tariffs, exchange rates or profit margins, and the race between prices and wages as the driving forces of inflation.

Considering the latter, let's identify the case in which workers obtain wage increases. As a consequence, capitalists want to protect their profits and to do so they pass higher unit labor costs into prices and subsequently this led to an increase in the cost-of-living. The reaction of workers is to ask for a further wage demands, and this process may be repeated many times generating, eventually, a condition of inflation due to distributive conflict. The cost pressures materialized by the distributional struggle of income, can come from imperfection of the market, such as systems of oligopoly where exist mark-up levels of prices that have the aim of increase profitability, or from the presence of workers' union that push wage battle.

This model does not exclude that over the long run exist a direct relation between currencies and prices, M and P , but it ensures that the casualties is not necessarily theirs.

To summarize this paragraph, the theory about the Competition that arise from the distribution of income states that wages and price mark-up are fixed by the operation of social groups in a sequence of actions, and reactions, that lead to inflation. (Blanchard & Enrri, 2005)

1.2.2 Structural Approach

Several models that use this kind of approach exist and take into consideration the structural heterogeneities of the economy that cause supply inflexibilities to adapt quickly to changes in demand. Structural heterogeneity may come from institutional factors, imperfect markets, lack of entrepreneurial capacity and high concentration of income and rigidities in the external, public and labor sectors. For these reasons, the Structural Approach to inflation, before the 80s, blamed the basic inflationary pressures to the rigidities and asymmetries of the economy, where the absolute price wasn't flexible toward down as much as toward up, and to producers that weren't able to adapt their production structure to changes in the structure of the economy.

This approach began to change when, during the following decades, the level of inflation started to rise in all the strongest economy, such as U.S. and UK, and the reality showed that the propagation mechanisms drowned out the basic inflationary pressures. Expectation and indexation are not the factors that start the inflation, but they give to it persistency and so, even if after some time the initial causes may disappear the inflation will keep growing anyway.

To conclude, this approach state that the most important cause for inflation are exogenous factors such as the set of expectation and indexation and it also suggest that all the models that try to define inflation can only demonstrate the initial causes of the phenomenon but fail in explaining its persistence. (Blanchard & Enrri, 2005)

1.3 Comparison between Monetary and Non – Monetary Approach

In the previous two paragraph the two main approach to inflation and to its causes have been developed. To get an overall view is now important to figure out which are the main differences between them because the whole debate between the monetary and non – monetary approach, mainly the structural one, has been developed around several key points.

Starting from the first, and most important one, the two approaches have a different interpretation of the causes of inflation. While monetarism states that this phenomenon is mainly caused by excess of demand in goods markets, that in exchange cause an imbalance in the money market, the structural approach believe that the causes must be sought in sectoral imbalances and inflexibility of supply. In other terms, the rise in prices is connected to rigidity in the production structure, and to imperfection at a market level, and not just to autonomous decision, taken by authorities, about money supply. Secondly, there is a substantial difference between how these two approaches mean the stability and growth. Monetarism considers stability as a necessity for having growth, especially because this is a basic consequence of prices solidity, and moreover it allows the improvement of real savings and redirects productive investments departing from the speculative one. On the other hand, the Structural approach doesn't

see the stability as an allowance of growth but in many cases agree more on the contrary.

A last consideration should be done on the different point of view over Monetary policies but, before stating how the two ideologies developed above consider them, let's explain what they are, and which kind of institution can implement them. In its basic definition, given by the economy expert K. Amadeo, a Monetary Policy is a Central Bank's action that work over the money supply and that is usually used to prevent inflation, reduce unemployment and promote moderate long-term interest rate. Supposing a recession era, Central banks might combat high unemployment level by giving banks more money and as a consequence, the latter, will lower down interest rate making more appealing for businesses to subscribe loans; this is a case of Expansionary Monetary Policy that could also be useful to help economies to avoid recession. On the other hand, if the aim is to reduce inflation, Central Banks will follow a Contractionary Monetary Policy. This latter involves the reduction of money supply by restricting the volume of money that banks can give out in form of loan through the increase of interest rate; in this way borrowing money will become more expensive and the growth will be slower.

The instrument that every Central Bank can use to implement these policies are:

- Open Market operations, through them a C.B. can create new money, by purchasing government securities, or contract the supply of it by selling securities, like treasury bonds, that are present in their balance sheet and that will remove money from circulation
- Change levels of Reserve Requirement, this latter is the amount of money that Central Banks impose their members, so other minor banks, to keep in their reserve to be able to fulfill the expected demand for the next days. When the aim is to restrict liquidity, this amount is raised, and the banks will have less money to lend
- Modify Discount Rate, this percentage represent how much each member is charged to borrow funds; to reduce liquidity and slow down the economy this

factor is raised while, by lowering it, borrowings are encouraged. (Amadeo, 2022)

After the definition of what a Monetary Policy is, is possible to go back to define why this instrument is considered as the main difference between the two approaches developed in the previous chapters. If under Monetarism approach this is the ultimate instrument to obtain stability in the market but, for the Structural view any policy that imply restriction of the amount of money is inefficient cause it doesn't take into consideration all the non-monetary factors that affect the rise in prices. Is possible to see how, under this latter belief, monetary expansion is more a consequence of inflation, and not a cause of it, because is something inducted and not autonomous as it is under Monetarism.

In conclusion, the main issue between the approaches considered in the previous Paragraphs is the different way that they have of interpreting which are the causes or the consequences of Inflation. (Blanchard & Enrri, 2005, p. 446-447)

1.4 Hyperinflation

Until now, this work has been focused on the analysis of inflation in its basic form but let's now study a slightly different, but more impacting, form of this phenomena, the concept of *Hyperinflation*. Moreover, this paragraph will analyze how is possible to make this condition end by using some explicit example of countries around the world, especially in Latin America, that had suffered it.

1.4.1 Definition of Hyperinflation

In 1956 Phillip Cagan, an economist working at America's National Bureau of Economic Research, published a seminal study of hyperinflation, which he defined as a period in which prices rise by more than 50% a month. In addition to that is important to state that the event is also characterized by the interaction and participation of factors, such as deficit financing, external shocks, liberalization and political reforms. A level of inflation with such a high rate commonly occurs when there is a significant rise in money supply that is not supported by economic growth and that led to a decrease of the real

value of the currency and, as a consequence, a rise in prices. These two effects are the most visible and tangible, but in addition to them hyperinflation also devalues the local currency in foreign exchange markets and this situation, will drive holders of the domestic currency to minimize their holdings and switch to more stable foreign currencies.

In order to reduce the amount of money that investors would spend buying goods in the future there is the tendency in investing in durable good, but this practice cause a cycle where the demand for goods rise and so also prices will increase.

Finally, if this recursive path keeps happening the more likely scenario is a collapse of the economy and the destruction of the financial systems, characterized by bank unwilling to lend money. (CFI Team, 2022)

Hyperinflation usually starts from two alterations, either a “shock” in the economy or the state inability to borrow money. In the first case, there is a budgetary crisis usually caused by a major social, or economical, upheaval such as war or revolution that destroy the state abilities to collect taxes. Another event that can lead to this condition could be an economical disturbance, such as rapid decline in the price of a good that is focal for the exportation system of the country and that constitute its main revenue source. Considering instead the latter possibility, it refers to unwillingness or inability of the state to borrow from the public, or from other countries, to finance its deficit due to its magnitude. As to say, foreign countries start to ask higher interest rates and sometimes they even decide to stop lending due to the risk of not having the debt repaid in the future. Both these adjustments set off a chain of events, firstly the tax revenues evaporate, leaving a hole in public finances, and to overcome this the government start printing money. As we already stated in the previous paragraphs, increase in the supply of money pushes up inflation. Furthermore, because taxes on income are usually paid after they accrue³, a period of high inflation led to a fall in their real value and this has a strong impact over government revenue that again tend to finance its budget deficit introducing more money in the market. (Blanchard & Enrri, 2005)

³ Accrued taxes refers to taxes assessed against a company or an individual that have not yet been paid. If they are failed to be paid by a specific due date, additional penalties and interests may be applied to the total amount owed.

Steve Hanke, of Johns Hopkins University, and his team have documented 57 cases starting from the first one, happened in France between 1795 and 1796, till the last recorded in Venezuela. Inside this set of events, as it is possible to see in the Table 1 and in Figure 4, quite a big number where located in Europe after the first, and the second, world war and in the early 1990s in countries affected by the break-up the Soviet Union. Even if it could appear as if war and political revolution are the starting point of hyperinflation, they are not. Some similarities between the countries that have experienced this kind of event are chronic weaknesses of economy, fiscal problems related to pressure on the budget and the over-valuation of the local currency.

Country	Starting	Ending	Average monthly inflation rate (%)	Average monthly cash growth (%)
Austria	10/1921	08/1922	47	31
Germany	08/1922	11/1923	322	314
Hungary	08/1945	07/1946	19800	12200
Poland	01/1923	01/1924	82	72
Russia	12/1921	01/1924	57	49

Table 1 - Hyperinflation between 1920s and 1940s (Blanchard & Enri, 2005)

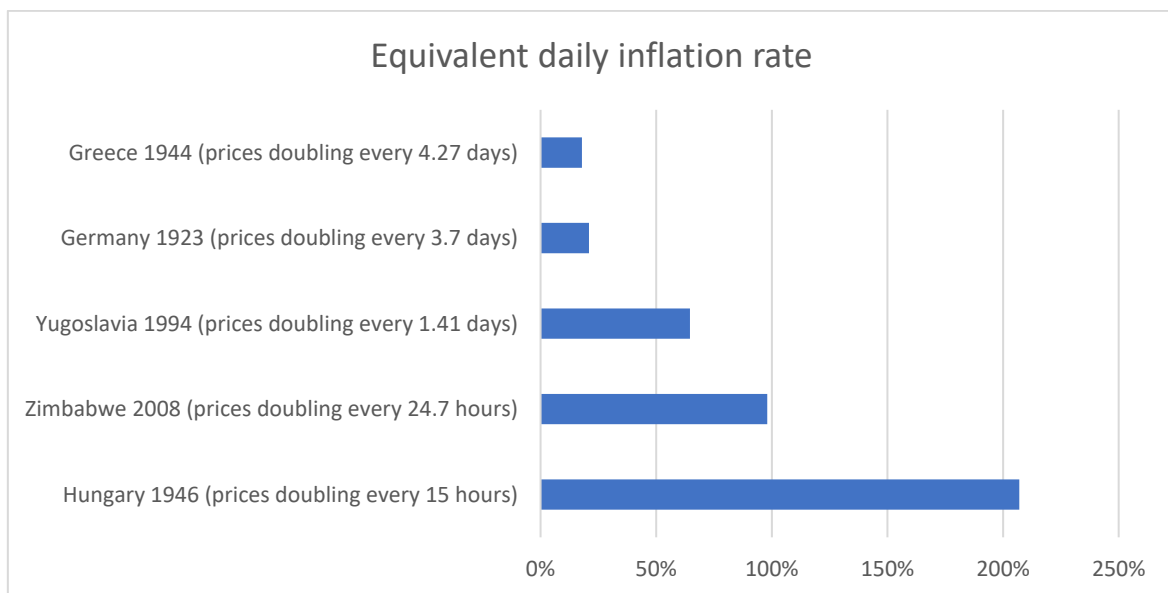


Figure 4 - Equivalent daily inflation rate of the worst cases of hyperinflation worldwide from 1923 to 2022

Looking at the cases stated in Figure 4, let's give an overview over Hungary's Hyperinflation, the most gigantic inflation of modern history, and of Zimbabwe, the most recent one.

During the World War II, even if at first Hungary was a German ally, the latter occupied the country in the first half of 1944 and put in charge Hungarian fascist party. Starting from this event, the country became a battle ground, and this event led to the destruction of half of its industrial capacity and to a reduction in coal production of approximatively 40%; furthermore, the transportation system was bombed and all the bridges in Budapest were destroyed. Even if some monetary policies were in place during the first few years of war, with the increase in level of violence and destructions those became quite useless, and when the war ended the new government found itself without the ability to create money and with a cost of leaving that, in April 1945, had increase almost fifteen time the level registered in late 1944.

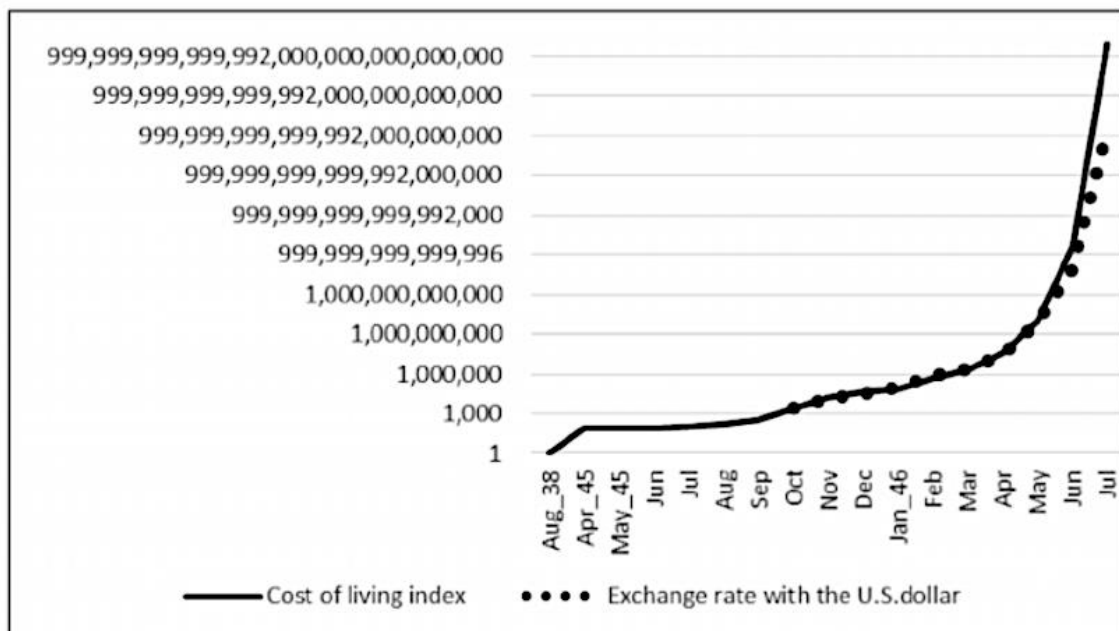


Figure 5 - Cost of living index and exchange rate of the pengő with the U.S. dollar (He, 2018)

As the economic professor and writer Peter Grossman stated in *"The Dynamics of the Hungarian Hyperinflation"*, Hungary, during the war, suffered a massive supply shock that produced brutal reduction of output and huge unemployment problem that, with the addition of the fact that the government could not even print money at first, due to the absence of both paper and ink, lead to an impetus rising in price. As a response to that, authorities decided to follow the path of accommodate inflation, which was also the only feasible one given the condition of the country, while channel it to employ factors of production, raise national income, stimulate investment and increase the employment rate. The main reason of the fallacy of this plan is that, in order for the

government to effectively and credibly introduce policies that promote no-inflation, the authorities should transmit sense of confidence, stability and ability to conduct both fiscal and monetary policy, and this, in the setting of post-war Hungary, was not the case. Moreover, the inflation eroded the purchasing power of the government to collect tax revenue because, as prices rose, the real value of them tended to shrink between the tax certification and the collection moment. To contrast this, a monetary policy called Tax pengő was launched; it stated that taxpayers were required to deliver the amount of tax defined at the initial notice plus an amount computed on the basis of a daily price index. In theory, accordingly to the work of Professor L. He of Beijing Normal University, this should have facilitated tax payments and safeguarded the real value of tax revenue. What happened in reality, instead, was that the government took a step too far by imposing banks to open a “*Valorization Accounts*” which entitled that for each deposit made into an account the return had to be linked to price raise. As a reaction, the velocity of money circulation accelerates at the same pace of inflation because people were pushed to make deposit and withdrawals recurrently.

Finally, is possible to state that the Hungarian government didn’t implement any significant price or wage control measure until the 1947 when a “*Big Bang currency*” was announced and the old *pengő* currency unit was substituted by the *forint* at the rate of 1 to 400 octillion. Beside this, actions both on monetary and fiscal side were implemented; for the former, the Central Bank could not lend to the government anymore, unless the latter deposit gold or foreign exchange of equal value to the loan, while for the latter new taxes over income were introduced and already existing tax rate were increased.

The case of Hungary’s Hyperinflation is a clear example of a country that suffered an inflationary condition caused by a shock in the economy related to a major war condition that, consequently, lead to an overall deterioration of the monetary system. In this setting, as was briefly stated above, the method used to overcome it has been through the implementation of a Stabilization Plan that, due to its importance, will be better explained in the following chapter. (Grossman & Horvath, 2000) (He, 2018)

Talking now about Zimbabwe, as is possible to see in the Figure 6, it entered in hyperinflation era in March 2007 but it was only in November 2008 that the rate reached

79,600,000,000% and this made the country the one with the second highest incidence of hyperinflation on record.

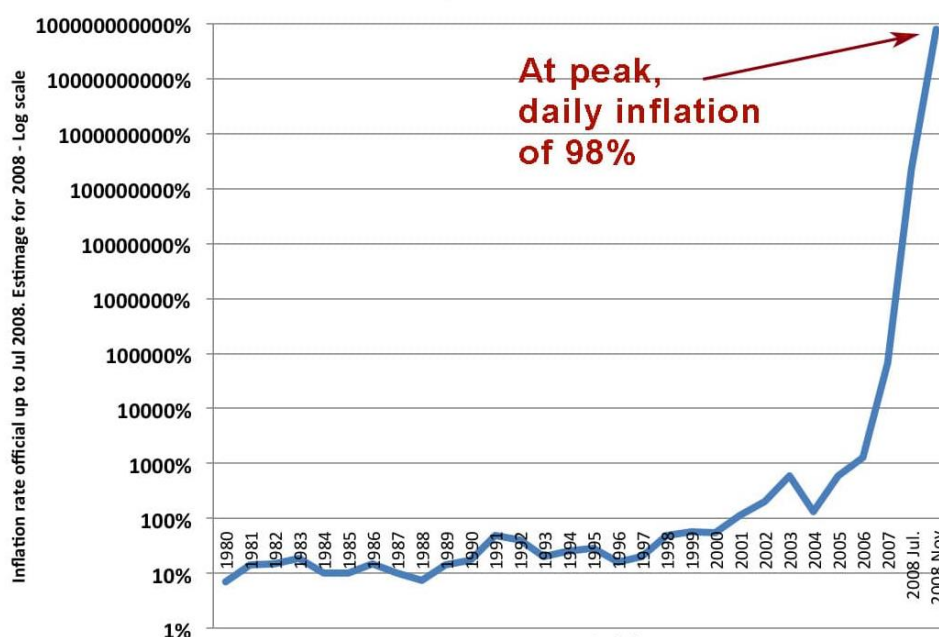


Figure 6 - Zimbabwe hyperinflation rate (Pettinger, 2019)

What leads to Zimbabwe's economic crisis and hyperinflation were several years of economic decline and mounting debt in the public sector starting from the 90s. In that decade, government introduced a series of land reform aimed to redistribute ownership from the existing white farmers to black farmers but the mix of little experience of the latter and a long period of drought affected the level of production and weakened the agriculturally dependent nation at the point that the overall output, both in agriculture and manufacture, decrease of 50% between 2000 and 2009. Parallely to the weakness of economy, starting from 1997, the authorities approved unbudgeted expenditure amounting to 3% of GDP for war veterans and for the involvement of the country in the Congo's Civil war. Looking for a solution to help the country, government began to increase the rate at which they were printing money but, at the same time, also the public debt was raising and, to try to reduce the latter, more currency was introduced in the market; this spiral eventually caused an exponential devaluation of Zimbabwe dollar⁴, an imbalance between economic output and money supply and finally, an increase in inflation rate. At the height of hyperinflation era, prices were doubling every few days and many commodities were only traded in U.S. dollars.

⁴ In early 2009 the Z\$100 trillion was issued and it became the largest currency ever issued.

Finally, in the first trimester of 2009 the Zimbabwe dollar was demised, and a multicurrency system, based on the U.S. dollar, was introduced, transaction in hard foreign currencies were authorized and payment of taxes in foreign exchange rate were allowed. The combination of these three actions immediately helped in the fight against inflation because the instability of the country's overall economy was reduced, the buying power of citizens increased, and new foreign investment started to arrive in the country thanks to the definition of long-term economic plan based on the new currency.

In this second example, differently from the Hungarian one, what actually caused inflation was not a war or a conflictual situation inside the country, but it was an economical disturbance that led to a rapid decline in the price of goods focal for the exportation system of the country, such as maize and tobacco, and that constitute its main revenue source. (Federal Reserve Bank of Dallas, 2011)

1.4.2 How hyperinflation ends

In the previous paragraphs the definition and causes of hyperinflation have been described and few examples have been given; this made possible to introduce some method usually implemented to try to come out from a hyperinflationary era, let's now deepened into them.

There are two ways in which Hyperinflation could end, the first one is related to a change in the currency used while the second one is related to the intervention of the government.

Starting from the former, it is something that cannot be controlled and that typically occurs when the local currency becomes so utterly worthless that a stronger one takes its place, this event takes the name of *Dollarization*. This phenomenon can happen either as an official monetary policy or as a "de facto" market process but, in both cases, the main aim is to receive the benefits of a greater stability in the value of the currency. Talking again about Zimbabwe example, the Dollarization process happened autonomously when people started to use U.S. dollar to conduct day-to-day transactions since the hyperinflation was devaluating their domestic currency buying power and only after few months this practice was made legal by authorities. When the

substitution of currency takes place, the country loses control of its banking system and its industry may lose competitiveness.

Considering the first, is possible to identify both a negative and a positive impact of it; regarding the former, the disadvantage of Dollarization is related to the fact that monetary policies are outsourced to U.S. Federal Reserve that, as it easy understandable, tend to set actions in the interest of the U.S. Economy and not in the one of the dollarized countries. On the other side, the benefit that this policy can introduce are related to the economy of scale in monetary policy field that may allow the country in trouble to economize on resources needed to supply and manage its own money production. Sometimes, the act of giving up an independent monetary policy can move the dollarized country closer to the currency area of dollar and, especially for small countries that have economic relationship with the U.S., this condition led to great benefits. (The investopedia team, 2022)

Regarding instead the loss of competitiveness in the industrial sector, there are proof that a reform program committed to control the budget, to issue new banknotes and to stabilize the exchange rate can be a solution to get the country out of hyperinflation when it is backed with trustful foreign loans. We can refer to this resolution with the term of *Stabilization Program* and the main element that cannot be missed are:

- Fiscal reform and credible reduction of the budget deficit; usually this is achieved through the reduction of subsidies, that tend to proliferate during a hyperinflation, and of interest on external debt. In addition, there is the need to work over the composition of the income because taxpayers, during the hyperinflation time pay an inflation tax; stabilization involves replacing this tax with others.
 - Credible commitment from Central Bank to no longer automatically monetarize public debt. This can be achieved either setting a decree prohibiting the central bank from buying public debt or through a more radical solution, the “dollarization” which imply making a foreign currency the official for the country.
- (J.O., 2018)

In addition to these, some economist thinks that, in order to overcome hyperinflation, and beside the traditional fiscal and monetary policies, there is the need of some income

policies. The Stabilization Program that involves all three kind of measure are called heterodox, while those that contain only the last two are called orthodox.

In this latter system, the liberalization of prices is promoted while in the other case there is the combination of fiscal austerity and monetary control with revenue policies. (Blanchard & Enrri, 2005)

Going back to the second way in which Hyperinflation can end, as stated above it is the government intervention. In general, authorities try to keep inflation within an optimal range that promote growth without reducing the purchasing power of the currency; this role is usually covered by Committee of Central Banks which only aim is to define and implement monetary policies. The instrument through which they are working are price controls, that goes at the same pace of wage controls, and contractionary monetary policy, based on reduction of money supply by increasing interest rates. (Kramer, 2022)

After these two paragraphs about hyperinflation, this extreme phenomenon has been made enlighten and the reader have now a deeper knowledge about both the factors that give rise to it and the ones that make it end. In order to familiarize with this condition, let's now analyze some more examples.

1.4.3 Hyperinflation in Latin America

Beside what stated above, to better understand the complex concept that has been introduced, let's focus over cases that took place in Latin America as if, later on in this work, Argentina will play a key role.

Latin America has suffered high levels of inflation during the whole postwar period until the beginning of 21st century, this made the largest economies get used to live in this kind of condition but, at the same time, has slowed down considerably the possible economic growth in the region. Accordingly to the work of Luis Pazos, a Mexican economist, Latin America suffered of chronic inflation where its rate was almost always of two-digit; as it is possible to see in Figure 7 he analyzed a period of time of 21 years making 88 observation per year and he found out that there were only 11 times in which inflation was at one digit. During this period average inflation was 26% in Argentina, 31% in Brazil and Chile and 29% in Uruguay; moreover, from May 1989 to March 1990

Argentina suffered hyperinflation and the same happened to Bolivia, from April 1984 to September 1985, and to Peru, in September 1988.

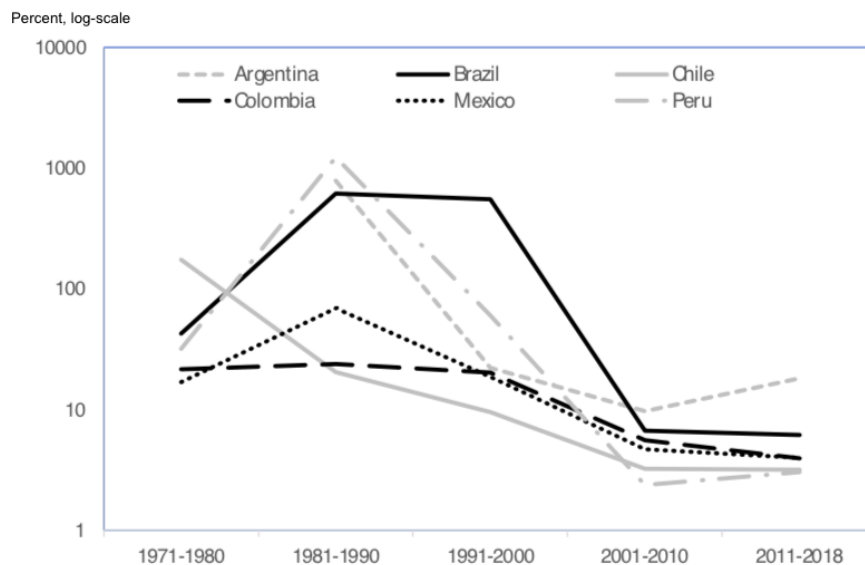


Figure 7 - Inflation in the largest Latin American countries

Especially in the context of Latin America, what really accounted for the high inflation, was the need to finance the budget of countries that were considered as emerging. This need made impossible to introduce effective actions to anchor inflation because, as expressed above, the efficient way to deal with it is through Contractionary Monetary policies that involves a reduction of money supply. To solve this condition, or at least to try to reduce it, the exchange rate instead of being raised was fixed but inertia and fiscal imbalances caused inflation to remain high and so, in the end, fixed exchange rate were abandoned and a return to chronic inflation occurred.

Finally, the inflation problem was amplified by indexation mechanism that allowed the propagation of high inflation and increased difficulties to reduce it; the combination of these and of the actions aimed to mitigate the costs of living were also the reason why it seemed too difficult to decrease its level and explain its persistency. (Gregorio, 2019)

Let's consider now two of the most emblematic countries of Latin America in which some Stabilization planes were actually implemented; they are Bolivia and Argentina.

In Bolivia, stabilization programs were adopted in November 1982, and 1983, in April and August 1984 and in February 1985 but only after the election in September 1985 a successful plan was implemented. Focusing on the last inflation era, between August '84

and '85, it was characterized by an increase of prices of 200.000%. This can be considered one of the few cases that did not arise in the aftermath of a war or of a political revolution, but the causes can be reconducted to a series of sever, but less-dramatic, shock that hit the country along a period of political instability. In addition to this, the country was affected by the worsening of international economic environment after 1980 characterized by higher interest rate, falling of commodities prices and tightening of the credit. By the end of the same year, Bolivian access to private international capital markets had dried up and both World Central Bank and IMF⁵ stopped the lending to the country.

Going back to what provoked this extremely high inflation level, the Professor J. Sachs of Columbia University, identified two fundamental factors. Firstly, the cutoff of lending and the increase in international interest rates lead to a higher debt-servicing costs through an increase in the inflation tax. Secondly, the increase in inflation cause the collapsing of the tax system and for this the constancy of the collection of them was not translated into a constant path of real revenues for the Bolivian government. Only by the end of 1985 a successful Stabilization program was carried out by the newly elected President Victor Paz Estensoro under the name of "New Economic Policy of the Paz government"; it was an orthodox system characterized by:

1. Tax policies; prices of public sector were raise, especially in the domestic oil one, while the wages were frozen
2. Monetary policies; official exchange rate was adjusted to the level of the one the black market before the implementation of the stabilization plan;
3. Public announcement of negotiations with international trade agencies, such as IMF, and banks

The first of the above measure was the one that had the most important effect in the short run because it helped to rise government revenues to a higher level than its expenses but, thanks to the overall mix of them, authorities have been able to set an

⁵ International Monetary Found

end for an inflationary period that last one whole year and that at its peak has reached a rate of 60.000%. (Sachs, 1987)

Talking now about the case of Argentina, a stabilization plan called *Plan Austral* was implemented at the beginning of 1985 after that, during the previous years, the rate of price increases accelerated every month and it almost reached the 1.000% on a yearly basis. The background for this condition was that in the first semester of 1984, while the real wages were increasing, the exchange rate was moving in the opposite direction; moreover, the country was suffering external pressures for renegotiating the debt commitments towards Financial Institution that, between 1966 and 1983, during the Military Government, had raised of 364% reaching a level of 45.000 million dollars. In the first place, authorities tried to refinance the debt directly with private banks, but this led to a deadlock that forced the intervention of the IMF; this attempt of stabilization was however short lived. An error was made in the assessment of future evolution of inflation and provoke a misjudgment in the setting of benchmarks for domestic assets and fiscal deficit. When this condition became clear the government and fund were left with the only alternative of suspending and re-negotiating the plan but this unsuccess put the economy in a state of extreme uncertainty that accelerate the inflation. By the start of 1985 the rate of the latter was close to 30% on monthly bases, the fiscal deficit reached 10 points of GDP and the buying power was falling sharply. In this complex setting the Plan Austral was implemented; its focus was controlling prices and wages, defining a fixed exchange rate and, obviously, stimulating monetary expansion but the point around which it was centred were:

1. Increasing public sector prices, imposing import and export taxes and setting up a forced savings scheme. In addition, some tax rates were increased in order to improve the budget.
2. Freezing prices, wages and public tariff at a particular level and imposing a fixed exchange rate. This measure can be considered the most heterodox of the plan but in order to meet public and external sector targets, before the freeze, both public tariffs and the exchange rate were adjusted appreciably. The negative effect of this on wages was expected to be offset by the ex-post increase in the

average wage, induced by the fall in inflation. However, in order to prevent wages from entering the freeze "behind schedule", they were adjusted the previous month in line with previous inflation.

3. Introducing a monetary reform with the aim of reducing the inflationary expectation. With this action the authorities expressly committed themselves not to issue currency for financing the fiscal deficit, to reduce the interest rate over deposit on bank account from 30% to 4% and, finally, to introduce a new currency called *Austral* with a relation of 1 A = 1.000 pesos Argentines.

The two main effects have been that inflation was reduced, but not completely defeated, because in the first nine months in which the Plan was working the monthly inflation rate was on average of 1.4% while in the same period of time before the implementation was approximately equal to 24.7%, and that the economy started to grow at the same level in which it was during 1979 and 1980.

To conclude this first paragraph over the Plan Austral in Argentina, that will be also deepened further on in this work, is possible to state that it has been successful in eliminating the inertial factors of inflation, in changing the expectation of it and in reducing the fiscal deficit and the crucial instrument has been the freezing of prices during an unspecified period of time in order not to affect expectation. (Frenkel & Fanelli, 1986)

1.5 Evaluation method of Inflation rate in Argentina

As we stated in chapter related to the theory behind inflation, is almost impossible to define the punctual rate of it for a specific year and usually the evaluations are carried out considering a longer period of time. For these reasons, throughout this paragraph, different index related to Argentinian economy will be analyzed in order to explain how any of them can be affected by the change in the relative price throughout a specific period of time. (Pablo, 1980)

The main global price index for the country that is being considerate and that are used to compute the level of inflation are:

- Cost of living index

- Wholesale prices index
- Implicit prices of products

Talking about the Wholesale Price Index system (SIPM⁶), it measures the variation in prices at which producers and importers sell on the market and provides various alternatives for information on prices in the wholesale stage. It is made up of three indices:

- Wholesale Domestic Price index (IPIM⁷), its purpose is to measure the average evolution of the price of products of national and imported origin offered in the domestic market. Due to the fact that these goods are intended for the domestic market the value of exports is excluded by the calculation.
- Wholesale Basic Domestic price index (IPIB⁸), this index has the same coverage of the previous one but do not include the tax effect mentioned in the IPIM. This makes it possible to distinguish price movements resulting from changes in tax policy from those resulting from producer decisions.
- Producer basic price index (IPP⁹), this last index measures the average variation of the prices received by the local producer.

The IPIM data obtained by the National Institution of Statistic and Census (INDEC) makes it possible to observe the evolution of the prices of products destined for the domestic market and the variations in prices of the goods that make up the total national supply without differentiating whether their destination is the internal or external market. In order to provide a specific example that will help to better understand the element expressed in the first part of this chapter, let's consider Table 2 where is possible to find data about prices collected by INDEC with relation of April 2022.

Is possible to see that Argentinian economy recorded an increase of 5.9% in the general level of the Wholesale Domestic Price Index compared to the previous month. This variation is a consequence of the rise of 5.8% in "National Products" and 6.6% in

⁶ Sistema de índices de precios mayoristas

⁷ Índice de precios internos al por mayor

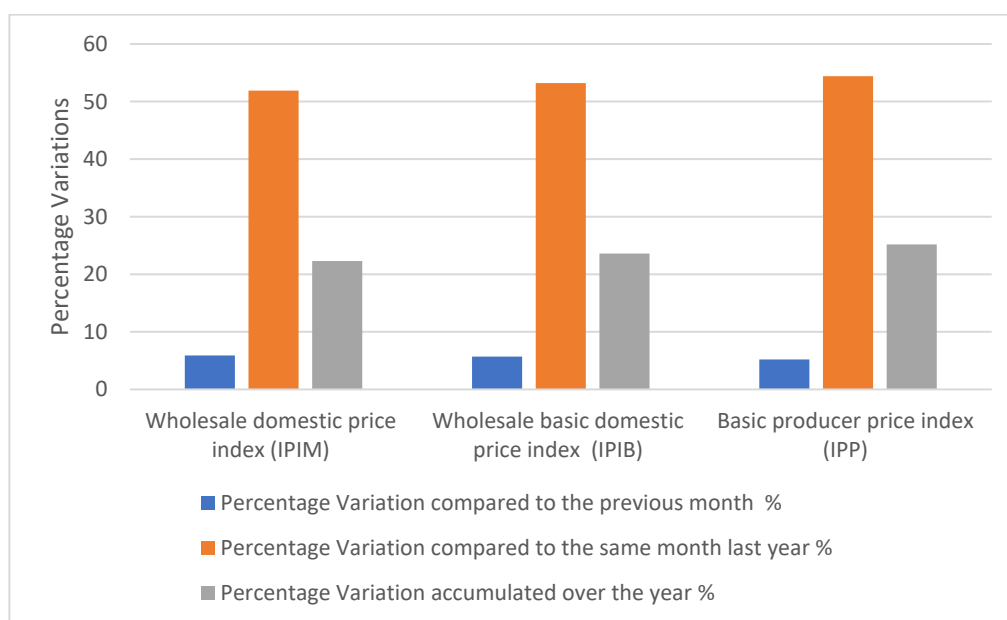
⁸ Índice de precios internos basicos al por mayor

⁹ Índice precios basicos del productor

“Imported Products”. On the other hand, the general level of the Wholesale Basic Domestic Price Index (IPIB) showed an increase of 5.7% in the same period. In this case, the variation is explained by the rise of 5.6% in “National Products” and 6.6% in “Imported Products”. Likewise, the general level of the Basic Producer Price Index (IPP) registered an increase of 5.2% in the same period, as a consequence of the rise of 3.9% in “Primary Products” and 5.8% in “Manufactured products and electrical energy”. (Boffi & Calero, 2022)

General Level	Percentage Variations		
	With respect to previous month	With respect to same month last year	Accumulated over the year
	%		
Wholesale domestic price index (IPIIM)	5,9	51,9	22,3
Wholesale basic domestic price index (IPIB)	5,7	53,2	23,6
Basic producer price index (IPP)	5,2	54,4	25,2

Table 2 - Wholesale price index system. Percentage change in April 2022 ((INDEC), 2022)



Graph 1 - Wholesale price index system. Percentage change in April 2022 ((INDEC), 2022)

2. Argentina's political and economic history

In this chapter the last fifty year of Argentinian history will be covered and the aim will be to analyze the political, social and economic sides of this country in order to try to understand why it has suffered of an inflationary spiral without being able to actually overcome it. Has to said, along the political parties and figure that covered the role of President, in the following paragraphs, there will be a focus over the Minister of Economy that throughout the last half of this century have tried to improve the economic level of the population and of the country itself. For each of the presidency that will be expanded, the economical action will be analyzed and, in particular, different Stabilization policies will be taken into consideration.

Considering once again the topic advanced in Chapter 1, it's possible to state that in any Inflationary process the two main elements are the imbalance in production system, that cause autonomous price increases, and the propagation mechanisms. Consequently, any anti-inflationary policies that only aim to solve one of them is not going to be successful; there should always be a synchronized process formed by, firstly, a stabilization program, that could concern either the disposal of inflation pressure or of propagation mechanism, and secondly by the mix of secondary political resources that try to solve the other issue.

Let's now start to analyze the Political and Economical History of Argentina in the last 50 years.

2.1 The second Peronist era

In order to better understand which kind of factors and conditions leaded to the Perón's second political mandate, after eighteen years of exile, let's have a small overview over what characterized his first period as President and Argentinian forces between 1966 to 1973.

Perón was born on October 8, 1885 in the rural town of Lobos, from a European descent family which raised him outside the political and economic hub of Buenos Aires. He arrived in the capital to conclude his studies at the beginning of the new century and there he decided to enter the army's military academy. His humble connection with

middle-class, earned through birth, allowed him to enjoy the support of working-class that, throughout the years, helped him acquiring the leadership of the *Secretariat of Labor and Social Welfare* and the *General Confederation of Labor of the Argentine Republic*, or CGT, after the overthrow of President Castillo in 1943. In the following couple of years General Perón started to date Eva Duarte, affectionately known as Evita, who was an actress and so, recognized by the population as a member of lower class. Her status made the middle-class to believe that her, and her soon-to-be husband, would continue to guard their interests and this guaranteed the support of this segment of population to Perón when he decided to create his own political ideology and party called “Peronism”. The main focus of the latter was to create a system where all citizens contributed what they could and were given what they needed; moreover, the plan of Perón was to make Argentina more independent, at a global level, and characterized by a “just class” system which would support workers and increase equality across all levels of society. When the election took place in 1946 Perón was elected as President and he paid homage to his personal background in the army by appointing many military men in political offices and improving the recruiting of citizens of lower-class to consolidate military ranks. Another substantial part of his presidency policy was a Five-Year Plan aimed to industrialize the country while creating a stable and fair class system; the results of this policy in the first part of his government saw the reduction of the public foreign debt and the increase in the autonomy of country’s economy. What accounted the most in the first mandate of Perón was the presence of Evita at his side because she never stopped to enchant his supporters, especially women to whom she manages to give suffrage, and citizens of working-class, that she helped through *Eva Perón Foundation*. In 1949 Perón proposed, and obtained, a change in the convention which would allow presidents to be reelected and the tendency of the country was to suggest that Perón run with Evita as his Vice President, but she publicly rejected this request, in part due to her increasingly poor health. Perón was elected in 1952 but was clear from the beginning that his second term lacked the success of the first due to dissent related to economic downturn and Evita’s death on July of that year. In order to limit the disapproval, the administration became more and more authoritarian, censoring the media and establishing mandatory participation in the Peronist party.

Even if many Argentines continued to be extreme supporters, these events allowed military elites to act against him; on June 16, 1955 a coup ousted Perón from power inducing him to ask for refuge firstly in Paraguay and then in Panama and eventually in Spain, where he stayed until 1973. (Marshall, 2014)

Regarding instead the years that preceded the coming back of Perón in the country, Argentina there was characterized by a military government led by the general Onganía, firstly, and then in rapid succession by Levingston and Alejandro Lanusse. The first Minister of Economic affairs appointed has been Krieger Vasena, an economist known to be antiperonist, who was in charge from 1966 to 1969, and then Carlos Moyano Llerena and Aldo Ferrer succeeded to him, respectively for four and five months. This period was characterized by economic groups of a more liberal orientation, that allowed to give the establishment more confidence and helped the government to impose monetary and fiscal measures with the aim of achieving greater stability; this was also possible thank to immobility of labor unions in front of the political regime of Onganía. Considering the first minister Vasena, the actions adopted for the external sector have been a significant currency devaluation, as the exchange rate of foreign currencies increased by 40%, and a complete freedom of capital inflows and outflows. Regarding instead the internal sector, taxes on traditional exports were increased and import duties were reduced, eliminating almost all existing prohibitions on the importation of goods. In this way Vasena tried to alleviate the effect of the devaluation on the prices of basic necessities and commodities. Finally, measures were taken to combat inflation, such as a wage freeze until the end of 1968 and, in order to stimulate production, bank loans were increased. The economic results during the years of 66/69 were positive because inflation was around 7% and, although imports increased, the trade balance remained favorable and there was an inflow of capital, and therefore also of currency.

Despite the latter outcomes, some factors complicated the situation because sectors of the population were falling behind and inflation was gradually over pressing the national currency and was having a negative impact on production, especially on the agricultural one, which prices were reduced as a result of export taxes.

From these problems began the first popular movements against the military government and the economic management of the country, which growth constantly till May 1969 when it reached its peak with the outbreak of a protest in Cordoba called “Cordobazo”. As a response to this Krieger Vasena was removed and a new minister was selected, José María Pastore; this latter was not a well-known economist, and this change led to a loss of confidence and to an exit of capital from the National Bank. (Vazquez, 2015)

Due to this uncertainty at the economic and political level the armed forces deposed the Onganía government in June 1970 and General Roberto Marcelo Levingston replaced him as president of Argentina. Simultaneously, inflation started to rise again and also terrorist acts, which was mainly carried by underground organization or Peronist groups, increased all over the country. After less than a year Levingston was overthrown and replaced by General Alejandro Agustín Lanusse, who promised to reestablish democratic elections by the end of 1973.

In this setting is possible to place the return on the scene of Perón both in physical and political terms because throughout all those years the ex-president had supported the Peronist groups underground, due to his exile condition, and he always maintained a de facto alliance with the Frondizi’s party. Before going on, let’s briefly introduce the latter; Frondizi became a member of Argentine Chamber of Deputies for the first time in 1946 and, as a member of Congress, he was a leader of the opposition to Perón first presidency even if he was in accord with many policies and actions that he was sponsor. After his overthrown and the military coup, in 1957 new democratic election took place and Frondizi run with UCRI, *Intransigent Radical Party*, and won, partially also thanks to the support of Peronist’s party. In 1962 military took again the power of the nation and Frondizi was forced to dismiss but, even in this condition, he kept playing an active role in UCRI and when eventually happened, he sponsored the return to Perón. During all the years in exile, the latter was mindful of the Argentine elites’ vested interests, and he purged his economic proposals of any motives that could alarm the propertied classes. The military government prevented Perón’s own candidacy but, when General Lanusse granted the people democratic elections, it could not stop the victory of the Peronist coalition Frejuli, the Justicialist Liberation Front, with Cámpora as President.

It was clear that this “formula” was merely preparing the way for the return of Perón from exile and for this reason tensions rose sharply among Peronists as the organization’s left wing fought with its right-wing for influence. At the final return of Perón in June, a battle between right and left Peronist groups happened at Ezeiza International Airport and this event is still commemorated and remembered nowadays with the name of Massacre of Ezeiza. Almost two million people awaited the arrival of the leader and the place was guarded by retired Colonel Jorge Manuel Osinde who had the orders to prevent the Peronist left from approaching. When the group identified with the name of Montoneros¹⁰ tried to enter, they were surprised by the army and shoot by distance, thirteen people died while almost seven hundred were injured. (Pigna, 2005)

After this brutal attack the leadership of the party and José López Rega, an associate of Perón, launched a violent anti-leftist campaign through a death squad organization, the Argentine Anticommunist Alliance (AAA, or Triple A), which lead to resignation of Cámpora in July, and new elections were presided over by another interim president, Raúl Lastiri, head of the Chamber of Deputies, who began a purge of leftist influences in the government. In this occasion Perón was elected president with his third wife, Isabel Perón, as Vice President but his government was short because he died after only eight months. This historical moment takes the name of Second Peronism and it uncovered some unsolved internal issue, for example not all militants accepted the proposals that emerged from the government and this generated furious internal confrontations within the Justicialist movement. Moreover, violence returned and the guerrillas reappeared. (Sanchez, 2012)

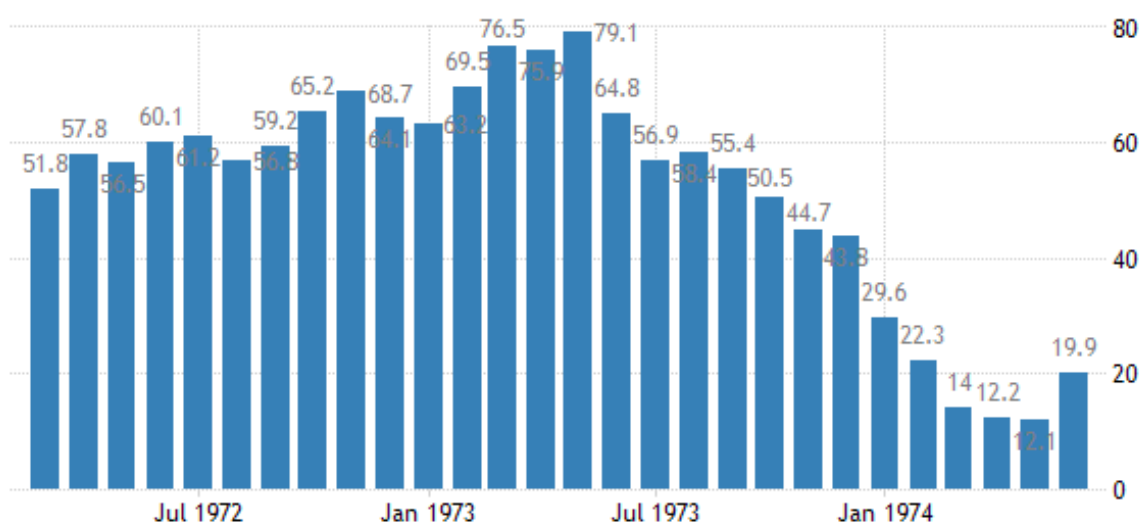
¹⁰ Montoneros is the name used by a Peronist guerrilla organization that came to prominence in 1970, with the kidnapping and assassination of former de facto president Pedro Eugenio Aramburu and that forced the dictatorship of the Argentine Revolution to call a general election in 1973.

2.1.1 Economic Measure

Before considering the action implemented by Perón and by his team let's have an overview over the economic condition of the country.

In the first trimester of 1973 the domestic product was growing at a rate lower than 4% while the consumption was raising way faster; on the other hand, the trade balance hardly rounded throughout the whole 1972 and this meant a mismatch in payment balances. To conclude, the average real wage, with relation to the cost of life, was 110% of the index registered in 1960. Regarding inflation, after the decade of 60s which was characterized by many restrictive policies, these latter started to be abandoned and this led to progressive increase of the inflation rate; the average of this parameter during Perón's government reached a level of 40 to 80% per month. Surely, part of the increases experienced can be attributed to the effect of wage increases over costs, but the most important factor was the emergence of a new phenomenon: the enunciative price increases. Starting from the 70s, the rise of prices happened before the rise in costs, and not after as it was before, in order to guard against general increases that are expected to occur in the future and, as a consequence, the wages lag behind the prices. As is possible to see in the

Graph 2, this consequential process led to a disorderly and increasingly unstable inflation rate that final reached its peak during Perón's Presidency in the second trimester of 1973.



Graph 2 - Inflation Rate in Argentina (Instituto Nacional de Estadística y Censos INDEC, s.d.)

During the whole Perón's Presidency, the Minister of Economy was José Gelbard. The main measures that he implemented at an internal level, in order to try to reduce the inflation, were published in a document called "Pacto Social"; it was divided into four sections where the different proposal of actions was listed as:

- Nominal and Real wages measure
 - Increase in nominal wages, of at least 20% with respect to the previous year;
 - Freezing of price;
 - Real wage maintenance.
- Public Utility Measure
- Interest taxes Measure
- Exchange Rate Measure

Considering firstly the freezing of prices, what happened during May 1973 was that prices have been fixed and then wages and costs were left to adjust themselves, in order to eliminate enunciative price increase and to adapt the nominal wage and utility rate. The program launched had a substantial and immediate result because in the following months the price level, as measured by the consumer price index, showed small fluctuations and wages did not need any adjustment. To a large extent this was a consequence of the freezing procedure used at the time, a circumstance which may conceal serious misalignments that make it difficult to make it operational for a long period of time especially because it induces also the frozen of distortion of prices in different economic sectors, preventing them to align. Regarding instead the increase in nominal wages, due to the freeze of price, it was transformed into an almost equivalent increase in real wages and the average of it increased to the level of 130% in 1960 terms. The high level of real wages would have led to expect a considerable increase in the demand for consumer goods, closely related to the income of employees, but in the following two quarters after that the program began no economic reactivation had arrived.

The economic author *A. Arnaudo* gave two possible, and non-exclusive, explanations for this phenomenon, or for the fact that it had not developed to the expected extent; on the one hand, the redistribution process in favor of wage earners takes a certain time until it is valued by the beneficiaries and their behavior in terms of expense; on the

other, there is a significant depressing effect of high interest rates. With regard to this last element, past events show that when there is a very important increase in the real interest rate due to the arrest of the deteriorating mechanism of inflation on nominal yield, the increase in savings and financial assets is very large because borrowing money is no longer appealing to make investment. Therefore, a decrease in consumption is expected, which may be greater than the increase that would be caused by a redistribution of income. Moreover, high interest rates have a discouraging effect on the purchase of goods that require financing by the seller or some financial intermediary, in the case of durable consumer goods, discouragement is reinforced to the extent that inflationary expectations also disappear or of inflation at past rates. To sum up, a rapid drop in the inflation rate accompanied by high nominal interest rates has a depressing effect on the demand for consumer goods in the short term. Hence the importance of the compensatory aspect of redistribution through a higher real wage; however, unless it is raised considerably, it will always be insufficient without a reduction in interest rates.

Finally, the actions related to interest rates made them to reduce of an insufficient magnitude with respect to the effect on the real rate of a sharp decline in the inflation rate. New interest rate was incompatible with a stable situation, for this reason Central Bank had to revise its policy that, until then, was based on keeping interest rates fixed and making widely spaced changes and had to reduce them progressively since it would be difficult to cut nominal rates in half all at once. The ambiguous aspect that the total effect of inflationary pressures had before the program began, was transformed as a result of it, because no important steps have been taken to maintain a balance in the aggregate functioning of the economy. Moreover, the whole program was over the propagation effects of inflation, without considering it directly; this latter, with the conjunction of the increase of previous imbalances, can be summarized by saying that even if the control over propagation mechanisms had been correct, the approach to achieving macroeconomic balance was wholly inadequate. (Arnaudo, 1979)

Considering now the external policies that have been carried out, the goal was to have a positive balance at a Macroeconomic level and at least in 1973 it happened cause the

export overcame import by 50% and gold and currency reserve tripled with respect to the year before. Another issue was to reshape the relationship with Europe and United States in order to attract more capital while adopting a moderate tone and emphasizing the intention to reach a global economy.

The first hint about the fact that the measure adopted were not well targeted over the reduction of inflation was the increasing in the public expense, mainly due to the designation of large numbers of employees throughout the public sector with no tasks to perform. The unsuccess of the actions taken was clear when, at the end of 1973, the fiscal deficit was recorded as increased and inflation was still exerting power. At a certain point in time, the Minister of Economy, in view of the problems that arose, authorized certain price increases but the president himself ordered to rescind these authorizations and the deterioration continued at an accelerated pace; from this moment on “black money” started to circulate and the investment in the production systems stopped.

To conclude this analysis about the Perón’s Presidency and the economic actions that have been taken, let’s consider again the

Graph 2 where it is possible to see how, after the “Pacto Social” implemented in May 1973, the inflation rate actually decreases. This negative trend last for approximately one year before reversing again; this happened partially due to the factors expressed in the previous paragraph and in part due to the death of the leader, in July 1974, and the subsequent rise to power of the Vice-president, Isabel Perón, whose political figure didn’t have the same social stability and the same support from the Argentinian people. This loss of confidence over the government started to degrade the poor success achieved in the previous years and showed the ephemerality of the economic plan introduced by Gelbard.

2.2 The Presidency of Isabel Perón

With Perón's death, the only leadership capable of channeling the political antagonisms emerging from the social struggles, had disappeared and the worsening of conflicts and political violence, between July 1974 and 1975 around 500 political assassinations were recorded, would mark the decomposition of the Peronist project. The leadership of the country passed to the Vice-President Isabel who, with the help of her team, instead of the strategy of convergence promoted by Perón, defined an action based on sectarianism and isolation. They incorporated into the cabinet elements of the most reactionary strands of the Peronist movement, while the confrontation between the Peronists themselves became the central conflict on the political scene. Initially, the trade union leadership accompanied this strategy by pressing for the removal of Minister Gelbard and by backing the government's measures aimed at removing the governors of the Peronist left. By mid-1975, both the Peronist left and the business and political sectors linked to Gelbard, who was accused of being a communist, had been excluded from the struggle for power; the main reason why this happened was the continuous conflict between the Minister of Economy and of Welfare, Jose Lopez Rega. This latter was known as the responsible of the creation and arming of the far right parapolice force called Argentine Anticommunist Alliance, or Triple A, and the continuous disagree between these two figures finally lead to the resignation of Gelbard. The new Minister of Economy appointed by Isabel Perón was Alfredo Gomez Morales.

To ensure her Presidency, Isabel tried to lean on the armed forces; to do so, in May 1974, the Executive forced the resignation of army commander Leandro Anaya and appointed Laplane as his replacement. He supported the "integrated professionalism" and his aim was to commit the military institution to government policy. Despite this intention, the military hierarchies were reluctant to intervene against the General Work Confederation, CGT, during the July 1975 crisis and, in a tacit alignment with the opposition, contributed to the fall of Jose L. Rega.

A month later, during the cabinet reshuffle, she appointed Colonel Damasco as Minister of the Interior but this produce disappointment in the military hierarchy, who expressed their independence from the new cabinet and demanded Damasco's retirement while succeeding in getting Laplane removed, although the president reserved the right to

appoint his replacement. The decision fell to one of the younger generals, Rafael Videla, who pledged to respect the constitutional order. In the course of these events, rumors of a military coup increased, and the CGT declared a state of alert. At the same time, Isabel saw her efforts to change the balance of power in her favor fading away cause the military preferred to stick to the line of 'independent professionalism', a doctrine which concealed coup intentions; overwhelmed by these events, she asked for sick leave. The provisional president of the Senate, Italo Argentino Luder, took over the interim presidency in an attempt to restore social order and rehabilitate the political institutions but he found himself involved in the sharpening of the conflict between two Peronists groups: the "verticalists", supporters of Isabel, and "anti-liberalists", in favor of retaking the Peronist banners.

Despite rumors of her resignation, Isabel returned to office in early November to announce her decision to continue to exercise her Presidency supported by the armed forces, the Catholic Church, the labor movement, the business associations and the political parties. Despite her statements, the president's involvement in an embezzlement scandal, accentuated opposition to her presence in government both within and outside Peronism; moreover, the congressional investigation into the affair precipitated the break-up of the pro-government bloc and the formation of an anti-verticalist Peronist bloc that deprived the government of its majority in the Chamber of Deputies. Both dissident and opposition politicians tried to find a legal solution to the crisis of state authority by forming a government without Isabel because most of the leaders of the CGT and a good part of the 62 parties were opposed to her presidency. Yielding to this pressure, Isabel conceded to bring forward the date of the general elections to October 1976. (Rapoport, *Historia Economica Politica y Social de la Argentina (1880-2000)*, 2000)

2.2.1 Economic Measure

After the description of the Political Environment that characterized the first woman presidency in Argentina, let's now focus on the economic situation in which Peron left the country.

The Minister of Economy appointed by Perón was Gelbard and he kept his position throughout the first five months of Isabel's government, but, due to her strict connection with the general Rega and deep ideological differences between the two ministers, he resigned by the end of 1974. The main achievement of his Economic Plan has been a growth of 10% GDP, an increase in workers' income share from 33% to 42.5% and a drop in unemployment from 6% to 4.4%. Additionally, an increase of 800 million dollars in reserves even after getting out of debt with the IMF. The final portraits for the economy in the mid-1970s shows a tendency towards economic growth with some problems, since the expansion of output was not associated with an increase in gross investment, which remained at similar levels between 1972 and 1974¹¹. Other problems were expressed in the fiscal deficit, inflation and the fall in the corporate rate of profit because a labor market with full employment and high wages limited the possibilities for it.

After the resignation of Gelbard he was succeeded by Alfredo Gomez Morales, who was the President of the Central Bank of Argentina, and that covered this position for almost seven months without being actually able to apport any change or contribution to the preexisting condition. In general, his minister has been characterized by an overvaluation of currency that leads to subside of imports, the exports are made more expensive and significant smuggling is created at the border. The outcome is a serious crisis in the external sector with a very negative trade balance and a sharply growth in the debt level. Moreover, gold and foreign exchange reserves declined at a worrying rate and a large part of the latter were simply bills of exchange payable for exports with excessively long payment terms. Finally, after little more than half a year, on May 31st of 1975, Morales resigned and June the 2nd Celestino Rodrigo took his place. (Vazquez, 2015)

The economic structure in which this new minister found himself in was characterized by a series of difficulties that can be synthesized in the limits of capitalist development due to external dependence and the different contradictions within the bourgeoisie. Moreover, during his first speech, he identified as the main problem of Argentina the

¹¹ The level of gross investment has been 148.8 million in 1972, 146.8 in 1973 and 152.5 in 1974.

inflation, the level of real wages, the existence of a black market and of speculation over it, the fiscal deficit and, finally, a steady decrease in productivity. In addition to that, he declared that the two cause of Argentina's economic distortion are the terrorism and the speculation and to fight them, while trying to enhance the economy, in June 1975 he presented a new economic plan known as “Rodrigazo”.

The focal point of this strategy was a sharp devaluation of the national currency, Pesos Argentino, that was justified by the needs to restore the country's export capacity and reduce import incentives; following this policy the foreign currency rises of 160%, on the commercial market, and of 100%, on the financial one. In addition to the devaluation of the Peso, exports were promoted by increasing the percentage of export refunds that the state gives to agricultural producers of exported cereals¹² and export taxes are reduced. Moreover, to try to reduce the amount of state deficit and increase its revenue, the plan contemplates a raise in utility tariffs; in particular the gas and electricity increased between 40% and 60% for private use and fuels had an increase of 181%. One last step that had the aim to cover or at least erode the financial deficit was the increase in foreign borrowing and the privatization of state-operated companies.

The price control system that had been established during Gelbard's administration had already been eroded at the beginning of the Rodrigo's Plan, and with these measures it lost all validity. With the increase in prices, wage earners are the social group whose real income has fallen the most and this produced a fall in consumption in the middle and low-income sectors that affected industry even if, at the same time, the fall in real wages made it able to increases its rate of profit. The inflationary process unleashed in June 1975 also had consequences for state revenues. In a scenario of high inflation, the period between the setting of taxes and their effective revenue saw a deterioration in the state's real revenue, increasing the fiscal deficit that went from 8,2% of GDP in 1974 to a 15,1% in 1975. (Criado, 2018)

The main results that followed the implementation of “Plan Rodrigo”, that was the first set of economic actions made without the intervention of IMF since Argentina entered in it in 1956, have been a sharp increase in inflation, that went from approximately 32%

¹² Especially wheat, maize and sorghum.

in the semester that anticipate the introduction of the economic plan, to 68% in the two months in which the plan was on, a liquidity tightening and a severe recession that lead the country to have a negative GDP for the first time in 11 years.

To conclude the analysis of the effects of this plan, in 1975 one of the indicators that would express the economic crisis between 1975 and 1990 began to manifest itself: high inflation as a result of the social conflict.

Finally, the unsuccess and the dissatisfaction of the “Rodrigazo” affected both economic and politic at the point that in August 1975 both Lopez Rega and Celestino Rodgrigo resigned themselves. The general condition of uncertainty and indecision that were observed in the conduct of the country's affairs were greatly deteriorated and this led to a general chaos and crisis in the government structure. In little more than seven months, three Minister of Economy were changed, Pedro Bonani, Antonio Cafiero and Emilio Mondelli, and this condition made impossible any attempt to implement a consistent economic program. In this setting, the 24th of March of 1976 the new coup brings down the government of Isabel Perón. (Vazquez, 2015)

2.3 Coup d’etat of 1976

As said in the end of the previous chapter, on March of 1976, the armed forces interrupted the Constitutional Mandate of Isabel and established a government under the name of “Proceso de Reorganización Nacional”, or just “Proceso”, constituted as a military junta and formed by Jorge R. Videla, General of Army, Emilio E. Massera, Admiral of the Navy, and Orlando R. Agosti, Aeronautical Brigadier. The three armies each shared 33% of the control of the different jurisdictions and state institutions (provincial governorships, municipalities, ministries, TV channels and radio stations). The country was divided into Zones, Sub-zones and Areas that coincided with Army Corps commands. In this way, the repressive task of what the dictatorship called "Subversive Action" was organized. The dictatorship sought to implement fierce repression to discipline society in a context characterized by growing social, cultural and political organization and mobilization; for these reasons it tried to eliminate any opposition to its refoundation project, to annihilate any action that attempted to contest power.

The first actions were taken the same day in which this new government installed itself and they included the suspension of the right to strike, the removal of union privileges and the arrest of some leaders; moreover, security forces occupied the main industrial plants and numerous workers were arrested and taken away in military trucks, according to previously drawn up "black lists".

In addition, five small parties of the extreme left were banned outright, and political, cultural and student institutions and organizations were dissolved as having "marked Marxist tendencies", among which those linked to the Revolutionary Tendency of Peronism predominated. The Military group appointed Videla as President of the nation and he appointed José A. Martínez de Hoz and Albano E. Harguindeguy as Minister of Economy and of Intern, respectively. (Ministerio de Educacion)

The Military regime gave also a new scheme to political power; in the appointment of Cabinet members, 33% of the posts were assigned to each of the Armed Forces so each public office became the preserve of the army, the navy or the air force. On the other hand, the president was placed under the authority of the armed forces, which in turn asserted their autonomy from the executive branch. The military junta gave itself powers to reform the Constitution, issue laws, resolutions, instructions and even condemnations, disguised under the label of "institutional acts". One of the main aims was the fight against "Subversion" and, due to the fact that the "Junta Militar" was present in each of the branches of powers, it acquired the form of State Terrorism limited only by the deeds and the will of those in power. During these years the so-called Subversive were captured both in their houses or in their working place and then brought to secret places where they suffered tortures and from where, in the most of cases, never came back. This method gave rise to the "Desaparecidos"¹³ that, according to Amnesty International, by the end of 1976 lead to an average of fifteen executions per day. When, in January 1977, James Carter became the new US president he started a new policy related to priorities of US towards Latin America. Wielding the issue of human rights as a means of giving a different content to the struggle between East and West, he began to put pressure on governments that violated human rights; Videla

¹³ The kidnappings and assassinations were directed, above all, at sectors allegedly linked to the guerrillas, but also at militant of Peronism or left-wing organisations.

dictatorship was one of them. The open and public pressure from US was translated in the reduction of military aid and economic sanctions against the country. Moreover, in the end of April 1977, a group of women put in place, in Plaza de Mayo, the first manifestation for the “Desaparecidos” and, starting from that date, it was repeated weekly till when, in October 1977, the organization of “Familiares de Desaparecidos y Detenidos por Razones Politicas” was founded.

The following three years of Videla’s Presidency continued as the first one, characterized by actions against subversion and Argentina’s image that was getting worse in the eyes of European countries and US due to the many accusation of violation of human rights; finally, on 30 September 1980, the deadline of Videla's presidency expired. Both the military junta and the commanders in charge of the troops began the discussion to choose the replacement and after a month Junta appointed Viola that became formally the new president starting from March 1981.

Was clear to many levels that this new government wasn’t supported as much as the previous one so for the new president was indispensable to find political supports to get the military regime out of the quagmire into which it had been led by economic policy and a repressive methodology. The day after his inauguration, Viola announced that he wanted to make approve instrument that will make the parties to become actively involved in the common task of consolidating a solid, stable and modern democracy but, even if these were his intentions, they did not meet the consent of certain military sectors. The first that questioned the ability to command of Viola have been the commander-in-chief of the army Leopoldo Galtieri who was also suggesting that the power should remain completely connected to the Junta Militar because, in his opinion, “there were too many issues to negotiate and it was imprudent to open the floodgates to politics without first conditioning the democratic opening”. The combination of military discontent and heart problems led Viola to resign on December 11th 1981 and his place was assigned to the Galtieri in order to avoid conflict within the Army and to consolidate the military internal front.

With the new president many things changed in the structure of the govern, such as the Ministry of Economy that was given to Roberto Aleman and the political strategy. This latter had three objectives; firstly, to consolidate presidential power, the governors

were appointed no longer proportionally to the armed forces, but they were chosen between people that were loyal to Galtieri. Second, while ratifying the promise of electoral openness, he took care to keep it under official control. The last part of his program was the promotion of an heir party to “Proceso”, made up of figures from liberalism, conservatism and related provincial parties, which claimed to be centrist and capable of confronting the traditional political forces.

At the beginning of 1982, the government's need to regain consensus faced a complicated panorama, not only because of the renewed activity of the multi-party front, but also because of the intensification of trade union conflicts in response to economic policy. Moreover, human rights organizations began to demand the investigation of human rights violations and the prosecution of those responsible. To do so, on April 2nd Argentina started its only modern war because military troops occupied the Malvinas¹⁴ in the legitimate, but very unlike, attempt to claim something that was illegitimately governed. With this decision the President Galtieri wanted to strengthen his person, merge Argentinian society behind a cause dear to national sentiment and get the support of political sector. For all the duration of the conflict the media in Argentina, that were under the control of the government, talked about war episodes with overwhelming triumphalism to the point that, when on May 21st the British forces landed on the capital of Malvinas the population didn't even have the notice while instead it was the preannouncement of a defeat. On June 14th, Mario Menendez signed the capitulation and as a consequence, the troops became prisoners of war and all weapons, equipment and supplies were lost. Argentine society received the news of the defeat with astonishment, since the official advertising campaign, mounted around the war, had spoken until then of an alleged Argentine advantage in the war actions; for his part, Galtieri seemed to ignore the consequences of the defeat. Few days later, the president was removed and the search for his successor began with the three armed forces promoting different candidates and plans; finally, the army decided to take on the executive power and appointed the general Bignone as new President.

For the first time since the coup, the armed forces were no longer together in the “Dome of Power” because only the army remained to lead the country; the first issues of the

¹⁴ Also known as Falkland Island outside Argentina territory

new government were to set a calendar that would lead to the electoral outcome and to arrange an orderly withdrawal from the government without investigations or sanctions. The main reason for the latter was that the representatives of the regime, although in retreat, was essential to save some aspects of the past and negotiate some securities.

Bignone covered the role of President till October 30rd 1983, when the new election took place and the Argentinian were able to elect their own president in a democratic way after eight years of dictatorship. After this period the country has been left in an economic crisis accentuated by serious consequences of the repression, the defeat of the Malvinas and an opposition fragmented by internal dissension. (Rapoport, Historia Economica Politica y Social de la Argentina (1880-2000), 2000)

2.3.1 Economic Measure

The eight years that characterized the Military power over Argentina were characterized by different Economic Team which perhaps implemented opposite ideas that lead the already existing inflation to last for almost ten years. In this paragraph the three main minister and their political choices will be analyzed.

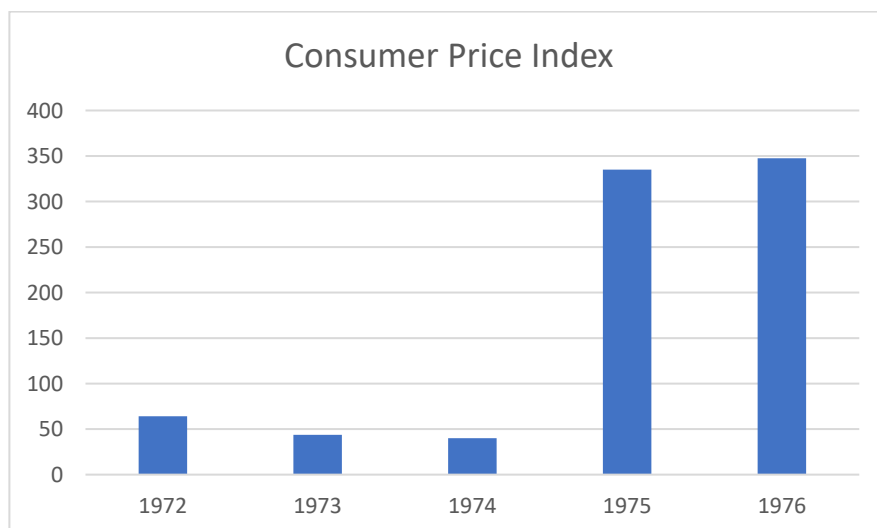
The first Economic Plan was designed by the Minister Jose Martinez de Hoz; he applied a liberal approach to try to solve all the problems of the Argentine economy.

The central objectives to his project were to achieve the necessary monetary and financial reorganization as a basis for the modernization and expansion of the country's productive, to accelerate the rate of economic growth, and finally to achieve a reasonable distribution of income. With relation to the internal sector implemented a three-month wage freeze, the elimination of price controls and the devaluation of exchange rate. The nominal wage containment measures were complemented by other measures such as the dissolution of the CGT¹⁵, the suppression of trade union activities and the right to strike, reforms to the Labour Contract Law and collective wage agreements. Moreover, the agricultural sector benefited from improved relative prices and cereals and oilseeds products played a very important role in the expansion of the

¹⁵ Confederacion General del Trabajo

volume of production. Even if this led to an increase in demand for industrial products it wasn't enough to prevent the contraction in industrial activity.

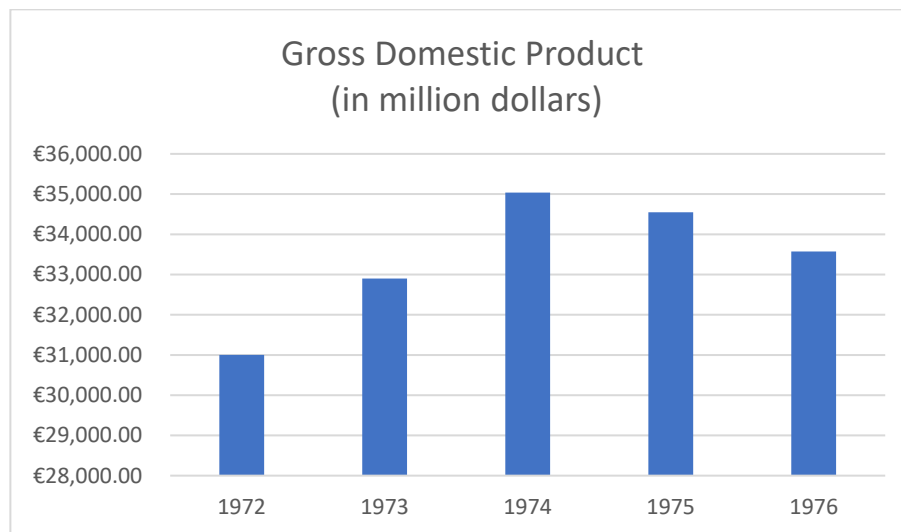
With relation to inflation levels, during the second half of 1976 the results forecast were positive due to an actual reduction of its rate that went from almost 40% in March to an average of 10% but, analyzing the deeper meaning, this reduction was related to wage freeze because, as is clear in the Graph 3, the goods prices increased with a change in the consumer price index of 347.5%. At the same time also wholesale prices rose at a similar annual rate with most of the increase concentrated in the first four months of the year. These conditions led the population to reduce their consume levels till one with recessionary characteristics that limited the wage containment policy; when an attempt was made to free up this variable, there was a resurgence of inflation and the expectations of the economic leadership were greatly exceeded in negative way.



Graph 3 - Evolution of percentage prices index (Naciones Unidas, 1977)

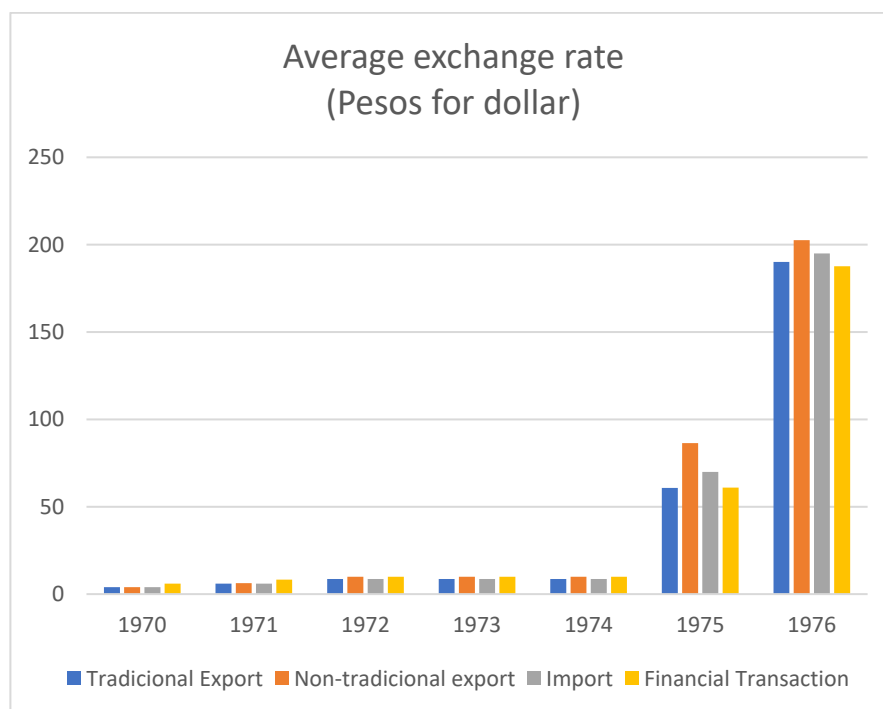
In addition to these, at an internal level, the usual pattern of post-war adjustment plans was followed and there has been an initial increase in public investment in an attempt to induce growth in private investment. To be able to cover the remarkable growth in the state expenses the revenue had to increase and to do so the Hoz's plan reformed the tax structure at a point in which the ratio of taxes to GDP doubled between 1975 and 1978 and continued to grow slightly but persistently in the following years. At the same time, important changes were made to tax principles and the tax structure. This mixed strategy lasts till 1978 when the government broke with this approach and made

a drastic cutback. (Rapoport, Historia Economica Politica y Social de la Argentina (1880-2000), 2000)



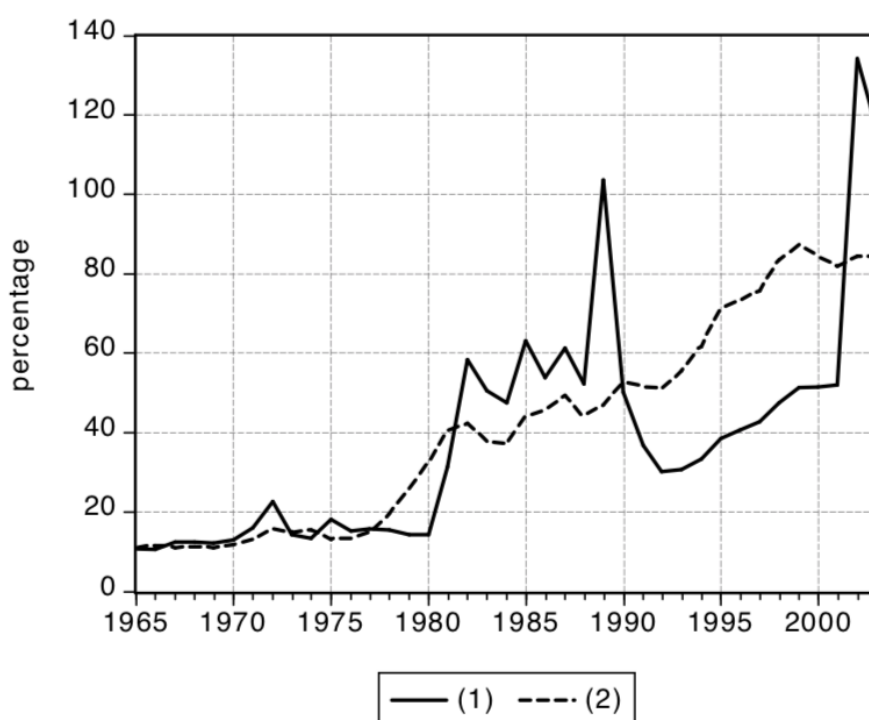
Graph 4 - Gross Domestic Product (Naciones Unidas, 1977)

By the end of 1976, in order to replace the loss of domestic demand more measures linked to the external sector were implemented. In the first place, the manufacturing sector tried to find new markets abroad, with an increase in industrial exports of 30% that can be attributed to a large extent to a greater supply of agricultural products but also to the exchange rate and to export duty policy which, as its possible to see in Graph 5, was offsetting the effects of domestic inflation on effective exchange rates for commercial transaction.



Graph 5 - Evolution in exchange rate (Naciones Unidas, 1977)

Secondly, the exchange rate was unified, export regulations and subsidies were eliminated, and import tariffs were reduced. With relation to foreign debt, due to a huge dollar emission to finance Vietnam's War, both US and European Banks were having an excess in liquidity that converted in loan to developing countries. The main mistake undertaken by Financial institution was to consider more the rate of return than the safety of their investment and this lead the countries, especially in South America, to have a huge inflow without any strong capital placement policies. In Argentina, between the years 1978 and 1981 the debt went from 12.500 to 35.670 million US dollars. This huge growth, with the general deterioration of economy during this political era are visible in the graph below where the line number 1 and number 2 represent the debt in dollars multiplied by current exchange rate and the PPP respectively and then divided by GDP. Finally, another attempt to reduce inflation was made also with an international view because Hoz decided to open up to the outside world and dismantle tariffs as a mechanism for lowering prices through international competition.



Graph 6 - Total external debt / GDP ratio (Damill, Frenkel, & Rapetti, 2005)

Moreover, this government received an acceptable exchange rate parity maintained until the beginning of 1979 when currency start to devaluate and the so called "Tablita" was developed. This system consisted of anticipating currency devaluations in order to keep prices in line at the same pace of the pressures but in turn this was transformed in

the perfect speculative instrument that was able to forecast when to invest capitals and when to divest. (Vazquez, 2015)

When in March 1981 the Presidency passed to Viola also the economic team changed and the Economic Ministry was appointed to Lorenzo Sigaut, a Fiat technocrat, that covered this role for almost eight months. The main objective stated by the new minister were to integrate Argentine economy into the world one, to maintain the principles of freedom in all trade, to reduce the amount of public expenses and of state deficit and, finally, to reform the state on the basis transferring activities to the private sector. Overall, his aim was to rectify the negative trends in the balance of payments and to promote long-term capital inflows. What really happened was that, during the whole period, the Argentinian peso lost almost 30% of its value in comparison to the dollar, and the division of the exchange market in two part, a commercial and a financial one, caused that the rate of the latter was double than the other and, as a consequence, the prices of wholesaler and retailer increase of 155,7% on average. (El pais, 1981)

The couple Viola-Sigaut lasted till December '81 when the army replaced the President electing Galtieri who, subsequently, appointed as Economy Minister Roberto Alemann. His ministry can be divided into two phases, the first three months in which there was a condition of "normality" and the second trimester characterized by Malvina's War.

At first, the proposed measure was focused on reducing the growing inflation, that had an average level of 7% monthly, throughout an active monetary policy thanks to a liberal imprinting; the foreign exchange market was unified and foreign exchange trading was liberalized, eliminating the participation of the state and public enterprises in the market. Moreover, an attempt was made to reduce the budget deficit, which was seen as the main factor behind the monetary expansion that caused inflation. To this end, the tax burden was increased by imposing a 10% duty on exports, the VAT to foodstuffs and medicines went from 10 to 12%, price of gas raised, and public wage were readjusted and then frozen. All those measures together translated into a devaluation of currency around 25% with an expansionary effect over exports.

After short time since when the measures were implemented, war activities started and so internal and external policies changed drastically. As soon as the first attack started in April 1982, the Central Bank of England froze all the funds that Argentina had in it and

the EU closed all the import traffic with the country. With relation to trade market, imports of expendable goods were restricted, a 16.5% devaluation was carried out, compensated by increases in withholding taxes on traditional exports and tariff reductions, and the amount of industrial export refunds was increased by 4%. In addition to that, to be prepared for public expenses related to the war going on, a 30% tax on gasoline was imposed and the tax rates over cigarettes and beverages was increased. To conclude, the consequences of the Malvina's War were that the value of foreign trade fell sharply interrupting the growth that had been taking place since 1976, the level of exports in 1982 were 17% lower than in 1981 and, finally, imports in the same period fell by more than 40%. (Vazquez, 2015)

2.4 Presidency of Raul Alfonsín

When in 1983 General Bignone allowed presidential election, Raúl Alfonsín, as a leader of UCR¹⁶ party, was elected the new President with a message of democratic hope after eight years of military dictatorship. The country that the latter government was characterized by a drifting economy and the delusion related to the war adventure in the Malvinas Island; in this setting Alfonsín tried to restore freedoms, offer political dialogue and exude honesty.

His presidency was characterized by a strong committed to democracy, a deep respect for the constitution and for individual rights; for this set of belief, he managed to be the first President to almost finish his term in office since the first Peronist mandate and, for the first time since 1928, he was able to lead the country to vote for his successor in a democratic way. On the other hand, his six years as President resulted in a steady erosion of his leadership through painful economic adjustment, which failed to combat hyperinflation and recession, and pressure from Peronist trade unionism; both seriously endangered the recently recovered democracy.

Is possible to identify some thematic block in his presidency such as the military issue and his international activism.

¹⁶ The Radical Civil Union, or UCR, was the historical party of President Irigoyen and the first in which Frondizi entered. When the latter decided to run for Presidency, the party was split in two factions; Frondizi's side called Intransigent Radical Party, UCRI, and Peoples Radical party (UCRP) leaded by Ricardo Balbin. Only in 1966 the two parties converged again in a single one, called again UCR.

Starting for the former, Alfonsín pledged to prosecute members of the three armed forces by signing a decree to submit to criminal trial before the Supreme Council of Armed Forces the members of the three military juntas, the so called “Proceso”, and the commanders-in-chief at the time for the human rights abuses and their responsibility in the murders, torture and illegal detentions perpetrated between 1976 and 1983, during the military government. This effort led to life sentence of both General Videla and Viola, for violating human rights, crimes of murder, illegal deprivation of liberty and torture of detainees.

Regarding instead his effort in the internationalization of the country, Alfonsín devoted not a little of his time to foreign policy, which had been severely curtailed by the dictatorship, together with his foreign minister, Dante Caputo. Under his government the long-standing dispute with Chile over border demarcation in the Beagle Channel, which had almost provoked a war in 1978, was resolved also thanks to the intervention of the Vatican. Moreover, the President acted as co-author of the regional integration initiatives with Brazil and Uruguay, which regained democratic legality two years after Argentina, in 1985 and in the same year, in the border city of Foz de Iguazú, Alfonsín and his Brazilian colleague José Sarney, set the first draft of the Southern Common Market Project (MERCOSUR) that would have been completed only in 1991 with the annexation of Paraguay. In this act, they declared the intention to give rise to the Program for Integration and Economic Cooperation (PICE) between two large states that, from the very moment of independence, had harbored mutual suspicions and open rivalry for acquiring power over the rest of the hemisphere. Finally, in 1988, Argentina and Brazil signed the Treaty of Integration, Economic Cooperation and Development, whereby the two countries committed themselves to create a common trade area, within ten years, by eliminating tariff and non-tariff barriers to trade in goods and services. Parallelly, Alfonsín maintained a close relationship with Uruguay's Julio María Sanguinetti and they signed in May 1987 the Montevideo Act aimed to promote regional economic integration in accordance with the objectives set out by the Latin American Integration Association (ALADI).

To conclude, one last important thematic block of this presidency was the relationship with unions; the President, together with the UCR party, tried to carry out a remodulation and reorganization of labor party through the intervention of the CGT by

proposing more modern guidelines but, due to the strong power exerted by Peronists in the provinces¹⁷, this proposal of law was rejected. In general, this tendency toward modernization was a common thread in Alfonsín Presidency and he frequently stated the necessity of a constitutional reform able to reflect the modern national spirit and democracy.

The reasons for the fall of this govern are to be found in the economic conditions in which the country found itself; the dramatic fall in people's purchasing power due to an exponential growth in prices led to a social outbreak in Rosario on 26 May, which quickly spread to the country's main cities. In this setting the intervention of the forces of law resulted in fourteen deaths by 29 May and, on that day, Alfonsín, overwhelmed by the events, declared a state of siege for a month that ended in the announced of an early handover of the Presidency to Menem that was the winner of the last free elections. His presidency had restored and consolidated democracy in Argentina, he has been able to end foreign isolation and to attract much international support in the form of generous economic and financial contributions. But throughout the six-year period the country had not known positive growth, as will be possible to see in the following paragraph; moreover, the foreign debt had not stopped growing and wages had been falling compared to the benchmark of the previous democratic period. Menem started to lead a country with a recession index of 6% of GDP, a foreign debt of 63 billion dollars and hyperinflation bordering on 5,000% a year. (Zarate R. o., 2009)

2.4.1 Economic Measure

The military government left the country with one main economic issue to solve, the size of foreign debt; in addition to that, the crisis that outbreaks in 1982, when Mexico declared to the US government and the IMF that was unable to service its external debt of USD 80bn, led to an interruption in all the lending to developing countries, including Argentina.

¹⁷ When Alfonsín was elected President, he obtained the majority of votes only in 7 out of 23 province of Argentina.

As has been already exposed in the Paragraph Hyperinflation in Latin America, above in this work, when Alfonsín became President, he inherited an extremely poor economic situation from the previous government; growth was negative, inflation was rising at a rate of 20% a month, foreign debt exceeded 40 billion dollars and unofficial unemployment affected 7% of the population. Nevertheless, the application of adjustment and stabilization measures was going to run into more difficulties because the president was determined to fulfil one of his electoral promises, to put an end to the de facto trade union monopoly exercised by the Peronist Central General de Trabajadores (CGT), which, together with the exponent of the Peronist party, was ready to wage a tough battle to defend its privileged status and the rights of wage earners.

The first Prime Minister of the Economy appointed by Alfonsín was Bernardo Grinspun and during his ministry a team formed by the economists Sourrouille and Canitrot tried to develop an economic plan to repay part of the foreign debt but, due also to the short time that was given, this project result almost impossible. What is important to say is that, together with the return of democracy, the image of Argentina on the international market was increasing and so European countries had interests in the fact that the country won't fall into a situation of default with its creditors.

The economy policy promoted by Grinspun tried to improve the purchasing power of wages and to promote the generation of industrial employment; moreover, to try to limit the effects of inflation, a strong control of public service rates was implemented. Regarding instead the external front, Grinspun took a hard line on the IMF and private creditors, and despite some early improvements in the fiscal deficit, in wages, and in the trade balance, by the last quarter of 1984 was clear that, without an agreement on the external debt, the Argentine economy was heading towards a hyperinflationary path. For this reason, was important the good disposition that the Financial Institution was showing to reach a reasonable agreement with the country.

By the end of this first ministry is possible to identify a reversal in the growing trend of the fiscal deficit that went from the 16% of the GDP in 1983 to a level close to 12.5% of GDP, that was primarily connected to the reduction in public expenditure due to the end of the war; finally, inflation reached 625% per year, while real wages increased by 35%. (Zarate R. o., 2009)

After only one year, at the beginning of 1985, Alfonsín appointed as the new Minister of the Economy J. Sourrouille that, together with the President, based his hopes for recovery on the *Plan Austral*. It was a program that can be called heterodox because it combined some orthodox measure, such as fiscal policy and monetary restraint, with some less conventional instrument such as price and wage control. For this project is possible to identify two stages, the first was oriented to a control over prices and to limitation measures, while the second phase was focus on the administration of the previously implemented actions in order to reconcile stability with growth. During the first months in which the plan was working, the authorities established a new national currency, the *Austral*, that replace the Argentine peso and was quoted at a fixed exchange rate of 80 cents to the dollar, which implied a devaluation of 15%. Moreover, some shock measures were implemented to halt inflation, which was then growing at a rate of 1% a day; the government imposed the frozen of wage, consumer prices and utility rates in order to fight the inertial aspect of the inflationary process. Furthermore, public budget was cut down and Central Bank had to sign the commitment of not issuing new currency to meet the obligations of the state because this was considered one of the main reasons that drove the inflationary process. With the purpose of increasing fiscal resources, and at the same time to reduce the public deficit, the price of fuel was increased, import duties were raised, current refunds were lowered and a Saving scheme was imposed over population. Partially thanks to these actions, for the first time in decades, the level of export exceeded the one of import, creating a positive balance of USD 4.580 million, and allowing the state to payback some of its financial commitments.

During the first trimester of 1986, the second phase of the economic plan started; the Austral was devalued, tariffs were incremented by 2%, wages and prices suffered some adjustment and the partial, or total, privatization of the state's company was announced. By the first half of the same year, the results of the *Plan Austral* were almost positive on every front; the average monthly increase in the wholesale and retail prices was around 2,5%, when the same index was equal to 30% the year before, and the difference between official and parallel exchange rate was closed to 3%. It was at this time that the IMF's rewarded the government for the application of its prescriptions and

rescheduled the payment of the external debt maturing that year granting also a supplement in credit of 4.2 billion dollars.

The situation started to get worse by the end of 1986, but the reasons why this happened are not so clear for many economists; some analyst, such as Broda and Rodrigues, declared that this response could be due to the reappearance of important fiscal imbalance, while others, such as the Professor Di Tella, think that it was more related to problems in managing wages in a condition of closed economy with imperfect competition. In the fourth quarter of that year the cumulative inflation index rose till 87%, the level of production started to decrease rapidly and the current account turned into deficit making the economy to move toward an expansionary cycle propelled by consumption boom.

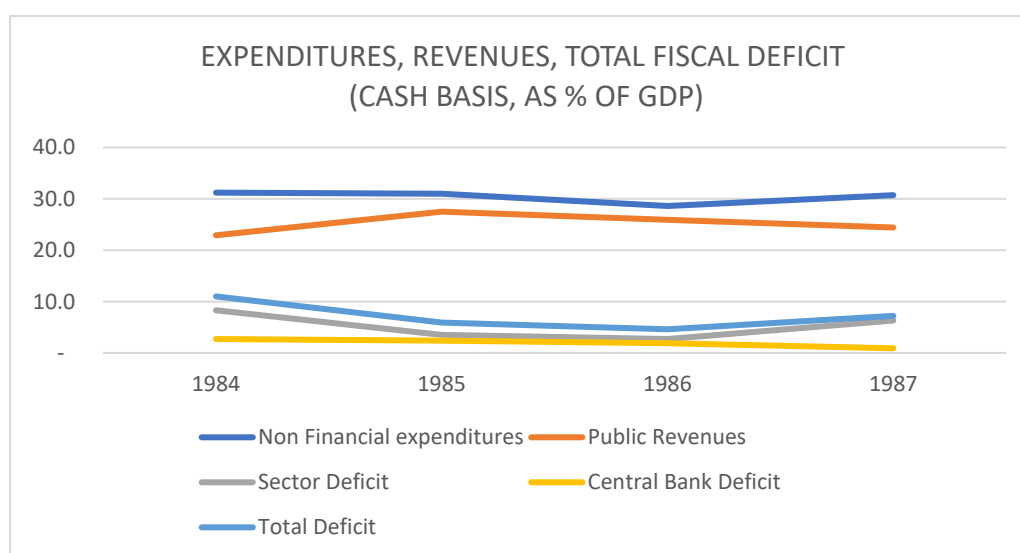


Figure 8 - Expenditure, Revenues and Total fiscal Deficit (Kiguel, 1989)

In addition, during the election of September 1987, Alfonsín's position weakened considerably because the Peronist party won with 41% of the preferences while the radical one stopped at 37% and, in the provincial elections, the UCR only won, in Córdoba and Río Negro.

In this setting of events, Alfonsin, declare finished the glorious plan developed by Sourrouille and presented a new liberal one called *Plan Primavera*. What is interesting to state is that after the failure of the Plan Austral, inflation behaved differently than in the past because it did not exceed the pe-stabilization levels, but it turned to be more

volatile; this affected not only the economy but also the productive sectors where the level of GDP started to fall dramatically.

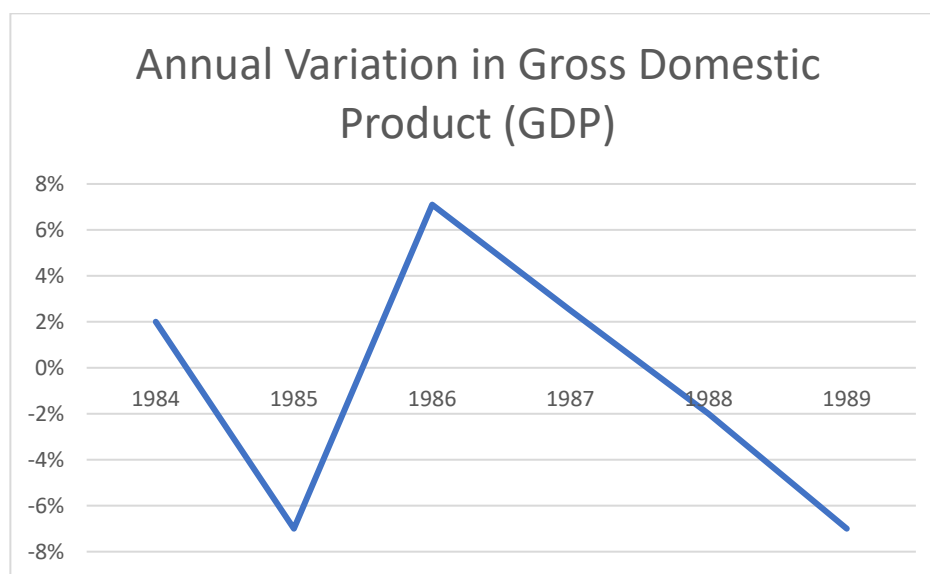


Figure 9 – Annual variation of Gross Domestic Product (Carol, s.d.)

The new economic plan was strongly sponsored by the World Bank, which financed its launch with 1.25 billion dollars, hoping to lay the foundations for important structural reforms; is not possible to say the same about IMF that punished Argentina for failing to comply with the objectives regarding the deficit. The focal points of the *Plan Primavera* were a price agreement between the government and business organizations, that lead to the introduction of tax reliefs for the latter in exchange for a truce on price increases, and a series of adjustment and unification in the exchange rate for export in the agricultural sector that, as will be possible to discover later in this paper, is one of the sectors that produce the higher level of inflow for the country. This second action had the main objective in gradually open internal market to foreign competition that, together with the ongoing privatization of services linked to public enterprise and the sale to private group packages of share of the same, such as Aerolineas Argentinas, had the aim of improving the fiscal balance.

However, the Peronist opposition frustrated Alfonsín's intentions and forced the government to a new increase in public tariffs to try to cover the fiscal deficit, generating another inflationary surge and a devaluation of the currency; prices went from an increase of 9% in January 1989 to one of 80% in May, and with such conditions the *Plan Primavera* was called over and the Minister of the Economy was changed. The new ministry was assigned firstly to Juan C. Pugliese and, after few days, to J. Rodriguez that

found himself in a dramatic condition of economical devaluation, where the dollar went from 50 to 90 austral in a single week, and a level of inflation that in April reached 33,4% on an annual basis. In the graph below is possible to see how the inflation, computed and measured in terms of CPI by OECD, started to grow drastically in the second half of Alfonsín's presidency reaching a level of 198% per month in the summer of 1989.

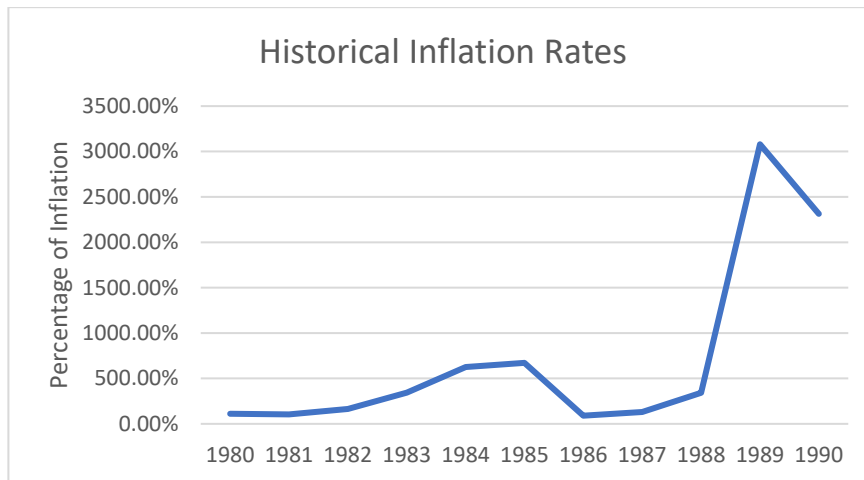


Figure 10 - Historical growth rate of Inflation (OECD, s.d.)¹⁸

In this scenario, with inflation that was skyrocketing and the values of some of principal economical index alarming, in June 1989, Alfonsín decided to pacifically pass the presidency, and vice presidency, to the team Menem – Duhalde. (Vazquez, 2015) (Vittelli)

To sum up, if the last year of this Presidency is left aside, is possible to state that the overall measure implemented by Alfonsín and his team have had a positive effect over the country and its economy. These measures were able, even if just for few years, to reduce drastically the level of inflation and to slow down its growth; nevertheless, the plans managed to repay a huge part of foreign debt that the country had developed during Malvinas War and the previous military government leaving a fiscal deficit way lower than the one registered in 1982.

¹⁸ OEDC stands for "Organization for Economic Cooperation and Development".

2.5 The Presidency of Carlos Menem

When the President Alfonsín appointed Carlos Menem as the new President of Argentina the situation of this country was critical; the average index of growth of inflation was around 120% per month and the level of productivity was registering negative index. Before dealing how the new Presidential teams tried to manage and eventually solve these criticalities let's have a brief introduction on this new government.

Carlos Menem was a politician and a lawyer that joined the Peronist Party in 1956 and started his career by working as a trade union lawyer in La Rioja where, in 1973, holds the office of governor till when, the Military group took power in 1976. After the coup he has been held in prison till 1981 but only two years later, when the new democratic president Alfonsín was elected, Menem was able to regain the governorship of La Rioja. In this province he was able to give tax breaks to businesses and to expand the size of his government following some of the most common doctrines of the Peronist movement.

When in 1989 Argentina suffered one of the worst economic crisis of its history he was appointed President, an office that he was able to held for a decade.

During his first term Menem managed to revise the Constitution of 1853 with the so called *Olivos Pact*, signed by himself and the representative of the opposite Congressional party, allowing the President in charge to be reelected for a second term of a duration of four years while imposing some restriction on the executive control over certain branches of government. This modification allowed him to win the presidency in 1995 and to carry on its second term.

During the latter, one of the most important action that Menem tried to carry out was to reconcile Argentina with Great Britain that, since the beginning of the Malvina's War and the hyperinflation that characterized the decade before his presidency, no longer had official contacts. Thanks to this reconciliation new bilateral trade agreement and investment proposal where made and these allowed Argentina to obtain again an important commercial and strategical partner. Besides this positive improvement in the international setting thanks to the external policy actions, what affected the internal ones of Menem's Presidency are not so constructive.

A long list of speculation favors, bribes and uses of public funds for government bonuses can be associated to him but the biggest scandal he was embroiled in was the accusation of having had a role in an arms-smuggling conspiracy that saw a huge number of weapons sold to Ecuador and Croatia in 1995. Even if he had been charged several times for this crime, the first official time in 2001, then again in 2008 and finally in 2011, he has never been sentenced indeed, in 2017, he was reelected for the third time as a Senator in La Rioja province.

After leading the nation for almost ten years, Menem was succeeded by Fernando de la Rúa, in December 1999. He made a short reappearance after the 2002, when Argentina faced an enormous political, economic and social crisis that forced the President to resign and new election to take place. In 2003 factional fight inside the Justicialist Party led to a split and this allowed Menem to run in the Presidency against one of his old fellows, Néstor Kirchner; even if in the first round of voting the former was slightly ahead, he decided to withdraw prior the runoff and so his opponent was elected by default. (Tikkanen, s.d.)

2.5.1 Economic Measure

Menem became President of a country whose population suffered traumatic experiences of hyperinflation and recession, deterioration of fiscal accounts, high level of indebtedness and decline of reserves. All together these condition persuaded Menem that the first action to undertake was to seek the support of the main economic agents and to implement a series of measures with an immediate effect in order to allow the return of stability. The day after his victory he appointed Miguel Roig as Minister of Economy; he was an economist and his election had a positive and reassuring impact over the population and the economy. Unfortunately, only a week after his designation he died and was succeeded by Nestor Rapanelli, already in the team of the previous ministry and an employee of the industry "*Bunge y Born*". Both Roig, first, and Rapanelli, after, agreed on undertaking a neoliberal economic program that reflected the interests of the state, so they elaborated a plan that was immediately put in place under the name of *Plan Bunge y Born*. The main objective of this set of actions was to rely on an export model that eventually would help to stabiles the price system and to reduce the imbalances in the external and fiscal sectors but, the first results, started showing

element of volatility and, to contrast them, new measures were implemented. First of all, a devaluation of the national currency was made and the Austral went from 350 to 650 per dollar; moreover, a sharp rise in fuel prices, electricity gas, transport and other public services was granted. The effects were reflected in an initial increase in inflation, which reached 200% per month but subsequently it fell down to approximately 9%. On the other hand, the recession was not improving, indeed, in the industrial sector, it was deepening; in addition to that, the gap between the official and parallel exchange rates widened and a significant loss of foreign exchange was registered. Finally, the exchange rate had to be changed one more time and reached the ratio of one dollar per 1.010 Australs. This final devaluation led to the culmination of the first economic team, in December 1989, that in total lasted a bit longer than five months and that left the country in a second wave of hyperinflation with monthly value of 79% in January '90, 61% in February and 95% in March.

The second stage began by the end of December 1989, when the new minister of economy E. Gonzalez was appointed; after few days of his election a policy of free exchange rate called "*Plan Erman I*" was implemented. This action required the intervention of the Central Bank of which he was Vice-President, and a liberalization of prices.

In January 1990, the "*Plan Bonex*", which replaced the above-mentioned, was launched; it consisted in a compulsory exchange of fixed-term domestic austral-denominated deposit, and domestic government debt securities, for a ten-year dollar-denominated government security called Bonex. This means that only a small part of the previous deposit was returned in cash to individuals and, regarding the accounts of companies, only the amount needed for the payment of wages and salaries was granted. Moreover, financial institutions had to wait till the situation had stabilized before taking new fixed-term deposits, or grant loans, and, even after that moment, they can only accept deposit of more than 90 days made in Bonex or foreign currency. In addition to this, the President of Central Bank Rodolfo Rossi declared that there would be no further issue of currency even if, right after, he ordered to buy foreign currency generating in this way a lack of confidence from the citizens toward the main financial institute of the country. The *Plan Bonex* had as immediate effects the increase in price, that caused inflation to reach 95,5% per month in March 1990, and a negative impact over the private system,

due to the significant loss for depositors that saw their deposit turned into titles with a lower price. By the end of February, when it was clear that a new peak of hyperinflation had been achieved, new measures were launched under the name of "*Plan Erman III*". This set reaffirmed the neo-liberal course of actions that was undertaken because it consists in reforms both in the public and in economic sector; a control of state procurement and contracting was established, employees of the public sector were reduced, vacancies were frozen and leading companies had to inform the authorities about any price changes that they made. Moreover, tax burden was increased, the deadline for tariff payment was reduced and State properties and public companies started to be sold in order to reduce the fiscal deficit.

Some positive outcome started to be noticeable since April '90; exports increased, exceeding the previous year's value by 34%, while import fell, inducing a trade surplus of approximately USD 8.200 billion. An increase in reserve was registered and inflation fell to a single digit of 8% per month for the rest of the year. Thanks to all these actions, public accounts began to show a surplus that was then used to transfer funds to Creditor banks, especially to the IMF. By the end of 1990 one last complementary plan called "*Plan Erman V*" was published; the proposals were to reduce once again public spending, implement a reduction of government investment and increase public tariffs, delay the payments of state suppliers, freeze the public salaries and eliminate social contributions and subsidies. However, despite these successive measures, economic activities continued to be depressed creating an increasingly complex social and political situation that, together with a quite big scandal involving the president's brother-in-law and some bribe to a famous US company, acted as a trigger for the resignation of the Minister of Economy Erman Gonzalez in January 1991.

Domingo Cavallo, who until then had held the role of Minister of Foreign Affairs, took over the ministry and signed the start of the third phase of the economy under this Presidency. During the first two months of his term, he conceived the so called "*Plan de Convertibilidad*" that had broader and more radical objectives than the previous plans. Beside the ongoing project of reducing inflation to a minimum, he tried to implement a set of measures that would deepen in the economic structure thanks to an extension in the privatization of public companies and a decentralization of some state functions. In

his plans there was also space for actions related to a flexibilization of the labor market and a liberalization of the economy, opening up trade and finance in a wider horizon. The economist Rapapourt summarized the above stated actions and the Cavallos' economic plan into a three-branches program; they are:

1. The Convertibility Law

This can be considered the most important part of this plan and, at the same time, the one that will cause the biggest outcome, both in positive and negative terms. Under this act an immutable exchange rate parity was fixed at 10.000 *Austral* to 1 dollar and became mandatory to not issue currency if a ratio of no less than 10% was maintained between the monetary base and the Central Bank's reserves¹⁹. In addition to that, in 1992, the national financial institute established as legal tender the *Peso*, that replaced *Austral* at a rate of 1 to 10.000, and that was traded at 1 *Peso* for 1 USD. In this framework the national currency is effectively transformed into a voucher for one dollar that was usable within national borders, acting exclusively as a unit of account, while all the other functions of money were fulfilled by the dollar. In order to better understand the extent of which the Argentine economy was dollarized is possible to consider the Figure 11 where the dollar currency is denoted as C, the deposit as D and their sum as A; the total inflow of US currency in the span of time analyzed is around USD 20,8 billion which was approximately the 11% of Argentina's GDP.

¹⁹ Considering as reserves the sum of golds valued at its current price, all the foreign currency and securities both nationals and of other countries.

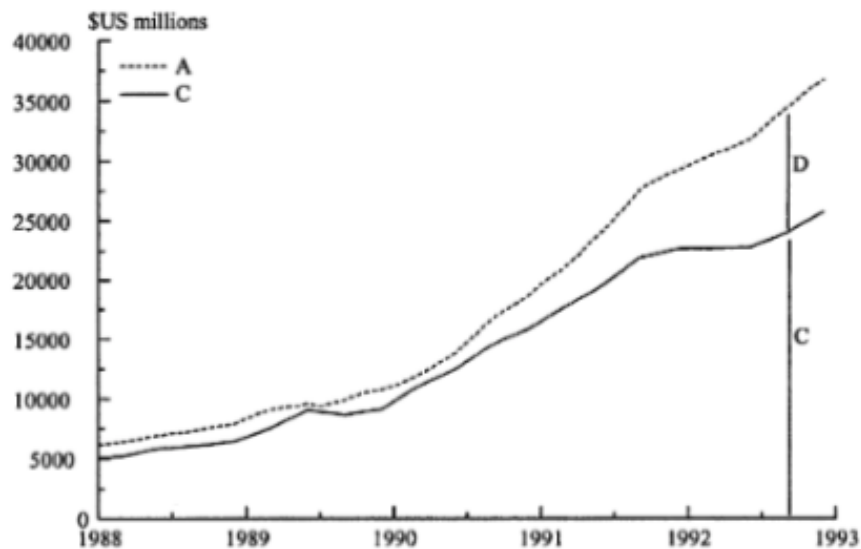


Figure 11 - Composition of total dollar holding (A) (Kamin & Ericsson, 2003)

Finally, free convertibility was established with respect to foreign currencies; this meant that who contract on the basis of a different currency than Austral must comply with the same.

2. Trade liberalization

In this second part of the plan, that will be further talked below, the aims were to discipline the private sector, which was inhibited from increasing its prices by the external competition, to eliminate the indexation from all types of contracts and to open the imports channel.

3. State reform and Privatization program

The focal point of this third branch was to balance the fiscal accounts by reducing spending, increasing regular revenues and adding a source of transitory revenue from the sale of public enterprises. Regarding the former part is important to state that, thanks to public share, it was possible to refinance some of the debt to retirees, suppliers and province. Talking about those last, in September '91, all the educational, health and social services are transferred from the state authority to the province one increasing in this way their tax sharing.

On the subject of Privatization, by the end of 1992, large companies such as *Entel*, *Somisa*, *Gas del Estado* y *Obras Sanitaria*, were sold, in whole or in part, and the state had collected about 20,000 billion between cash and securities. This process kept going till 1995, when the "*Casa de Moneda*", some nuclear and

petrochemical plants and the mayor airport all over the country were sold.
(Vazquez, 2015)

The mayor effects of the implementation of the Convertibility Plan can be seen in the successful stabilization of prices, especially in the wholesale index, where the inflation fell from 37,2% per month in February 1991 to less than 1% in the following years, and in the slow, but constant, deceleration of inflation. Regarding the latter, as is possible to see in the table below, even if it was decreasing, for some month it was still above the world average, and this induced some lagging in the exchange rate and affected the competitiveness of the tradable goods sector.

Year	Retail Inflation (%)	Wholesale Inflation (%)
1989	4.923	5.402
1990	1.344	798
1991	84	56,7
1992	17,5	3,2
1993	7,4	0,1
1994	3,9	5,9
1995	1,6	6,0
1996	0,1	2,1
1997	0,3	-0,9
1998	0,7	-6,3

Table 3 - Evolution of Inflation (in annual growth rate) (Rapoport, Historia Economica Política y Social de la Argentina (1880-2000), 2000)

Let's now have an overview on what happened in the national Tax system; since the establishment of the above talked plan, the fiscal deficit could no longer be financed by monetary issuance. Consequently, an increase in tax revenue became indispensable, and the strategy that was followed was based on the value-added tax, or VAT, whose rates went from 16% to 18%, and then to 20%, in 1992, and that lead the revenues from this sector to rose from 1,6% of GDP in 1989 to 6,3% in 1998. This growth of two points of GDP was supported, especially at the beginning, by privatization process but, after 1995, these began to decline as the sale of state properties was completed and so authorities had to move to cut various items such as wages, salaries and public investment.

Finally, let's consider again the external sector both in the terms of trade balance and of capital movements. Starting from the latter, is necessary to state that the foreign debt remained one of the most important elements to jeopardise the economic stability of the country throughout the whole decade. In April 1992, Argentina entered the Brady Plan for the refinancing of the external debt characterized by a 35% cut and a global scheme that would allow it to reduce its commitments to private banks, by USD 10 billion, and to restructure the same over fifteen years, for interest, and thirty years for the principal. However, while the external debt was temporarily reduced by the renegotiation agreements, the domestic debt in national and foreign currency continued to growth as well as the private debt; between 1993 and 1999 the total public debt increased by almost 7%. The main reason why this was happening was that, even if the state reduced in part the foreign debt, it would never be able to actually create a fiscal surplus, which would generate the resources needed for debt payments, neither to create a trade surplus, that would have meant an inflow of foreign currency. Finally, this became a major problem by the end of the century when the foreign debt reached the level of 40,8% of GDP and when the state no longer had public asset, in term of enterprise, to sell and to use to cover at least interest payments.

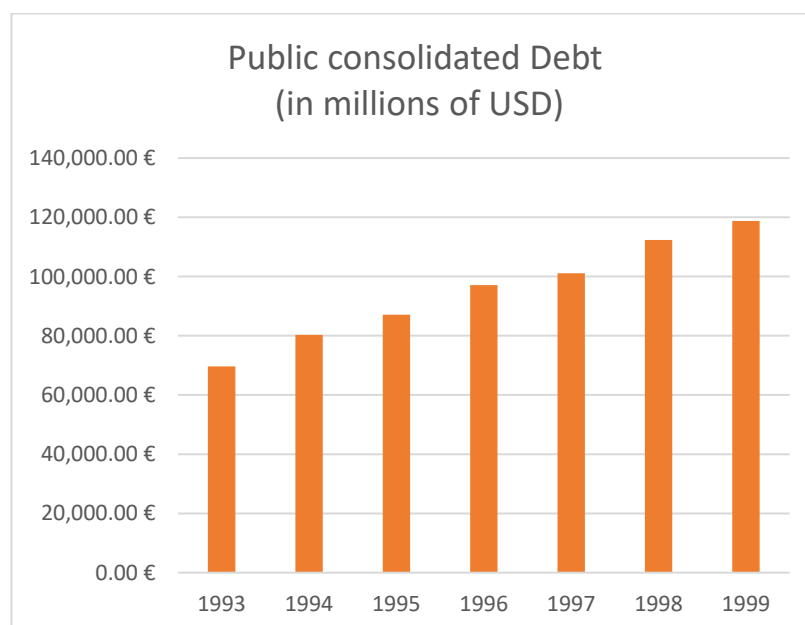


Figure 12 - Public consolidated debt of Argentina (Rapoport, *Historia Económica Política y Social de la Argentina (1880-2000)*, 2000)

Regarding instead the trade balance, when the Convertibility Plan started to operate was not so clear whether tariff on the trading system should be used as an additional resource to alleviate the public deficit or if they should be reduced to improve the

domestic prices; in the end the second strategy prevailed. By the end of 1991 a three-tier tariff structure was established with a 22% over consumer goods, a 13% on inputs and a 5% on capital or intermediate goods not produced in the country; meanwhile, there was an almost total elimination of quantitative quotas and of export taxes. As a result of trade liberalization, the prices of most industrial goods fell compared to those of services and, thanks also to an infrastructure reorganization, bureaucratic costs were lowered. Between 1990 and 1998 exports increased by 115% while imports by 320% and so, beside rare time frame, in complex during this government the trade balance was characterized by persistent deficit and the main reason was the exchange rate lag. This is especially true considering the trading with countries of European Union where, in addition to the lag of *Peso* against dollar, the revaluation of the latter in relation to the currencies of that region must be added, producing a reduction in the competitiveness of Argentina's products²⁰.

(Rapoport, Historia Economica Politica y Social de la Argentina (1880-2000), 2000)

In addition to the internal condition that were undermining the stability of the Convertibility Plan, there is the need to consider also the strong effects that crisis all over the world had over Argentina. First of all, in 1994, a large devaluation in Mexican economy took place and became famous under the name of *Tequila Crisis*. As a consequence, the capital flows in international markets had a slowdown and Argentina had to raise the interest rates and so their bonds saw their price falling and the reserves of the Central Bank dropped considerably; nevertheless, the convertibility system greatly restricted the chance of applying monetary policies and it prevented the exchange rate from depreciating to accommodate the excess in demand for foreign currencies. At this point, the central question was whether the government was able to keep the Convertibility Plan in act even with negative external influence or not and the answer, at least for Menem that was in the middle of his election campaign, was the former so he remained stick and coherent to his previous economic plan and produced a new wave of support from citizens and financial institute that lent him a new series of packages of

²⁰ With regard to what stated, it is necessary to make a clarification because traditional products of agricultural origin and commodities are not included in the statement due to the important comparative advantages that Argentina has and that will be further deepened later on.

multilateral credit that helped authorities to solve the internal crisis. This experience, added to the credibility of the system as a stabilization device, fostering the perception that it could resist even to stronger shocks if only political firmness was applied in defending the system. The negative side of this was that the new entrance of capitals in terms of dollarized financial contracts made to increase its exit costs.

Some others external shocks were produced in 1998 and 1999; the former was connected to the devaluation of Brazilian real that, for Argentina, was translated in a reduced demand from that specific state that was one of the greater partners in term of quantities of export. Regarding instead the following year, the Russian debt crisis affected the country not in term of trade account but on the credit markets because the instability of the Nordic economy produced an increase in the riskiness, and so in the yields, of Argentine bonds. Moreover, the devaluation of their currency increases the strength of the US Dollar, and as a consequence, also of the Pesos that was connected to it making the goods produced in the country more expensive in the international markets. Again, even if the prospect of a total dollarization was widely discussed, the authorities decided not to move apart from the ongoing plan and to stick to the convertibility measures. (Galiani , Heymann, & Tommasi, 2003)

To summarize this paragraph about the economic measure implemented during Menem's presidency is possible to state that the Convertibility Plan was based on a set of measures aimed to liberalize and deregulate the economy and privatize the government's resources in order to restore the confidence in the currency and breaking the past inflationary trend that was rolling since 1974. Even though in the first few years of application the outcome were very positive, especially thanks to the dollarization, in general the combination of a poor export performance, the unsustainable trade and the account deficits led to the collapse of the Convertibility Plan and to one of the deepest economic crises in the country's history. Finally, even if the Convertibility Plan had been quite effective in reducing and managing inflation, it failed in contrasting external shocks, unemployment and informal working. (Vazquez, 2015) (Perez-Caldentey & Vernengo, 2007)

2.6 De La Rúa

Thanks to the change in the legislation that Menem introduced during his presidency, he was able to maintain his role for nine years, till 1999 when new political campaign and the following election took place. In this event, characterized by an awakened desire in most Argentines to put an end to years of neoliberal policies and corruption, the lawyer Fernando De la Rúa became President.

He started his political career as a leader of the Radical Civic Union UCR party and then served as a deputy and national senator. When, in 1999, after two mandate of Menem's neoliberal Peronism, characterized in its decline by corruption allegation and high unemployment, new election took place he won with a campaign focused on transparency and seriousness. The coalition with whom he run the presidency was called *Alianza* and had a social-democratic print; they promised to improve the functioning of institutions while maintaining the neoliberal economic recipes and the alignment with the International Monetary Fund that was already present in the previous government. Unfortunately, few months after taking office his administration started to suffer some drawback because was accused of bribing different senators in order to pass a labor reform law and, in October 2000, the Vice-President Carlos Alvarez left the office causing a weakening in the coalition. The latter was also translated in an erosion of the support for the ongoing policies and a shock to the expectations of the citizens toward the policies and the credibility of this ruling coalition. These conditions, together with an already depressed economy with a high poverty rate, lead to the collapse in little more than a year of the image of De la Rúa. In December 2001, the crisis finally broke out pushing Argentine to withdraw dollars in huge quantities from banks and forcing the president to restrict them with a regulation that was popularized under the name of "*corralito*". During the last part of the year, unemployed pickets and middle-class manifestation multiplied until when the president ordered to crackdown the mass protest causing dozens of death and social rejection. On 20 December 2001 De la Rúa was forced to resign and the image of him, leaving the Presidential residency on a helicopter, as if he had been in the midst of an attack, passed to the history and still live in the memory of Argentines. When this happened, the country was left in a political and institutional crisis that led to the appointment of four president, and the corresponding Minister, in less than two weeks, increasing political instability even

more. Finally, on January 1st 2002, the Argentine Congress appointed Eduardo Duhalde as new president (Reuters, 2019)

2.6.1 Economic Measures

When De la Rúa became President, the economic and social situation was in danger because, after two years of recession, both the population and financial operators were waiting for signals of rebound and restart from the new government. In addition to that, the fact that the national currency, the *Peso*, was still very tied to the US dollar produced an increment in the demand of the latter that far outstripped the country's ability to generate foreign exchange.

The first Minister of Economy that was appointed was the economist José L. Machinea that announced a package of measures aimed at raising a variety of taxes, such as income tax, since the fiscal situation seemed to be the most immediate problem. The reaction to the new authorities' line of actions from financial markets was calm and stable but for the population, it represented the prelude to more difficult times, and so there was a general tendency of revise private budgeting downward. The latter produced a decline in domestic demand, that affected tax revenues and that pushed the authorities to announce a new spending reduction with cuts in the higher salaries in the national government.

As time was passing without signs of recovery, prospects and plans were revised downward and, when tax revenues didn't grow, new pressure for additional fiscal measure started to rise.

In March 2001, briefly Lopez Murphy became the second minister of economy but, after only two weeks, he was substitute by Cavallo that, covering again the role that he had during the previous administration, helped to stabilize positively the expectations of the country. The situations in which he started his ministry was characterized by a high-risk index and a problematic level of public debt that, by the time he started to work, was constitute for 97% by dollar. In order to deal with them, Cavallo negotiated a new package of loans with the IMF and a restructuration of the pre-existing debt, that, at least during first half of 2001, eased financial condition. However, when it became clear that there was a wave of outgoing capital, especially toward Uruguay, the institute

suspended its disbursement provoking an even more massive run to the banks. Moreover, the economical team announced further cuts in government spending but those didn't receive the proper support neither by cabinet members nor by the public that intended them as a clear sign of a very serious economic situation that produced negative expectation about the economy and made the country risk index to rose again. The implementation of an ulterior small depreciation of the currency for commercial transaction caused a conflict between Cavallo and the president of Central Bank that was eventually forced out of office; this event eroded the stability of government financing and, due to the restricted access to international markets, more debt started to be sold internally. Eventually, the authorities called for a mega-swap, exchanging titles with short maturities for long term bonds; even if the purpose of this measure was to keep the risk of a liquidity crisis marginate the effect was an explosion of the risk indexes and a decline in bank deposit. Again, the government had to react drastically through the announcement of a "zero deficit policy", in which they based cash management on the theory that monthly payments had to match the receipts, and the request for help to the IMF. After that the latter granted the emergency loan and it didn't generate much relief, the inconsistency of the economy became clear; public spending was falling, the drop in revenues led the government to use *bonos*, or emergencies funds, by local jurisdiction and all together these pushed to a further drain of deposits.

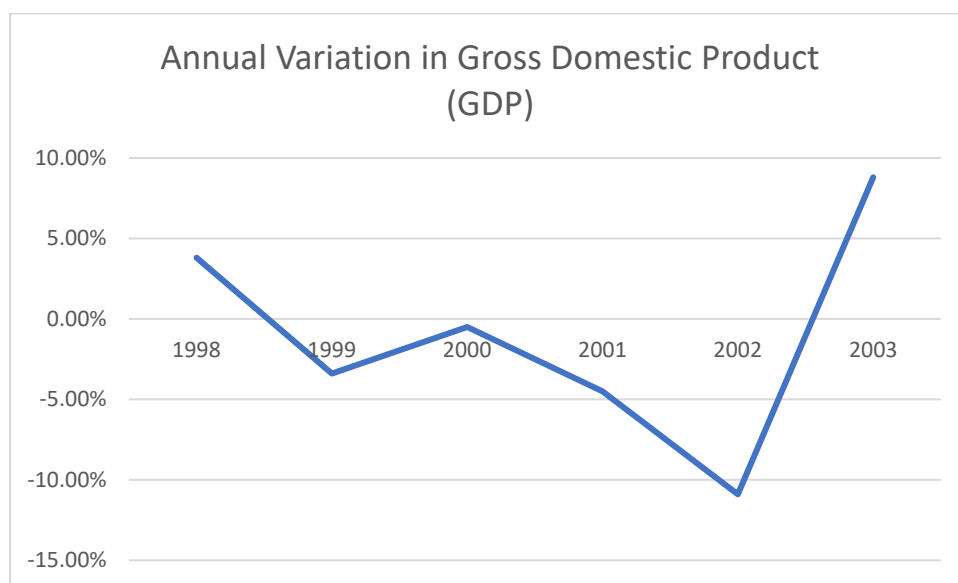


Figure 13 - Annual Variation in Gross Domestic Product GDP (Personal calculation based on official data from (Carol, s.d.))

Was at this point that, in order to reduce the impact that the losses of reserves were creating, De la Rúa, on December 3rd, signed a famous decree, soon called “Corralito”, that imposed restriction on the withdrawal of deposit and introduced controls over the exchange. After this, Argentines were allowed to withdraw a maximum of 250 pesos, or dollars, in cash per week from their accounts; even if electronic transfer were still allowed, they represented only the 1% off all the transaction and this left the vast sector of the economy paralyzed. By all means, this was the formal end of convertibility era. The effect on the population were translated in an escalation of tension that was manifested by crowd outside banks demanding for their money and riot in front of La Casa Rosada; the peak was reached on December 19 when police started to respond with violence and more than 39 people were killed. At the beginning of the new year, the dollar/peso parity was finally suspended, and all the deposit made with the US currency were converted in pesos producing a severe devaluation that caused the skyrocket of poverty that can be seen below. Meanwhile, the country defaulted on its external debt, primarily due to the end of IMF’s support, at US 144 billion that, even today, remain one of the largest in history. (Smink, 20 años del "Corralito": 3 cosas que cambiaron en Argentina tras la grave crisis económica, política y social de 2001, 2021)

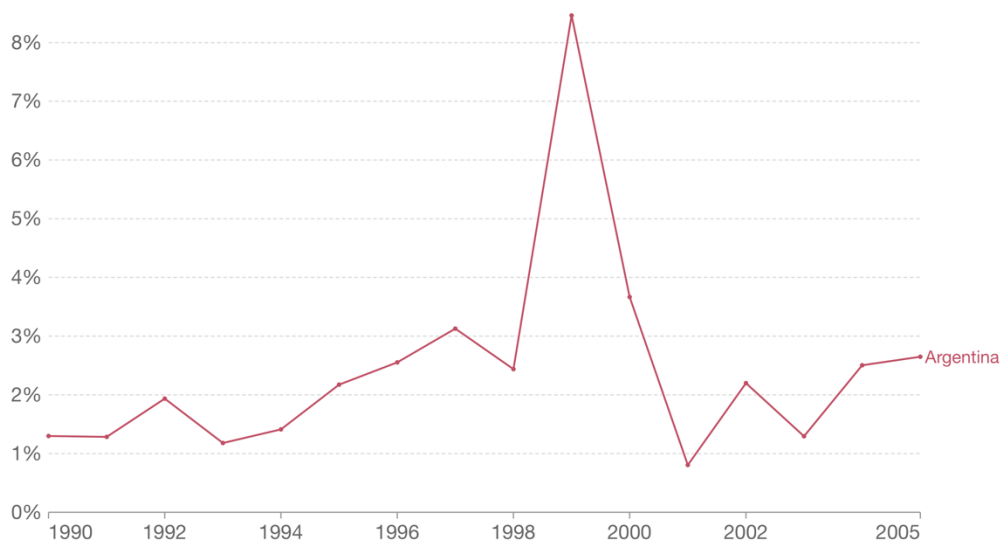


Figure 14 - Foreign direct investment, net inflows as a share of GDP (Our World in Data, s.d.)

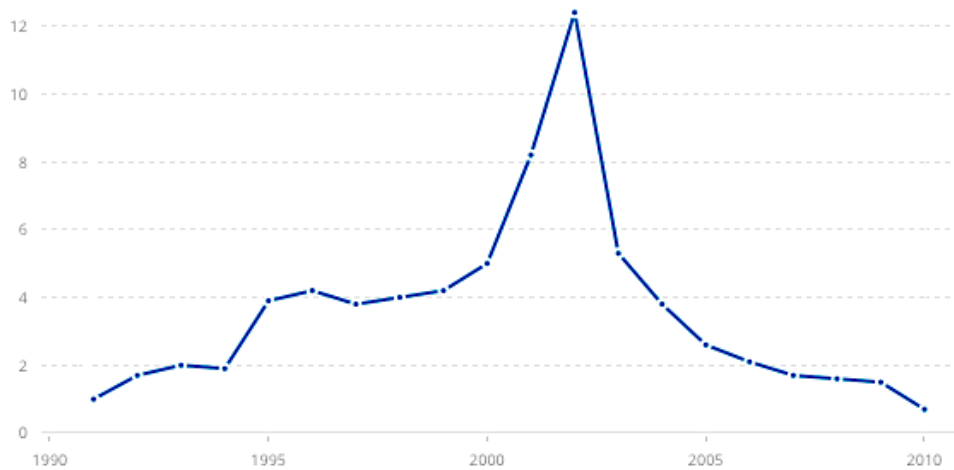


Figure 15 - Poverty headcount ratio at 2,15\$ a day (in % of population) (The world Bank, s.d.)

2.7 Nestor and Cristina Kirchner

When the massive default happened in December 2001, five different President were appointed in less than a week; the fifth was Eduardo Duhalde and remained in charge for almost a year. Due to the fact that his period of work is very little there won't be a chapter above his presidency, but the most important act that he undertook will be briefly exposed as an introduction to election of Nestor Kirchner.

Duhalde covered the role of Vice-President during Menem's government and then, on January the 2nd, was appointed President leading back the country in the hand of Peronists. He found himself in an extraordinarily delicate position having to deal with a country fractured by its economic structure, the purchasing power of the majority of the population collapsed and a massive divorce between the political class and the citizens. Duhalde, who on the eve of his presidential inauguration had expressed his fear of a civil war in Argentina, began by acknowledging that the country was "broken" and announced a government of national unity with the triple mission of "rebuilding political and institutional authority, guaranteeing social peace and laying the foundations for a change in the economic and social model". Moreover, he kept the unpopular Corralito in place, but introduced a new exchange rate policy, since the one of Convertibility Law had been "wiped out" by the disaster it had provoked. The former would clearly imply a devaluation of the national currency, estimated around 25 to 30%, in order to exit from

the hyperinflation specter and avoid shortages on imports; in addition to that, all activities related to tourism, non-vital imports and some financial payments savings would have to be settled at the floating exchange rate on the free market, where the price of the dollar was regulated by supply and demand. These new measures had the aim to improve the competitiveness of local production in domestic and foreign markets, and to attract industrial investments. The only problem with this policy was that it would be perceived as positive only in the medium or long term, while the purchasing power of the citizens would be further eroded in the short one.

On January the 6th, Congress approved the Economic Emergency Law, written by the Minister Jorge Lenicov, which empowered Duhalde to make economic, financial and social policy decisions until the end of his term without consulting the legislature, and the new official fixed exchange rate, was announced to be 1,40 pesos to the dollar. The legal package came into effect on January the 11th and on its first day of floating on the free market the peso traded at 1,70 to the dollar, a devaluation of 41%. Meanwhile, the President and the economic authorities were preparing an anti-crisis plan for the IMF and other donors, who were not letting up in their demands for a deficit-free budget and new structural reforms; for their part, the European Commission were demanding a "credible" and "sustainable" plan to get out of the crisis. That same month, after declaring a state of National Food Emergency and having been warned of the harsh reality by his economic team, Duhalde announced that the return of the almost USD 46.4 billion of the Corralito would be made only in the national currency, at the official exchange rate of 1,40, when on the free market the exchange rate was already over 2 to 1. The reason of this unpleasant revision of the conditions of liquidation was to avoid a chain of bank failures and the evaporation of the intervened deposits but, the reaction at this, provoked a massive participation of citizens in protest, riots and violent boycott. Duhalde also sought to obtain assistance from the IMF; albeit the institution refused to grant fresh loans to Argentina it resumed the delivery of the ones already committed and rescheduled Argentina's interest payments on previous debt. The government's initiatives were thus aimed at satisfying the IMF's demands and this led, in March, to the approval by the Chamber of Deputies of the 2002 budget that, even if was formed of \$132 billion of debt, was rested on a federal co-participation pact with the provinces engaged in reducing spending, cutting the fiscal deficit and combating fraud.

Nevertheless, even if some outcome were actually positive, in the following weeks a string of bad news blackened the picture once again and put Duhalde on the edge of the political precipice. The devaluation of the peso, which on 25 March traded at an all-time low of 4,00 units to the dollar, had a direct impact on consumer prices and triggered an avalanche of dollar purchases and bank withdrawals that forced the government to reintroduce controls on the market. Moreover, in April, the failure of negotiations in Congress a new version of the Plan Bonex, led to the resignations of Remes Lenicov and, as a consequence, to the appointment of Roberto Lavagna and to the agreement between Duhalde and the provincial governors to push through a package of legal reforms. On June the 9th the new Economy minister launched the so-called *Plan Bonos*, which differed from the failed April plan in the voluntary nature of the conversion of savings into debt securities; moreover, it established new guidelines on the withdraw of savings made in foreign currency and affected by the “pesification”.

In November 2002, the country saw itself one more time in the position of a massive default, this time with the World Bank, of USD 805 million; the reaction of the government was to lift the Corralito on current accounts as of 2nd December, increasing gas and electricity tariffs, and impose restriction on fixed-term accounts. The end of the limitation on savings came as a pleasant surprise to all but it was done only after the acceptance by the IMF, with which the government adopted a temporary agreement where "fresh money", to the tune of USD 2.98 billion, were injected in the country and the payments of a further 3.8 billion was postponed. Argentina also committed to move towards monetary unification, eliminating the various currency substitute bonds issued by the provinces and the national government.

At the start of 2003, Lavagna's strategy started to be visible in the macroeconomic figures; economic activities resurged, as is possible to see in Figure 13, as the devalued peso was boosting export trade and local industrial production to the detriment of goods imports, leading the GDP from a -11,85%, in 2002, to 7,68% in 2003. Consumer prices climbed to 41% in those twelve months, but the year-on-year rate was now stabilized at 15%. Duhalde also created the Food Emergency and Unemployed Heads of Households, which provided direct aid to the groups most affected by the crisis; despite this priority attention to citizens' hardship, in the long year of Duhalde's government, poverty and unemployment exploded in Argentina: in April 2003, the former already

affected 54% of the population, while the latter reached the historical rate of 21.5% of the working population. As is possible to see in the graph below, the only time in which the level of unemployment has been close to the level reached in 2003 was in 1995 when it affected 18,8% of the population; what could be interesting is that the cause of these two events, apparently similar between one another is fundamental different. Regarding the latter in time is easy, after what talked above, to understand that it is strictly related to the instability, both in social and economic environment, that was characterizing Argentina after the default happened in 2001. On the other hand, the value of unemployment registered in 1995 could be easily explained by the Philips Curve, as it was introduced before in this work; in fact, the law states the negative correlation between the employment rate of a country, almost 20%, and the level of prices, and so, of inflation, that was 3,3%. (Zárate, 2011)

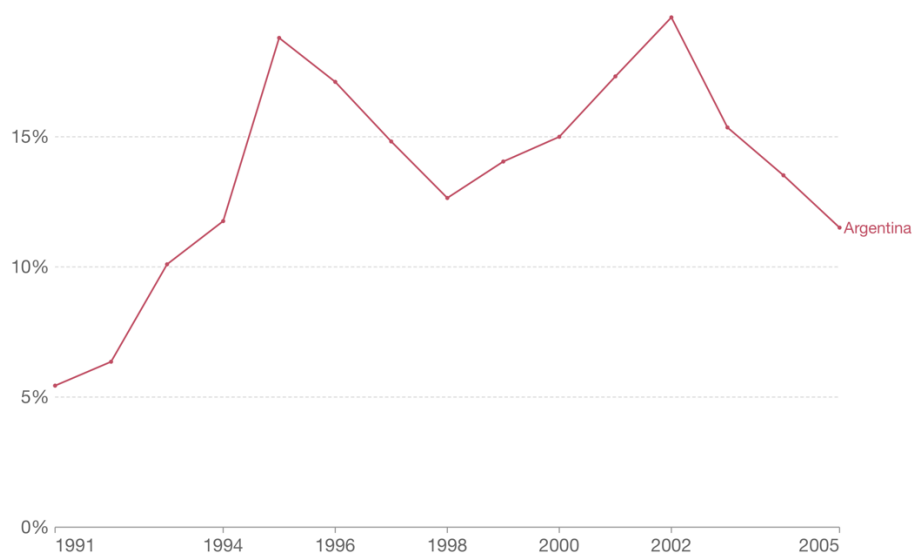


Figure 16 - Unemployment rate (Our World in Data, s.d.)

Due to the continuous picketers and protests, Duhalde decided to anticipate the presidential elections firstly, from September to March 2003, and finally they were set to the 27th of April. The Peronist party arrived with three different candidates, presenting quite opposing programs, but allowed to display the common party symbols with different slogan; the candidates were Kirchner, Menem and Rodríguez Saá. The former, with his *Frente Para la Victoria* (FPV) list, arrived at the polls behind Menem but, given that Menem was widely rejected outside his supporters, everything was pointing to a resounding victory for Kirchner in the second round held on May 18th; to avoid the

defeat, four days before the final vote, the former tenant of the Casa Rosada announced his withdrawal and Nestor Kirchner became the new President.

At the beginning, Kirchner was not well known outside his province, Santa Cruz, but thanks to the endorsement of the outgoing President Duhalde he was able to obtain not only the support from the citizens but also from the Peronist party. When he started his term, Kirchner tried to consolidate his power by taking “popular” actions, such as annulling the law that was prohibiting the extradition of military officers accused of human right abuses, and at the same time he started to negotiate with the IMF a debt-restructuring deal. The controversial side of his actions was that the more support he was obtaining by citizens, the more fractured the Peronist party was; for this reason, during his term, he tried to consolidate and enrich the line of the FPV, increasing the worries of Duhalde for the future of the justicialist party. There was barely contained tension between Kirchner and the former President, although the two strongmen of Peronism chose to measure their strength by using their respective wives, Senator Fernández from Santa Cruz and Hilda González, a deputy from Buenos Aires, who represented their husbands at the 2004 party congress. At the beginning of 2005, the alliance between Kirchner and Duhalde could be considered over, although the latter did not cease to make gestures in favor of dialogue and reconciliation. The congress event marked the beginning of the conquest of powers of Cristina Fernández Kirchner. The four years of Presidency of Nestor Kirchner helped Argentina to revive and to officially exit from one of the worst economic crises that the country had seen albeit the fact that, especially during his last year, the government was tainted by scandals, corruptions and high inflation. When 2007 came, Kirchner chose not to run for a second presidential term and so, he announced his support for his wife, Cristina Fernández de Kirchner, that became Argentina’s first elected female president as candidate of the Peronist party. (The Editors of Encyclopaedia Britannica, s.d.)

Cristina, during her campaign and later on during her mandate, stressed the "three constructions" on which Kirchner's government had been based and which would also be the basis of her own; they were:

1. The reconstruction of the democratic constitutional state, which had meant leaving behind the subjugation of the legislature to the "pressure" of the IMF, corrupt business power and the military;
2. The model of accumulation and social inclusion;
3. The cultural construction, to recover lost "self-esteem", which would require heavy public investment in education and technological innovation.

As it is clear, she was advocating a sort of continuity with respect to the outgoing administration's management, emphasizing her husband's most positive legacies, such as the record growth of the economy, albeit the fact that critics of the government's economic policy warned that this boom, rested exclusively on a very favorable international situation, and on the competitive exchange rate of a weak currency. Fernández was aware of the excessive weight of exports of oilseeds, cereals and hydrocarbons as the driving force behind growth, which was dependent on the ups and downs of the international commodities markets. This was clear from her appeals to initiate a 'social dialogue' between workers, businessmen and the state, with a twofold objective: on the one hand, to give birth to an 'industrialist' model and, at the same time, to guarantee the macroeconomic conditions of no indebtedness, primary fiscal surplus, trade surplus, competitive exchange rate and sufficient reserves to avoid any financial shock. She also understood the importance of maintaining strong international relations and announced a deepening of economic complementation with the MERCOSUR. In addition to these, the engagement of large productive investors, who in the last four years had not carried out operations in Argentina because Kirchner's policies did not inspire confidence in them, was also on Fernández's presidential agenda. Another focal point of her policies was to reduce poverty, which still affected a third of the population, and unemployment, at around 10%, and spoke of improving health and education services, which had not yet recovered the levels that had made Argentina the most socially advanced country in Latin America in the past. She remained President throughout two term, from 2007 till 2015, suffered the death of her husband in 2010 and had to overcome two crises, the first in 2008 against the agricultural sectors, which staged a series of protests and strikes in the face of increased export tariffs, and the second triggered by the international financial crisis that began that same year. During

her second mandate she had to face the stagnation of the economy, which failed to overcome the value reached at its peak in 2011, which, together with the effects of the Great Global Recession that began in 2008, had an impact on the Government's ability to redistribute income.

In 2015, it was Impossible by the Constitution for her to stand again in the elections, so the FPV led Daniel Scioli, former vice president of Néstor Kirchner, as a candidate but he was defeated by Mauricio Macri, of the *Cambiamos* coalition, that marked the end of the first 12-year term of what is known in Argentina as "*Kirchnerism*." (Padinger, 2022) (Zarate R. O., Barcelona Centre For International Affairs, 2022)

2.7.1 Economic Measures

When the term of De la Rúa reached its end five different Presidents were elected in less than two weeks and when, eventually, Duhalde accepted the role the condition in which the country verted were critical. As his policies and strategies has already been talked above in this chapter, let's now deepen the main action undertaken during the years of Kirchnerism.

During this period, is possible to identify at least two major economic phases, the first with high levels of growth and significant social improvements, that went from 2003 to 2008, and the second with poor economic performance and less social progress, between 2008 and 2015, in the context of the reappearance of the external constraint to growth. What characterized the first phase, and so basically the whole term of Nestor Kirchner, was an improvement on the external economic front associated with a positive evolution of the terms of trade, an initial contraction of imports associated to a quantitative increase in exports and a restructuration of the public debt. All together these allowed the country to achieve the highest fiscal surplus of it history, in the current account, during the first years of post-convertibility, thus eliminating dependence on capital inflows for the accumulation of international reserves. This surplus even allowed the remaining debt with the International Monetary Fund, around USD 10 billion, to be paid off early without significantly affecting the country's external position. Besides this, the economy reached level of growth that were absent since any years; the GDP as in the Figure 17 grew at a cumulative annual rate of 8.4%, unemployment fell from 17,3%

to 7,9%, the average real wage increased from 1,5% to 2,5% and public debt went from 137% to 45% of GDP.



Figure 17 - Annual Growth of GDP per capita

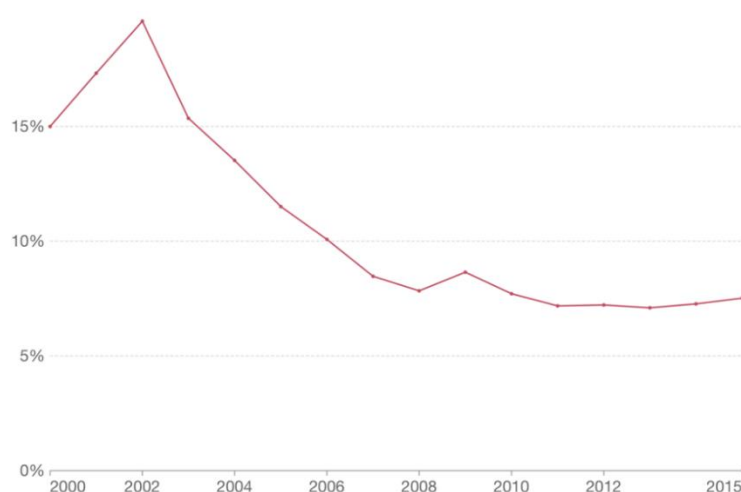


Figure 18 - Unemployment Rate (Our World in Data, s.d.)

To conclude, in this first stage of Kirchnerism, the main winners were large exporters with the exception of agricultural producers that, even if they should have benefited the combination of a high exchange rate and the rise of international prices, saw their high profits cut by the imposition of many export taxes.

Regarding instead the second phase, it coincides with the explosion of the mortgage crisis in the United States in 2008 and, at the local level, with the conflict with the agricultural bosses as a reaction to the government's attempt to modify the way in which export taxes on were computed. In fact, regarding the latter, the government of Cristina intended to capture most of the income coming from this sector in foreign currency due to the pressure exerted by imports, interest payments on the debt and the intensification of capital flight in a context of global crisis.

Moreover, in the context of rising domestic inflation, the government's attempt to attenuate the impact of the international rise in prices of the above talked sector on the domestic market and so it imposed new withholding taxes with the hopes of containing the phenomena without using nominal exchange rate appreciation. In this setting, starting from 2009, the account surplus began to shrink, the fiscal surplus disappeared, and the economic team had to deal with the stagnation of the economy. Nevertheless, although the accumulation of international reserves in the previous stage allowed the government to maintain a certain degree of autonomy, the use of these reserves to sustain economic activity caused their level to fall rapidly and they reached the 30-billion-dollar floor at the beginning of 2014. To prevent them from continuing to fall at such a dizzying pace, the government decided to move forward with a partial adjustment of the economy through currency devaluation, higher interest rates and lower monetary issuance. Looking at some economic indicators, such as GDP or the unemployment rate, it is possible to see how their performances, between 2008 and 2015, began to deteriorate; as in the Figure 18, the unemployment started to have a positive tendency again and the GDP grew at a significantly slower rate, around 1.5% per year. In order to sustain the level of reserves and to maintain healthy the economic situation of the country, a swap line was agreed with China, which resulted in a net inflow of capital and helped the government to avoid, at least for that moment, a major adjustment and to maintain the minimum level of support to Cristina till the end of her mandate. (Wainer, 2018)

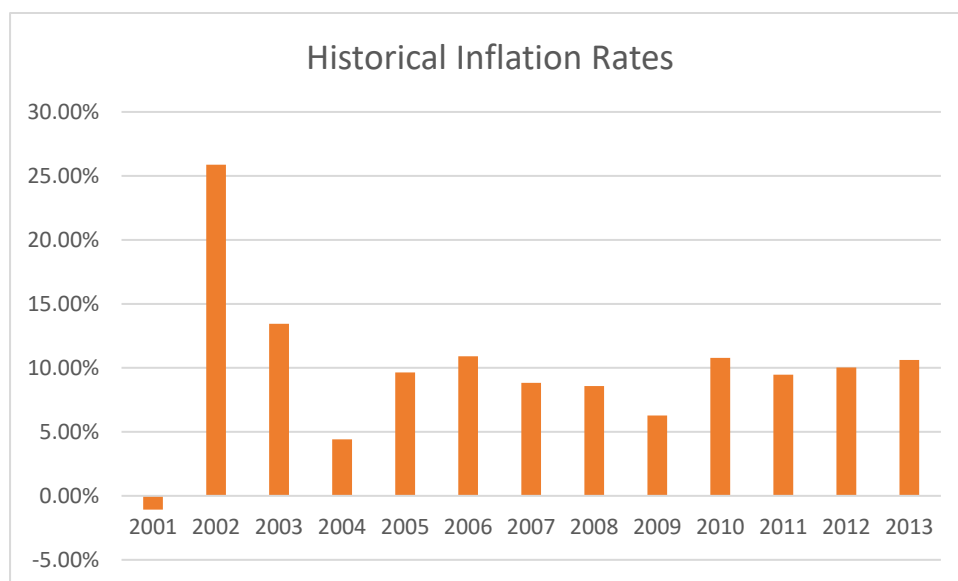


Figure 19 - Historical Inflation Rates (OECD, s.d.)

Although Kirchnerism succeeded in restoring capital accumulation after the fall of Convertibility, as well as promoted a certain redistribution of income, the absence of structural changes ended up acting as an insurmountable limit to the expansion of the state's relative autonomy. The fact that an effective economic policy aimed to strengthen the productive sector was missing, made it impossible to deal efficiently with the problem of Inflation. To the contrary, this was an issue that during those twelve years were frequently forgot and, even if was way lower than when the default happened, never stopped to have a negative impact on the society.

2.8 The Presidency of Macri

For the purpose of this work the presidency of Mauricio Macri, will be the last one taken into consideration. Primarily because his successors are still in charge and their operation, or the effects of it, are not yet visible in a macroenvironment setting; secondly, because the years that followed this government have been characterized by several unexpected events, such as the global pandemic of Covid and the war in Europe, that are affecting the country, as well as the world, and will continue to do so, making impossible to show a static picture of it while treating its condition objectively.

Mauricio Macri is an engineer and businessman, with Italian origins, that won the presidential election on November 2015 as the leader of the Republican Proposal Party *PRO* and the coalition "*Cambiamos*". He run-off over his opponent of the Peronist party, Daniel Scioli, who was endorsed by the outgoing president Cristina, becoming the first democratic president not belonging to Peronism, or Radicalism, since 1943 and ending twelve years of Kirchnerism. Before being President of Argentina, Macri, covered for eight years the role of Governor of Buenos Aires and it was during those years that he started to develop the desire and the ambitiousness of becoming the head of the state. He decided to follow a proactive electoral campaign, avoiding drawing up critical balance of Cristina's policies, or dwelling on details of the previous mandates economic legacy, but, on the contrary, promoting the goals of making Argentina an "*open, pluralist and democratic country, where no one concentrates all the power*". Moreover, he stated several times that one of the greatest objectives of his administration would have been the elimination of poverty and the social development, which included adequate

coverage of citizens' income with public funds, a minimum level for education and the realization of one million homes. The latter meant the urbanization of 800 slums, or "*villas*", the settlements of urban area with lacks in services, the delivery of 750.000 property titles and the availability of one million mortgage loans. All these goals helped the President to receive unrestricted support from the big media corporations and from the US embassy, a country with which he started to negotiate again fresh loans, in parallel with World Bank and the IMF, taking a different direction from the one focused on the debt restructuration followed by the previous administration. The reborn relation with International Monetary Fund was conditioned to the reissuance of the National Institute of Statistic and Census (INDEC) that was previously dismissed by the Cristina's government when index, such as inflation and poverty rate, started to show the sign of the deterioration of the country.

The Macri's mandate proceeded more or less without any scandals but it can be interesting to state that, despite his campaign that pledged to fight corruption and reduce poverty, in April 2016, when Panama Papers leaked by a Panamanian law firm, it turns out that he had connections with an offshore tax-haven-registered company before becoming President

After four years, in 2019, Macri tried to run again for a second mandate but, during the primary, he only captured the 32% of votes while his competitor, Alberto Fernández, the Peronist candidate, received the 48%; the same arrival order was registered in the general election of October that saw Fernández elected as leader of the state and Cristina Fernández de Kirchner as his Vice. (Zarate R. O., Mauricio Macri, 2015) (Jones, 2022)

2.8.1 Economic measures

Given the critical situation in which the previous authorities left the country, Macri, together with his Treasury and Finance Minister Alonso Prat-Gay, developed some guidelines aimed at removing the major obstacles that led to the stagnation of the economy and of aggregate activities, improving the private employment and the foreign trade.

Some measures that he implemented during the first half of his mandate were:

- The increase in interest rate; it was moved from 28% to 38% in order to try to reduce the demand for dollars as a reserve asset and as a mechanism for absorbing the monetary surplus.
- The elimination of any limitation in the foreign exchange market; the imposition made in November 2011, such as the 30% freeze on foreign investment, were cancelled affecting dollar savings, tourism, imports and profit remittances.
- The reduction of the impact of taxes, especially over luxury items, from the 50% to 20% of its value, and in the agricultural sector. As will be talked later on, in 2016 the 46% of Argentina's exports were covered by grains, flours and oil and, thanks to this action, investments were boosted and reached USD 58 billions.
- The introduction of a bonus of \$400 for Universal Child Allowance, retirees and pensioners that implied a transfer of income of \$3.3 billion.

The reaction of the citizens has been overall positive and, especially thanks to the second set of actions stated above, the black market of currency started to align with the official exchange rate; the fact that the buying and selling of foreign currency was liberalized made the price of dollar more realistic and any Argentinian could now buy and sell as many dollars as they wanted. These also helped the reintegration of the country in the international debt market and increased the confidence of it in front of other states and financial institutions; these elements together improved projections of economic indicators. In spite of that, the effect of the liberalization on the currency value were not only positive; a devaluation of 45% occurred and the dollar trading went from 9,76 to 13,95 pesos.

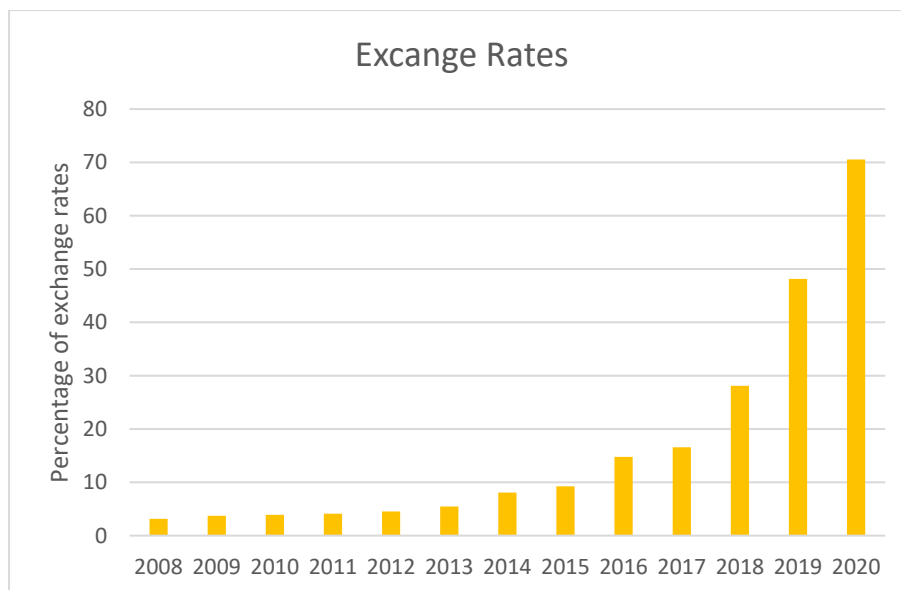


Figure 20 - Exchange Rates Total computed as National currency units/US dollar (OECD Data, s.d.)

Considering instead the fiscal finances, in April 2016 the State issued a bond of USD 16,5 billions that had the aim to avoid a drastic fiscal adjustment policy, that was the only other alternative, to finance the huge fiscal deficit left by the previous government. As is possible to see in the graph below, thanks primarily to this injection in the market, starting from the second half of 2016, the country experienced a growth in the production system that has been braked by the Covid by the end of 2019.

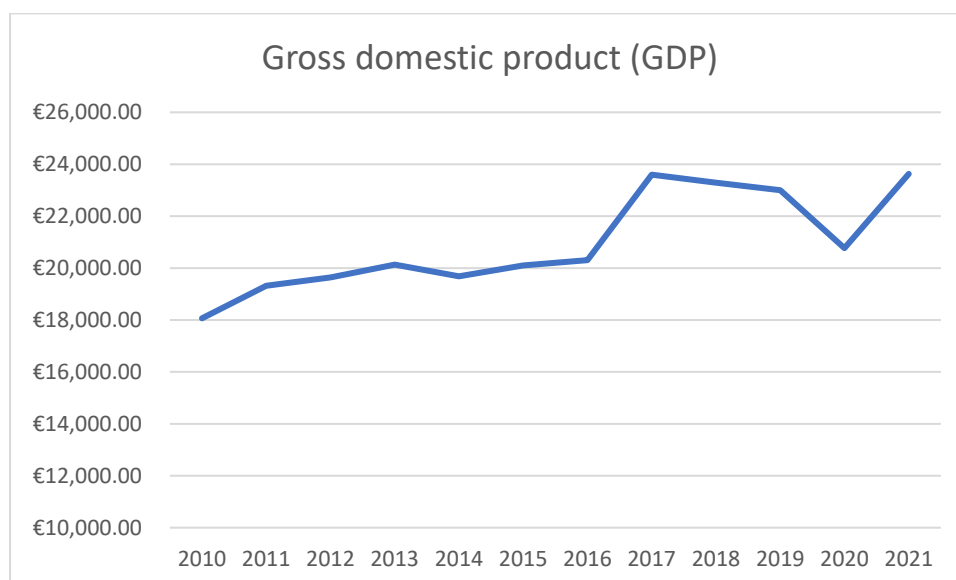


Figure 21 - GDP computed as US dollars/capita (OECD, 2022)

Another important action undertaken by this administration has been the reduction of public spending that, during the twelve years of Kirchnerist government, as is possible to see in the Figure 22, doubled the GDP. The main sources of cost for Argentina were

the public workers that, as revealed by an investigation of the journalist Veronica Smink at the beginning of 2016, featured around 10% of the population, approximately four millions of people, whether at national, provincial or municipal level. To reduce this value, when Macri took office, he reviewed the entire State staff, backtracking new hires and renewals that were unnecessary, for a total of 24.000 people, and the same did his Vice, Gabriela Michetti. In addition to that, the actions against the undeserved working contract, affected an agreement signed four years earlier, between the State and some Universities, through which thousands of people, many of them Kirchnerist militants, were given access to public posts without competition.

The reaction of the Association of State Workers (*ATE*) called for a national strike on 24 February 2016 but, government defended its measures and continued to select redundant workers, confirming that almost 8,000 people had already been fired in the public administration; among them several "*ñoquis*²¹" as the employees who do not work and only show up on the 29th of each month to get paid are called. (Smink, 2016)



Figure 22 - Central Government Expenditure (as share of GDP) (Our world in Data, s.d.)

Finally, the announcement that more deeply touched the population, was the one that became famous under the name of "*Tarifazo*", related to the hike in utility, such as energy, electricity consumption and transport tariffs which have been subsidized until that moment. The increase in those acquaintance started to be effective form July 2016 and lead to the first increase in the notes of the citizens after ten years of flat bills; even if the cost for utilities remained below the average South American value, this measure

²¹ This reference is due to the fact that a popular Argentina tradition state that eating "gnocchi", on the 29th of every month, bodes well for money and happiness.

strongly affected the less well-off class that started to receive direct support from the state. (Kummetz, 2017)

2.9 Overview over the analysed period

In this chapter, the last fifty years of Argentina's history have been analysed in order to look for, and analyse, the causes that led a country with one of the most thriving economies at the beginning of 1900 to be in a perpetual crisis status.

Starting from the 1970s, Argentina entered in a phase of "high inflation" which beginning can be identified with the "*Rodrigazo*", an outmost plan of external and fiscal actions that led to an increase of prices, for some specific goods, higher than 100% in a single month. Besides the phases characterized by military dictatorship, that made no more than weaken foreign confidence in the country without really solving any of the pre-existing criticism from an internal perspective, these 50 years can be associated to the emergence of neo-liberal ideology, and the consolidation of the monetarist approach. The combination of the two, produced a change in the arguments about the origins of inflation and, consequently, so did the economic policies apply to remedy at it. As seen, firstly under Vasena government and then with Martinez de Hoz, the ideology that considered inflation to be rooted in cost of production and expectation started to be the most quoted and the theory about what was needed to reduce it was based on the mix of measures aimed at promoting competition, increase efficiency and reduce speculation. All together these actions, even if on paper could have been the proper to implement, were never able to stop the recessionary tendency that led Argentina to its first hyperinflation, in 1989, when prices increase of 3.079% with respect to the once registered the previous year.

Even if this period lasted less than six months the country that came out of it was marked and characterized by a foreign debt that was growing at a rate of 60% on a monthly basis and by the extreme reduction of income of the State Treasury. The next year, the second hyperinflation wave took place between January and March; the increase in prices reach an average of 2.314% during the whole of 1990. As is possible to see in the graph below, and as the presence of inflation in the country was deepened prior in this work, this is a phenomenon that have always characterized, at different level, the economy of

Argentina and that even during the last ten years had been always higher than 20%. No administration of the last half century has been able to fully beaten it and looking at the forecast of the current government, neither it will be successful in doing so. Unfortunately, this country and its population started to accept the perpetuals presence of inflation and the constant, and unexpected, increase in price as something unchangeable rooted in their economic history. The economist M. Rapoport once said: “Inflation, and even more hyperinflation, are comparable to a war, they predispose population to accept measures that they would have previously rejected in order to put an end to the traumatic life experience”.

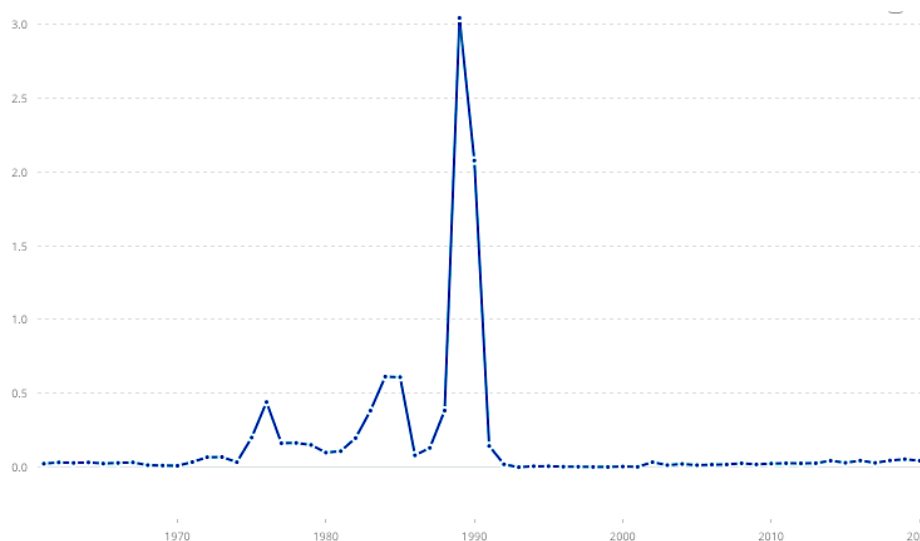
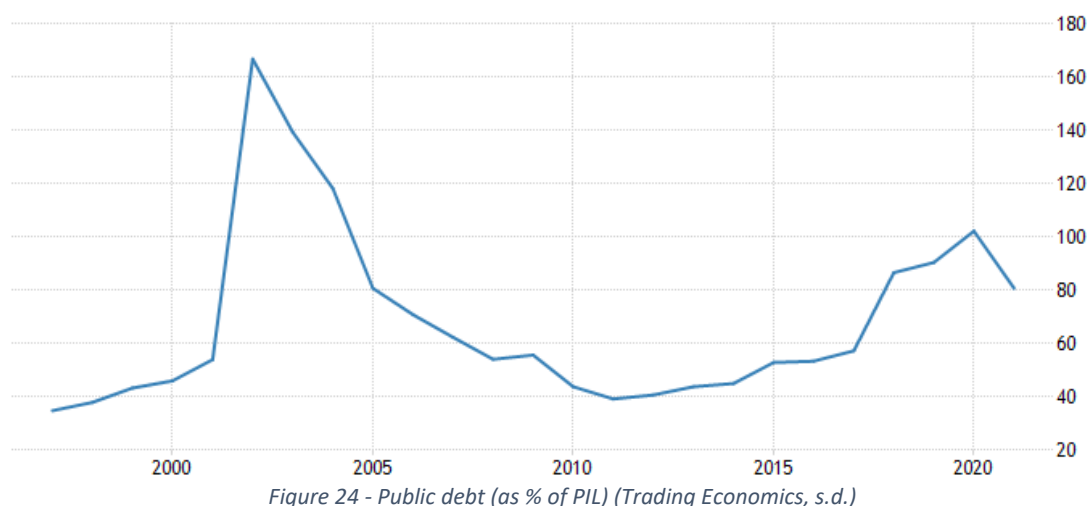


Figure 23 - Inflation measured by the annual growth rate of GDP implicit deflator (thousands %) (The World Bank Data, s.d.)

Another element that characterised the years that have been taken into consideration is the presence of a high public debt, primarily financed by foreign currency. This, along with the deflationary process ongoing since 1999 and the steady contraction of GDP, can be considered as the main causes of the 2002 crisis. The maximum level of borrowings was reached during De La Ruas’ presidency; a time were the debt represented the 166,6% of the total PIL of the county. After the default, and the “corralito”, the new president Duhalde, and later his successor Nestor Kirchner, used the repayment of a share of the debt as their main strategy to help the re-start of economy and to obtain the population’s support. Moreover, this was the only way in which the country could have been able to obtain back some of the confidence, and trust, that were lost in the international environment.

The last three administration analysed in this work have been able to restore the public debt at an acceptable level, in comparison to the PIL of the country, and to pay back the interest over it granting to Argentina the support from both World bank, IMF and the principal institution around the world, both private and public.



One last consideration has to be made over the most important social factors.

By the beginning of 20th century, Argentina had one of the fastest-growing economy and the population was experiencing one of the most economically rich periods in the country's history. The first sign of deterioration to this quite close to utopic era started to be visible during the First World War, when the price all over the world started to increase and Argentina was particularly affected by it. The reason was that, throughout most of its history, the country's economic income was originated only by the agro-export sector and a strong industrial production system was missing; it was impossible for Argentina to survive without import and this made the country to be totally dependent by others world powers and by their decision over prices. After this first sign of crisis the country started to industrialise its provinces and its cities, in order to move away from a system that was so conditioned by event happening in the international market. Moreover, for the first time, a country that have always been characterised by immigratory waves from all over the world started to experience some internal migratory tendency from the farthest border of the provinces toward cities and more industrialised area.

Coming to the historical stages of this work, especially with relation to the first 25 years, even if inflation hit harder than in the second half, the level of social welfare remained high with comparison to other states of the same region. The same cannot be said

talking about the last two decades studied; starting from the massive default of 2001 the population started to suffer the highest rates of unemployment, poverty and indigence in Argentina's history.



Figure 25 - Unemployment rate between 1991 and 2021 (share of labor force without work)

During the peak of poverty, almost 25% of population was living without a job in a condition of extreme poverty and, as can be easily understood, this caused a massive reduction in their buying power and in the level of demand in the market. Fortunately, as is possible to see in the Figure 26, by 2003 and 2004 the gap started to shrink because prices decreased as a consequence of the economic recovery mainly produced by the levels of production, that took advantage of the surplus installed capacity, by the low wage level and the existence of a large mass of unemployed.

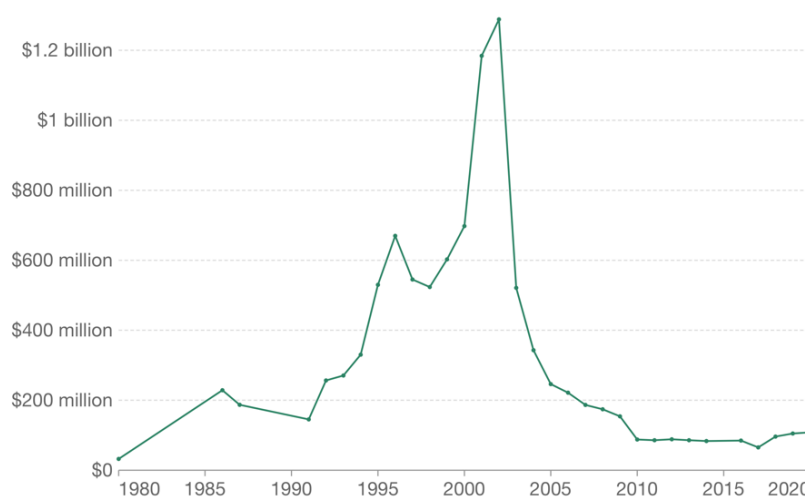


Figure 26 - The poverty gap²² (Our world in data, s.d.)

²² With the term "Poverty Gap" is identified the amount of money that would be needed to lift the income of all the people that are living in extreme poverty up to the international Poverty Line of 2,15\$ a day.

Summing up, during the last fifty years of administration, Argentina saw twenty-one President and more than 44 Minister of Economy; these continuous changes meant permanent modifications in economic policies, often carried out by inexperienced hands, that were not able to ensure a minimum of coherence in the administration of the economy. Moreover, throughout those years an element that stands out is that the currency of the country lived period of extreme overvaluation and others of undervaluation and, therefore, also the trade balance has alternated period of time in which was positive and others in which imports were way higher than exports. This latter topic will be further deepened in the following chapter in order to explain how this country play a role in the macroeconomic global environment while trying to provide some ideas about how focusing the Argentina's economy on the exporting system, especially on the agricultural one, could be the winning move for the country.

(Vazquez, 2015) (Rapoport, Una revision historica de la inflacion argentina y de sus causas)

3. The agricultural sector

The purpose of this third chapter is to make a briefly introduction to the agricultural sector of Argentina because, through the history of the country, the support that this market gave to State economy has been outstanding. Since the dawn of the transformation and development of a country that over the last two-hundreds years has gone from being one of the most geopolitically isolated to being one of the world's strongest economic powers, in the early 1900s, and eventually to becoming a key country in international trade, despite the many crises that have hit it, agriculture has played a key role. Moreover, an evaluation on what kind of policies have ruled the development of this particular market and how they have affected it will be carried out.

3.1 A brief history of agriculture development in Argentina

The modern history of the agricultural sector in Argentina starts from the “Revolucion de Mayo” of 1810 when the habitants of the ancient Buenos Aires dismissed the viceroy and led the country to the first commercial trading freedom; large quantities of livestock products began to be exported and, at the same time, torrents of foreign merchandise entered the country. As is possible to think, Argentina was quite isolated from the rest of the developed world till that moment and so, it happens to experiment the negative impact of a technically barely developed agriculture system that could not compete with the products of much more developed countries. During almost all the 1800s the main source of sustainability was the trade in leather, the meat of sheep and their wool that, unlike most of the recent migration wave, were bringing to the Pampa, as the central geographical region of Argentina is called, and to the north, many people from the occidental coast. During this century the cost of a sheep went from two pesos to 30/35 pesos when France, England and United States started to import massive quantities of wool, especially the one from Merino's sheep.

At the beginning of 1900, Argentina's low population density and abundant fertile land contributed to its comparative advantage in agricultural commodities, export of which were the basis of the income per capita in the early 20th century. In addition to that, it happened that the sheep trade deployment reached the peak of its popularity and productivity, considering the resources available at that time, both with meat, exploited

mainly in the province of Buenos Aires, and wool, which production was extremely popular in Patagonia; these conditions made shift the focus and interest of productivity toward agriculture. Many Italian farm workers started to arrive in the country looking for opportunities to make fortune and many of them brought to the new continent their knowledge based on years of growing up within a purely rural society. In few years an unusual increase in the area sown with cereals and flax was registered and a little later the same happened with the cattle, that regained its prestige. From 1908 onwards, both agricultural and livestock activities began to compete more and more intensely but modifications in the price in favour of grains made the former activity prevail the latter; moreover, the availability of national and foreign settlers, allowed a huge agricultural advance that led the planted area to represent around 33% of the surface of the Pampa's region in the middle of the thirties. This expansion had an abrupt slow-down when the combination of the aftermath of the crisis of the thirties and the beginning of the Second World War stimulated the administration of the State to undertake a national industrial development that, as is natural to be, implied a stagnation of the agricultural activity.

Looking at the second half of the century, is possible to state that investments were focus on a more intensive use of the land, which implies the use of a greater amount of capital and labour per unit area, and that gave, as a result, an increase in production. The negative side of this trend was that the reduction in the demand for labour and the accentuation of unemployment level in the rural sector. Starting from the 60s, soybean and sunflower oilseeds production began to displace cereals, wheat, corn, and cattle production; this induced a massive relocation, primarily in the North-West regions. Moreover, the agricultural sector found itself facing a greater demand for food, as a result of the growth of the large countries and of the gradual improvements in the average income levels.

During the last decades of the century the growth in the production of cereals, first of all soybeans, made possible to triplicate it and to reach a level of output of approximately \$47.68 billion.



Figure 27 - Cereal production measure in tonnes

The good adaptation of soybeans to different kind of ground and climate environment, together with good international prices, helped to increase the process of agri-culturization all over the country. The production of this specific cereal, at the beginning of the 70s, began to grow at a higher rate than the domestic demand and this made the national price to be lower than the one in the foreign market; this condition made Argentina to become a soybean exporting country without major disturbances. The latter event can be see clearly considering that at the beginning of the historical period considered throughout this work, when Peron came back from his exile, the production of soybeans was a marginal amount of the total agricultural production, around 22.000 tonnes, that was almost nothing if compared to the one produced by major powers, such as the United States, that was approximately 30.13 million of tonnes.

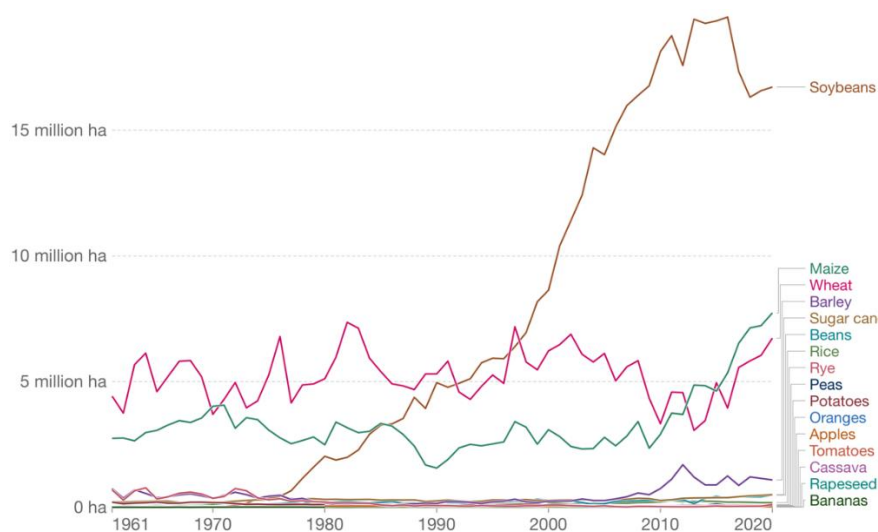


Figure 28 - Land area per crop type between 1961 and 2020 (Our World in data, s.d.)

Nowadays the situation is pretty much changed and Argentina, in 2020, was the third country, on a World scale, with the highest volume of soy production that accounted for the 11% of the total; only Brazil and US, that together account for the 68%, had higher harvest than it. Moreover, land used for this production accounted for two millions of hectares while in 2017 reached the level of 20 millions. (Conte, 2012)

3.2 Economic policies and their uses

Talking again about the influence that agricultural development have had on Argentina's society there is the needs to consider the several "stop and go" cycles that characterised the back and forth between free trade and import substitution policies.

Before doing so, it can be useful to introduce what are, for the OECD institute, the main categories of policies that can be used to estimate the support from authorities to a specific sector. The main distinction can be done between policies that provide direct positive, or negative, support to farmers, such as minimum prices, taxes, subsidies and payments, and the ones aimed at supporting the agricultural sector as a whole. Regarding the latter, which, as will be seen, has been the most used in Argentina, fall into this classification policy related to public expenditure over R&D projects and extension services, such as agricultural knowledge and innovation. In comparison with direct producer support, this second category is less distorting and better targeted to enhance the productivity and sustainability of the sector without making favouritism.

As stated in the previous paragraph, the country had experienced a thriving growth between 1860 and 1915 when agricultural exports boomed and the main production activity shift from breeding to cultivation; the first stop to this positive condition happened after the crisis of 1929 when the country had to impose some restrictive measures that signed the end of the first wave of free trade. The same sequence of actions was repeated few years later when, during the pre-World War II period, the country reopened itself to the global market investing in price stabilisation plans, such as support prices, public stockholding policies and trade regulations, before closing again in 1941. This latter period lasted quite long and was characterised by the imposition of export taxes on all kind of agricultural trade and on the imports of agricultural inputs, such as fertiliser; moreover, a reduction in the levels of investments

in private agricultural research and development organism and infrastructure was established. This “stop cycle” lasted till 1970s when a temporary trade liberalisation took place and the country started to explore the chance of improving its opportunities by forging alliances with neighbours and with the world; in this context President Alfonsín created the first draft of the MERCOSUR agreement. During his administration the biggest opening era of the country’s economy started thanks to some well-implemented foreign policies on free trade agreement, that had the aim of reducing barriers, to the dismantling of price-setting institution and to the reduction of import and export tariffs. Once again, this condition reversed after the 2001 crisis when the country happened to be deeply signed by the debt default and found itself in a position of extreme poverty with a great currency depreciation, a great domestic price instability and the level of fiscal balance at stake.

In order to exit from these critical conditions, export taxes were reintroduced together with quotas on the maximum level of goods that could have been trade externally; moreover, price controls at retail levels were used to better control the fluctuation in prices from an internal perspective.

Despite this mix of measures, the economy grew during the first decade of the century thanks to the increase in commodities prices all around the worlds and it only began to stall again in the last five years of Cristina’s Presidency. During the Kirchnerism’s era, taxes on exports were the kind of actions that were preferred thanks to the facility of their implementation, the low level of controls that public organism had over them and their effectiveness in raising revenue.

In 2015, when the presidency of Macri was at its inception, the new government reversed the previous agricultural policies through the elimination of export taxes for most agricultural and livestock products, with the exception of soybeans production. Together with tariff, also any kind of quotas were eliminated and the exchange rate on both internal and foreign market was deregulated. To the purpose of this work, the years that have been considered ended with the second decade of 21st century and Argentina is left in a setting where the main objective is an integration in world markets by obtaining the role of benchmark country in the agro-industrial sector through a process based on productivity, competitiveness and development in technology and innovation. (Trade and agricultural directorate, 2019)

3.2.1 How export taxes have affected Argentina

Is now clear that, at least from the 2000s, on a different extent, export taxes, licenses and quantitative limitation have deeply affected the agricultural sector and its development as negative externalities. The reason why this trend has been particularly fast between 2002 and 2012, was the general increase in the international prices of Argentinian export commodities, such as wheat, corn and bovine meat, that were also the fundamental of the basic diet for most of the citizens of the country. For this reason, in order to prevent an escalation of internal prices due to the global market trade boost, considering also the rate of poorness present at that time, the guideline followed by the administration that was in charge, firstly Nestor and then Cristina Kirchner, was to introduce export restriction and taxes. The peak of the latter was reached in 2008 when the tariff over soybeans trading was 44% while the average level over sunflower production was of 28%, the one of wheat was 22% and 20% was over maize. This condition lasted till 2016 when, with the change in the mindset of the government, a more liberal policy began to be applied and almost all the taxes on export were eliminated. This last statement held to be truth till September 2018 when a temporary flat tax of 12% was introduced over all different kind of export goods and remained active till the end of 2020.

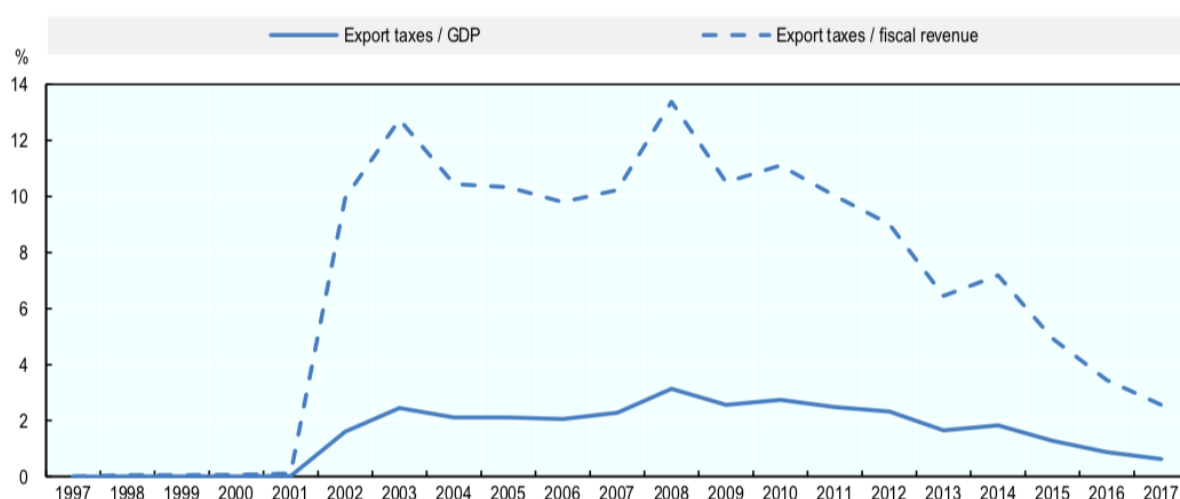


Figure 29 - Revenue from export taxes (as % of GDP and of Total fiscal revenue)

To sum up, the motivation hidden behind the choice of following a strategy based on tariff and regulation can be summarised in three reasons:

- Generation of fiscal revenue; along the history of the country the government have had limited alternatives in collecting taxes due to a small fiscal basis and to the high level of tax avoidance from citizens. According to this background, the mix of these condition made it necessary from administration to think to an effective solution to increase public revenue and the plan with which the government came out was to create a taxation plan over products whose prices more than double in the first decade of 21st century, the oilseeds.
- Promoting domestic development, especially in the processing industries. Talking about this, the government started to impose a different tax rate over primary products and processed ones; in particular, regarding the former, the tariff was way higher. The reason behind this strategy was to improve the export of products with higher domestic value added in order to promote sectors where more labour was needed.
- Depression of domestic food prices; the main instrument to achieve this condition was through the restriction of export thanks to quotas and quantitative limitation that assumed the role of social policies to help the urban poor citizens.

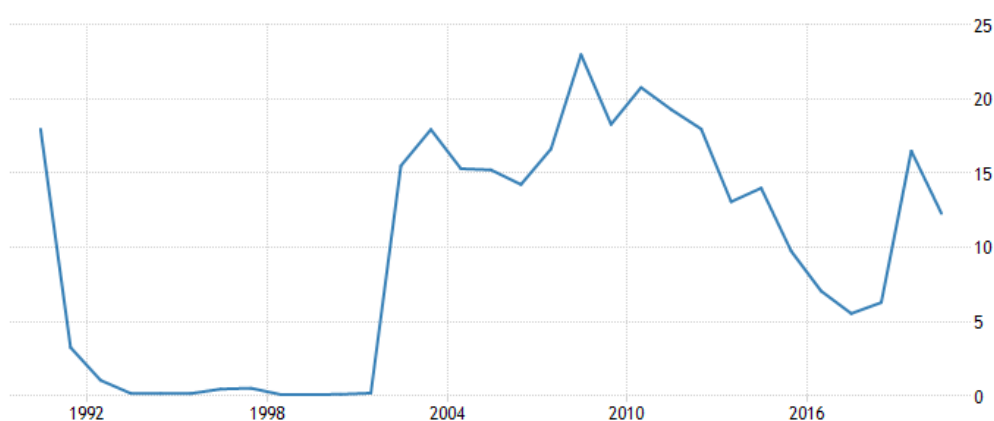


Figure 30 - Taxes on export (as % of total tax revenue) (World Bank, 2022)

As is possible to see in Figure 30, in the last two decades, export tax revenues have represented an important share of the total revenue of Argentina; they became a

significant source for the government by representing more than 10% of total fiscal profit and around 2% of GDP, with a peak in 2008 when they accounted for 3.1%.

Starting from this knowledge can be interesting to talk briefly about how Argentina's federal structure work and why export taxes have been considered for so long as negative externalities even if they helped many times the economy of the country. Inherent in the definition of the Argentinean government's share of powers there is the sub-division of the state into different bodies, the so-called provinces, and their respective levels of administration, the federal and the provincial one. These two organisms share the revenue from most taxes, such as corporate income and value added taxes, but this is not the case of export tax, that are imposed and collected by the federal government, and the turnover tax, made, on the contrary, by the provincial one. Talking about the former, these tariffs are defined in discretionary manner by the treasury and the executive board and approved by the president; for this reason, they have been used recurrently as a rapid way to raise federal tax revenue.

Too often the revenue has been used to pursuit the interest of the federal capital, and region in which it is located, leaving behind the necessity of further apart province and creating in this way a constant desire of rematch and increasing the gap of economic inequality all over the country. According to the work *"Dismantling export barriers: economic and social impacts"* written by J. Nogués, the total elimination of export taxes would produce an even more negative impact on the economic condition of the country because it will increase domestic prices for producers and, automatically, will raise tax revenue from the turnover tax collected by the provinces. The reduction in export tax revenue would be partially compensated by increases in revenue from the provincial turnover tax, which is potentially more distorting than export taxes. (Trade and agricultural directorate, 2019)

In conclusion, has been possible to see how export taxes have been, along its modern history, a constant source of revenue for Argentina's government at both federal and provincial levels in spite of the numerous "stop-and-go" cycles. Moreover, this kind of tax still remains one of the best performing instruments that fiscal authorities can implement. At the same time, it is important to emphasise how, given the economic conditions in which the country finds itself, this imposition on the possible earnings of

the agricultural sector limits the possibilities of expansion, innovation and restrains possible foreign investors.

3.3 Final consideration on agricultural trade system

To conclude this chapter let's have an overview over how the export and import sector react to the different conditions in which the country lived in the last fifty years.

Considering the graphs below, the first critical situation in which the country had to live happened between the end of the 70s and the beginning of the 80s when Argentina was governed by the military group guided by General Videla, at first, and later by Bignone. The economic condition of the country was the one typical of a state in recession and, in order to exit from this vicious circle, the Minister of Economy decided to focus his policies on the external sector making the level of export to increase from the 5.86% of GDP in 1975 to 11.82% in 1979, mainly thanks to the exploitation of agricultural sector. This positive condition, created thanks to the work of Hoz, lasted till 1981, when the presidency passed to Galtieri and the setting drastically changed. As is possible to see, the level of import reached the first of its historical peak and exports, even if policies based on free trade and market liberalization were undertaken, were not able to cover this deficit. The main reason was that during this government the Malvinas' war took place and, as a reaction, all the biggest powers of the world started to isolate the country by cutting all the trade agreements and stopping to buy resources and commodities from Argentina.

This situation of crisis ended when, in 1983, the citizens elected as new President Alfonsín who, by the end of his term, was able, for the first time in decades, to set the level of export to be higher than the one of import, creating a positive balance of USD 4.580 million. Despite some minor fluctuations, his successor, Carlos Menem, was also able to maintain this trade surplus producing, at the beginning of the 90s, a balance of USD 8.200 billion in favor of Argentina. Moreover, during his administration, the successful measures presented in the Convertibility Plan, mainly the trade liberalization, help to guarantee an economic wellbeing condition. In spite of the good performance registered at the beginning of his term of office, during the last decade of the 20th

century, exports increased only by 115% while imports by 320% and so, the trade balance, was characterized once again by persistent deficit.

The years that signed the beginning of the new century corresponded also to the major debt default of Argentina history; even if this is considered one of the darkest times for the economy of this country, Duhalde as President was able to maintain the trade balance almost always positive without any notable actions.

When in 2003 Nestor Kirchner was elected, as is possible to see in the graph below, the level of GDP reached the lowest value since the massive default happened due hyperinflation in 1989.

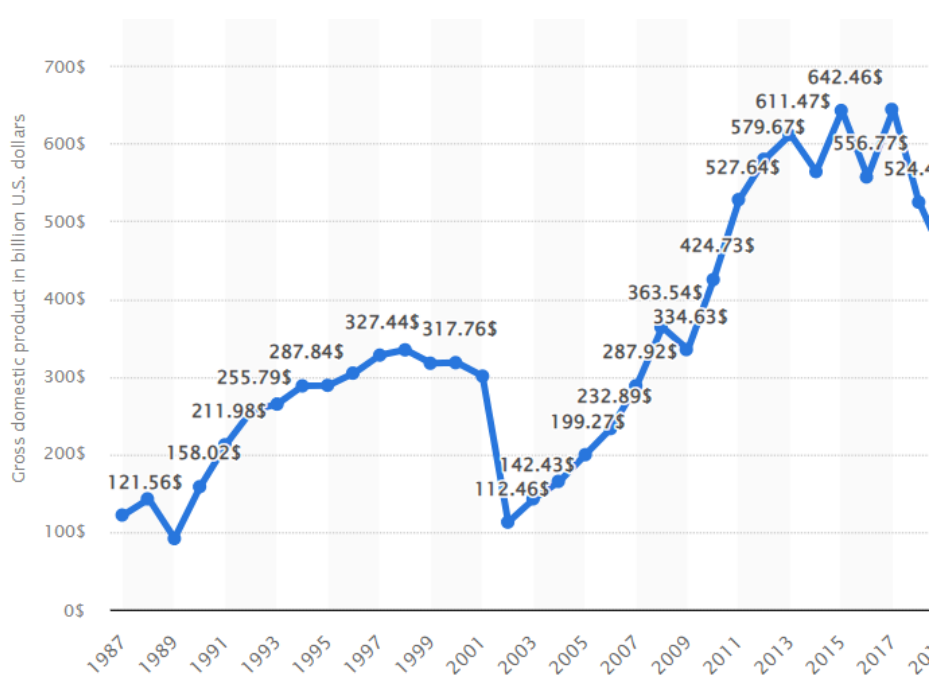


Figure 31 - Argentina: Gross domestic product (GDP) in current prices (O'Neill, 2022)

In order to avoid a potential collapse, the new President, decided to pursue the improvement on the external economic front and what he obtained was an initial contraction of import, that reached again the same level of the decade before, and a quantitative increase of export that touched its peak by covering the 28% of the GDP of the country in 2002. The massive peak could be explained by considering the extremely low level of GDP that in that same year accounted for only US\$142.43 billion while in 2013, when both the level of the share covered by import and export started to balance around the value of 13%, was already at US\$611.47 billion. Even if, at this time, Argentina had its highest fiscal surplus the profit of it were barely shared by the agricultural producer because, as stated above, during the Kirchnerism era the level of

taxes on this sector reduced drastically the chance of making substantial revenue to the producers.

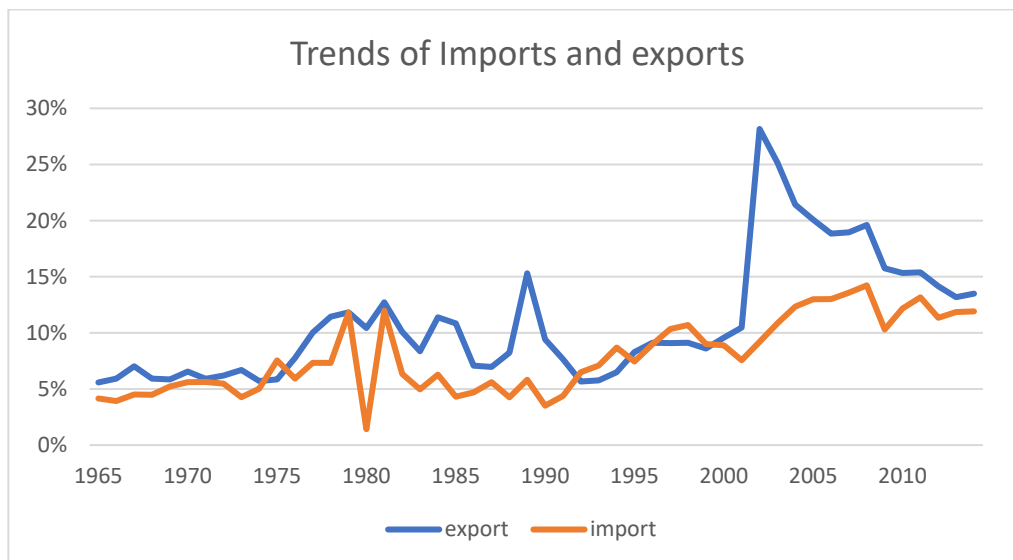


Figure 32 - Value of imported and exported goods as a share of GDP (personal elaboration of data from Our World in Data)

Finally, by the end of the time span analyzed throughout this work, the gap that was generated at the beginning of the century started to shrink realigning the combination of imports and export to the trend that characterized the past of the country's history while maintaining a positive surplus. (Trade and agricultural directorate, 2019)

4. The impact of the crisis in Ukraine

The Russian-Ukrainian war has triggered a series of adverse effects on a macroeconomic level not only for the economies directly involved in the conflict, but also on their regional economies and, as a consequence, on the rest of the world, especially on underdeveloped countries. After having addressed the economic condition that Argentina had in the last fifty years, its current history is being affected by the unexpected conflict disrupted in Europe. For these reasons in this chapter the consequences of the war will be analysed; firstly, there will be a focus over Ukraine and Russia, how the war has affected its economy and its agricultural system, and secondly there will be an in-depth look at how Central Banks are reacting. Finally, a last consideration will be made about how Argentina has been affected by this event and the measures the country is taking to avoid the chance of a new default and exploit possible sources of revenue.

4.1. Overview of the conflict and its economic effects

The conflict between Russia and Ukraine outbreaked in a global economic context that was slowing down, for the first time after two years of sequential lockdown, as a reflection of the reduction of monetary and fiscal policy support and due to the persistent backlogs of supply caused by COVID-19.

There is the need to start this analysis considering the two countries involved in the war which are the ones with the most palpable consequences, both in the humanitarian and economic spheres. In order to do so, let's consider the paper written by Roberto Lampa and Nadia Garbellini with the title *"Sanzioni, shock da offerta e inflazione: la rilevanza del conflitto russo-ucraino"*.

In Ukraine many urban centres have been badly damaged and maritime, rail and road transit have been severely disrupted, causing a deterioration of industrial activities and an erosion of human living conditions. Goods trade has reached a stand-still as damaged route impede shipment over land, while the loss of access to the Black Sea cut off all the sea transit, which was used to bear almost half of Ukraine's exports. To prevent the

financial collapse some emergency financial measures has been implemented, such as capital controls and banking restrictions, but these have failed to prevent the inter-annual GDP contraction of 16% in the first quarter of 2022.

Moreover, World Bank's forecasts estimate a 45.1% fall in GDP by 2022 but make it clear that this is an 'optimistic' estimation linked to the actual duration of the war. These forecasts fail to take into consideration two aspect related to the Ukrainian economy. The first one is that, since 2014, the country has continuously received financial assistance from the International Monetary Fund (IMF), while showing increasing debt intolerance, and on April of that same year a two-year Stand-By Agreement (SBA)²³, in the amount of USD 17 billion, was released. Secondly, Ukraine's ability to meet its international payments depends on exports of raw materials, but, as was stated above, the entire coastline of the country is under direct, or indirect, control of the Russian military service and this makes almost any outbound naval transit impossible. In other terms, Ukraine's survival from now until the near future will depend solely on external aid.

Regarding instead Russia, in the short term, the country has shown that it can withstand the impact of international sanctions thanks to the exceptions provided in the energy sector and the large reserves available, which together have been able to grant the stability of the Ruble's value and the ability to meet international payments. The most visible effects caused by the conflict are related to financial asset prices where the yields on Russian dollar-denominated debt surged and the equity prices has fallen sharply. The immediate response from the government has been a strict control over capital, an increase of the interest rate from 10.5% to 20%, and the announcement that all the transaction related to energy supply had to be invoiced in the national currency. Despite any pre-emptive actions the inflation climbed from 9.2% in February to 16.7% in March 2022 before starting to lower down few weeks into the war; meanwhile, the Ruble began to depreciate and supply shortages started to become visible. Moreover, the withdrawal of many external investors will dry up investments while, for the foreign trade, the import compression due to the reduction in the demand and the many export

²³ The SBA framework allows the IMF to respond flexibly to countries' external financing needs and to support their adjustment policies with short-term financing

bans, especially related to high-tech goods and oil production, will have a lasting negative effect on Russia. All together these events will affect the annual GDP of the country whose expectations, computed by the IMF, state that it will shrink by 11%.

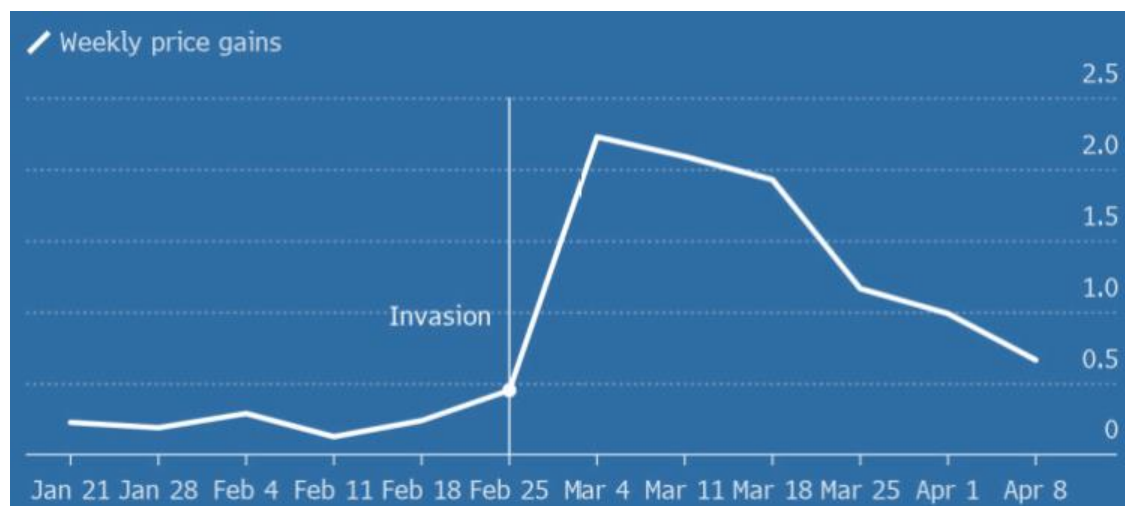


Figure 33 - Russian weekly inflation (Bloomberg News, s.d.)

Finally, there is a need to make few considerations about the impact of the conflict on a regional and global scale.

Clearly, several economies all around Europe and Central Asia have been hit hard by the war between Ukraine and Russia due to the high level of linkages through trade, commodities and channels. The main concern is related to energy and gas sectors, where the dramatic increases in prices experienced during the first few months of the war, mainly as a result of mere speculative dynamics, had important knock-on effects on the electricity and heating service across both continents. Beside the ECA region, considering the global scale, it is likely that the net effect of the conflict will be negative for Latin America and the Caribbean as well, where, despite the prevalence of net commodity exporters, the reduction on energy imports and the application of inflationary and monetary policy will more than offset the potential export gains. Moreover, the Russian invasion of Ukraine has caused major effect to the supply of commodities in all those countries for which they are key importers, increasing the existing stress from the COVID-19 pandemic. Together the two opponents serve almost fifty countries, mainly emerging ones, located largely in Africa and Eastern-Europe, covering an average of 30% of their wheat imports along with maize and barley.

The result has been a massive decline in the supply of major staple foods that caused an increase in price volatility, which has reached levels not seen since the 2008 crisis, with global wheat and maize prices boosted respectively by 48% and 28% in comparison to February of the same year. Higher global food prices will directly translate into domestic food price inflation, especially in food-import dependent countries, limiting the ability of people to afford their food. Moreover, both are also dominant exporters of sunflower oil, one of the world's dominant vegetable oils and some countries, especially under-developed ones, rely heavily on imports of these products for domestic food supplies. (Lampa & Garbellini, 2022)

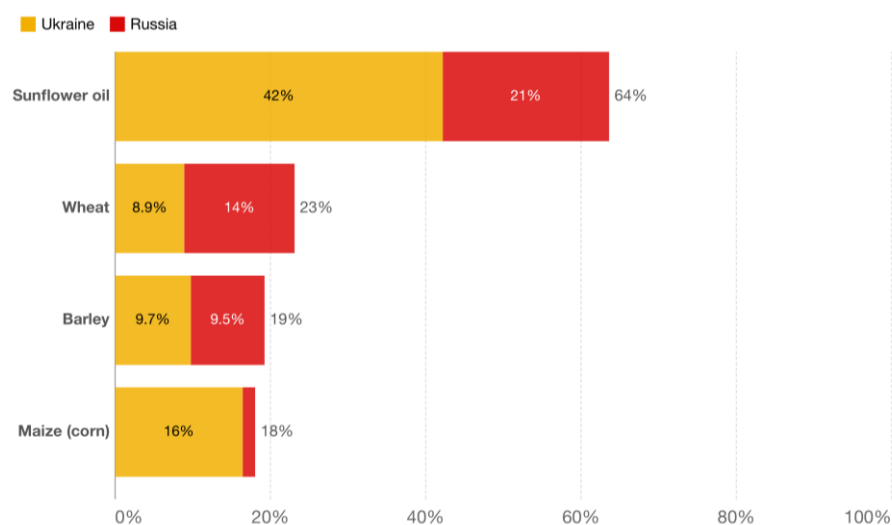


Figure 34 - Global Food Export in 2019

The World Bank recognised two main aspects caused by the war in Ukraine that might affect the commodity markets; the first one is the physical impact and destruction of productive capacity, while the second one is the impact on international trade. Regarding the former, the country that has been affected the most has been Ukraine because almost all its grain exports flowed through Black Sea ports that, starting from April, are no longer operating and because its soil has been the main one over which the war has been disputed. For this latter reason it is likely that also the production of the upcoming seasons will be disrupted. Considering instead the impact on trade markets, on the contrary to what stated above, Russia will be the country that will suffer the most due to the wide range of sanctions that have been imposed to it. The EU is the largest collective buyer of Russian oil, buying 42% of Russia's output, but the constituent countries have managed to diversify their base importing oil from elsewhere while

enlarging the harsher sanction's package. Regarding the Russian exports related to other products, the actions that have affected it the most have been the suspension of booking from many shipping lines through sea and the reciprocal air space ban between Russia and Europe that caused the transportation costs to raise. (Emediegwu, 2022)

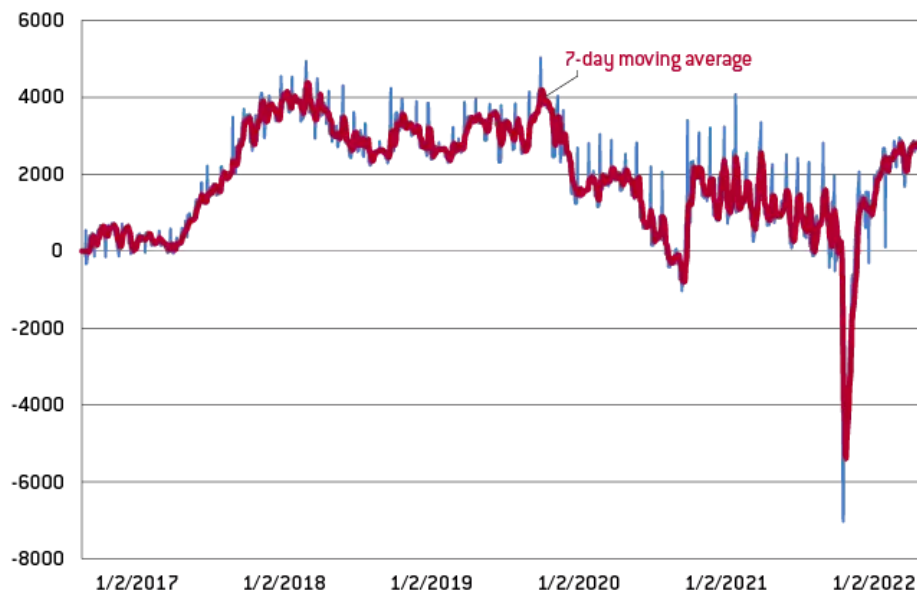
To conclude this first paragraph there is the need to state that, overall, the conflict will create a waterfall effect, with global inflation index likely to remain elevated as demand and supply shocks try to overcome processes related to wage and price setting. It is quite probable that Central Banks will tighten monetary policies while unwound fiscal stimulus, effectively slowing down the potential growth of the countries involved, in order to deal with the upward pressure on inflation. The only risk related to a rapid monetary policy tightening is that CBs of advanced economies, especially the one of US, may have no other choice but to raise policy rates, leading to a sudden re-pricing of risk, a compound of the course of global fiscal support and a further slowdown of the global economy. The effects of this possible event in emerging markets and developing economies might induce a massive capital outflow, a currency depreciation and a boost of inflation. (Guénette, Kenworthy, & Wheeler, 2022)

4.2 How the world's Central banks are reacting to the conflict

Until this point the main focus of the chapter has been the conflict itself, its effect over the macroeconomy all around the world and a brief introduction about the possible response strategies that financial offices may undertake. Let's now deepen the latter by considering the reactions and policies issued by the main banking institutes as a response to the war.

After the conflict broke out in February 2022, the main tools used to weaken and discourage the continuation of the war have been economic sanctions. These actions have been imposed primarily on the Central Bank of Russia (CBR) and succeeded in blocking its access to \$630 billion of foreign exchange reserves and to the SWIFT payment infrastructure. Moreover, the EU has also prohibited sale, supply, transfer and export of euro-denominated banknotes to Russia in order to limit the country's access to cash in euro.

As it is possible to see in the graph below, even though these sets of limitation were expected to have a substantial effect over the Russian economy, its structural liquidity conditions have returned close to pre-sanctions levels, following a short period of distress in March 2022. This outcome could be explained, on a short-term basis, by the increase in oil and gas prices that together accounts for 40% of total exports of Russia and so they are still helping to finance the state coffers.



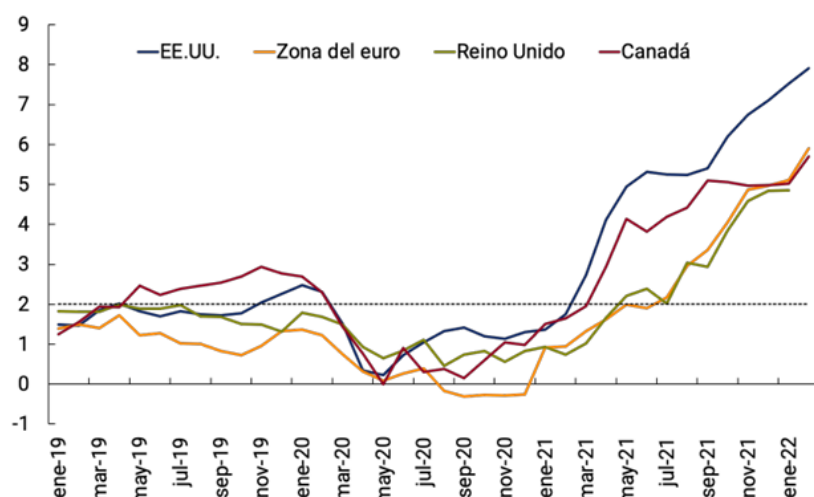
Graph 7 - Banking system's structural liquidity surplus (Demertzis, Hilgenstock, McWilliams, Ribakiva, & Tagliapietra, 2022)

The first line of action of the CBR after the imposition of sanctions have been strict capital controls, that forced banks not to sell foreign currency, and a cap of \$10.000 on cash withdrawals from foreign currency-denominated accounts. While the latter, after several months of conflict, has been lifted to a threshold of \$1 million per month, the former is still in place and the supplies of foreign currency can take considerable time. It is important to state that, even if these sets of actions imposed by some world's economic power do succeed in affecting the target country, they also have the potential to damage both those who impose the sanctions and who have economical connections with that same country. The most emblematic example of this happening is the energy shortage in Europe. The European continent as a whole is suffering from the increase in gas prices way more than Russia is, in fact, the latter is able to counterbalance its lower sales volume thanks to higher tariffs that are helping to support its currency.

What really characterizes the sanctions imposed in the case of Ukraine is that the focus is not on the trade between one country and another, as it was commonly done in previous centuries, but rather on financial markets and on the use of the dollar, or other “strong currencies”, in payments and foreign exchange reserves. Moreover, since the beginning of the war, sanctions have been imposed on a multilaterally base by alliances of countries that together are responsible for issuing almost the 97% of the global reserve of currencies. Clearly, the implementation of these plans are going to affect the Central Banks all over the world in many different working areas. Regarding, for example, the fragmentation of the payment system, which was a critical topic already present before the disruption of the war, the conflict may speed up the transition from a dollar-based pricing system to a completely new one with a reduced need for settlement balances. Considering instead the reserves of assets, sanctions can drastically impair the liquidity of any portfolio, even if it is owned by a Central Bank. In the case of Russia, western counterparties can’t subscribe deal with the CBR or with the Russian commercial banks and this is going to reduce the liquidity of all Russian reserve assets. The fact that, for the first time in history, asset freezing is used as a part of armory of weapons to fight a conflict made some financial institutes question whether official holders of dollars can be confident about their liquidity. (Bingham, Fisher, & Large, 2022)

Moreover, there is the need to remember that the conditions in which the war broke out were those of a world in which Central Banks were already dealing with an inflation rate that reached its highest levels since 2008, due to the effect of COVID-19 pandemic. Before the outbreak of the war, forecasts for the global economy indicated that the world would return to growth in 2022, although at a slower pace than in 2021, and the average growth forecast was 4.3%. The armed conflict implies lower global growth projections especially because its initial impact has reinforced previous trends of tightening global financial conditions and rising commodity prices. According to the European Central Bank, the expansion of the world economy is expected to fall from 4.5% to 4.1% in 2022 and from 3.9% to 3.6% in 2023 and, in the Euro Zone, from 4.3% to 3.7% in 2022 and from 2.9% to 2.8% in 2023. Considering instead the inflation rate, the forecasts of ECB made in December 2021 were expecting for 2022 a rate of inflation

equal to 3.2% but after the beginning of the war that level has been replaced by an average of 5.1%. This decision is due to the fact that inflation in developed countries has reached record levels in recent decades, more than doubling the targets set by their CBs shown by the dotted line in the following graph. In February, retail inflation was 7.9% in the United States, its maximum since 1982, 5.9% in the Euro Zone, 5.7% in Canada and, in January, it reached 4.9% in the United Kingdom. (Subgerencia General de Investigaciones Económicas, 2022)



Graph 8 - Inflation rates of developed countries

So far, have been considered the impact of the conflict, and its consequences, mainly on European countries. However, since the Latin America area has been the focal point during the redaction of this work, let's see how its countries and their CBs have dealt with the conflict. It is possible to say that there is a general lack of deep economic relations with Russia; in 2020, Russian-Latin American trade was approximately \$11.9 billion, that accounted for just 0.64% of Latin America's total trade. Paraguay exports to Russia, Ukraine, and Belarus, account for 5.6% of its total, while Brazil has the highest percentage of its imports coming from the three countries, at just 1.8%. Despite the lack of a dependency in foreign trade, throughout the war Latin countries have kept their trade with Russia open, especially for fertilizer, fuel, and grain imports. The first one, in particular, is a sensitive product for Latin America's agricultural producers; for example, Brazil imported 25% of its fertilizer from Russia in 2021 while Argentina imported over 500,000 tons. For its importance in global markets, United States carved out Russian fertilizers from their sanction regime but, due to supply chains disruptions, in the first half of 2022, its exports fell by 24%. This shortage made fertilizer prices triple by

September 2022 and World Banks have stated that this might cause a crisis of food availability, especially in those South American countries characterized by drought conditions.

On the other hand, the conflict and sanctions regime opened new economic opportunities for Latin America. For example, the region has been able to fill the export void left by Russian and Ukrainian wheat, which pre-war represented 30% of global product, with countries like Argentina and Brazil being able to find new markets in both Europe and North Africa. Moreover, as Russia has lost oil and gas markets in Europe, the Euro Zone countries have looked to Latin America as a market. Many in Europe were eager to get their hands on the cheaper product, as diesel and gasoline reached record prices during the summer. (Harrison, 2023)

To conclude, despite the first inflationary shock, which was concurrent with the first few weeks of the conflict, what is important for Central Banks, both the European and the international ones, is the level that this rate could reach in one or two years, hence this is the time span at which monetary policy decision might affect prices. According to the latest forecast of the ECB, the inflation is expected to go down to 2.1% in 2023 and to 1.9% in 2024 which are levels close to the target of 2%. If this scenario were to occur, in correlation to the decrease of inflation, also growth would be more consistent; consequently, the prospect that monetary policy will be normalized, may seem fitting. Regarding instead the way in which the CBs will deal with the sanctions imposed by the different international institution on the Russian financial system, much will depend on how long the conflict may last and on any new restrictions that might be imposed in the future. (Blot, 2022)

4.3 The Argentinian Case

Let's now focus on the nature of the interaction between Argentina and the two countries involved in the conflict in order to better understand the impact that the war may, or may not, have over the Latin state. Moreover, the actions undertaken by the Central Bank, considering the economic condition of the country, will be considered.

4.3.1 Geopolitical and economical interactions

Let's start by considering the relationship between Argentina and Ukraine, that can be summarized in three main different aspects. The first is related to humanitarian cooperation, which sinks its roots back to the end of 1800s when the unfavourable socio-political circumstances, together with the lack of work, in Ukraine, acted as a stimulus for many families to emigrate from their European country to Latin America. By the end of the First World War there were at least 70.000 Ukrainians in Argentina and this induced the latter to be the first country in all the region to recognise and establish relations with Ukraine, in 1921. Right after that year the eastern country lost its freedom and no other official exchange happened until 1993, when new diplomatic relations were put up through the opening of embassies in the two capitals. The second stream of interaction is related to the military-technical cooperation; this kind of relationship started during Carlos Menem's administration and was based on exchanging information and knowledge. During Cristina Kirchner's presidency an attempt of enhancing the existing relations have been made, but it was not approved by the Congress, partly to counterbalance the weight of Argentina's bilateral relations with Russia. Finally, the third aspect that must be underlined is the fact that in some of the main hydroelectric stations of Argentina, all the turbines and engineering parts come from Ukrainian industries.

The relations between the two regions, as it is natural to think, started to stall with the Russian invasion (Bonanno, s.d.).

Considering instead the bound that connects Argentina with Russia, it started back in 1887, but it was abruptly stopped in 1917, due to the Bolshevik revolution. Only in 1946, when Juan Perón covered for the first time the role of leader of the country, the link with Russia was re-established, and it has suffered no interruptions up till the present day. The relationship between the two countries has lived during the two years of Covid-19, one of the glorious times of their "friendship", because Argentina has been the first country, beside Russia itself, to use the vaccine Sputnik V. This action served as a showcase to weaken the prejudices built up by the "Russophobia" that characterises the United States and some European countries. Throughout all those years the main form of exchange between the two countries has always been on the commercial trade

markets; in 2020, according to OEC data, Argentina exported US\$685 million to Russia, which represent 1.5% of all its exports, where the 89.8% were foodstuffs, animal and vegetable products. That quota of export equals account for 0.18% of the GDP of the country in that same year that was equal to \$385.54 billion (at the current price). On the other hand, from the Eastern country, Argentina mainly imported chemical products, for a total of for almost US\$61.9 million, with fertilizers accounting for 47.7% of the total. (The Observatory of Economic Complexity, s.d.)

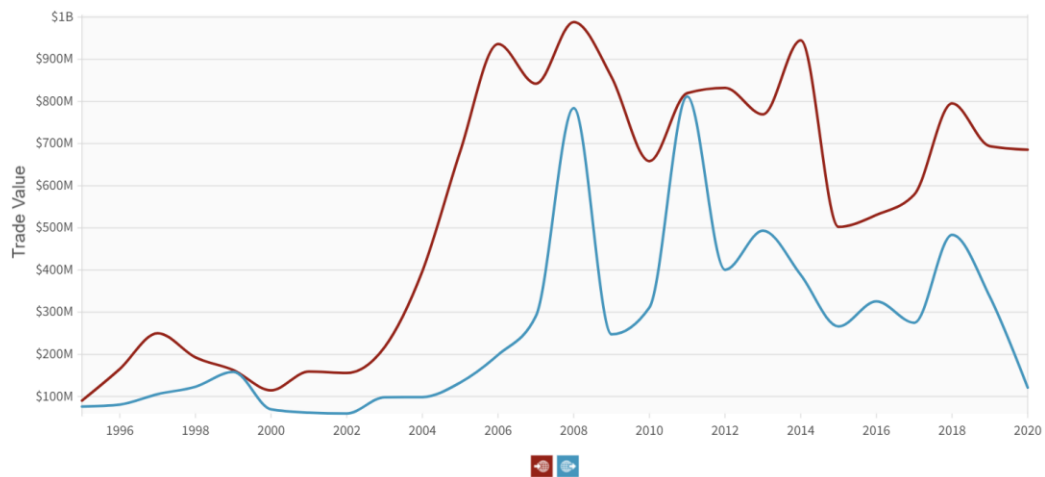
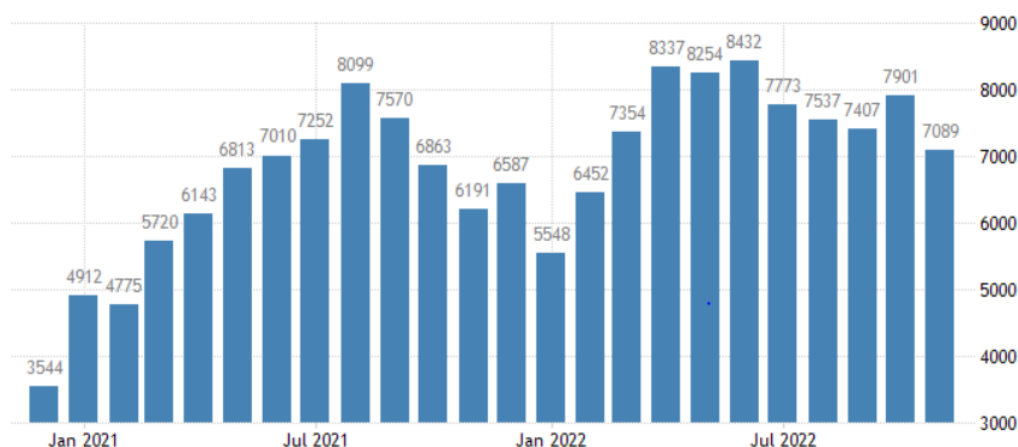


Figure 35 - Trade Balance for Argentina with Russia (The Observatory of Economic Complexity, s.d.)

The statements made above led to some reasoning related to the short-term impact of the war over the Latin country. Argentina, when the conflict disrupted, had already placed the 45% of all its forecasted exports for the agricultural sector for the 2021/2022 season and so, this percentage, did not beneficiate of any increase in global prices. Looking at the rest of the quantity projected for exports, it was reasonable to expect that such quantity could capture the raise in international fees up to an additional 5% of profit with respect to the previous season. As it can be seen from the following graph, this predicted trend was followed.



Graph 9 - Argentina Export over the last two years

Regardless of the beneficial effect over prices, it is no surprise that, in reality, the impact of the War in Europe is going to be ultimately negative. When looking at the total amount of products imported from Russia, the agricultural and the energetic sectors will be the most affected on a long-term basis. In 2021, Argentina imported a total of \$2.3 billion of fertilizer, \$5.61 million of which came from the eastern country; moreover, a total of \$5.57 million have been used to purchase refined petroleum from Russia. That same year, this sector, recorded a negative balance of \$630 million and it is only thanks to the global increase in prices of agricultural products caused by the conflict that Argentina, during 2022, was able to sell cereal at a price high enough to counterbalance the rise in price of fertilizers, thus bringing the country's trade balance to a positive value. Thinking about the 2022/2023 campaign, which will begin to be harvested in May of next year with wheat and barley, the current grain price levels will represent an opportunity to expand the sown area and increase the production and, consequently, exports. It will be important to monitor the prices of agri-inputs that, offsetting the positive effect of prices of exportable commodities, could affect the international trade ratio and investment in technology. The signals received by the producer in relation to domestic policies will affect the overall output and will be decisive in the generation of a framework that encourages the production and the export of grains.

At this point it could be interesting to briefly expand on the "balance volume" policies imposed by Argentinian government primarily over wheat and corn export. Since the beginning of the 2000s the support from authorities to producers have been negative, or almost null, reflecting the set of export taxes aimed at depressing domestic prices. After the 2001 crisis, the country introduced price controls and export taxes in order to

raise revenues and to reduce basic food prices on a national basis. Further export restrictions, in the form of quotas over cereals, were imposed in 2008, when the country, along with the rest of the world, suffered one of the worst financial crises of the last century. That same year marked also the lowest registered State support granted by Argentinian government to the agricultural sector, which fell to -51.1% of gross farmer receipts. After the end of the crisis, between 2011 and 2015, a consumer prices subsidy was implemented and when Macri won the election he reduced both export taxes and export quotas in order to enhance the power of Argentinian product on the international market. This openness of the market lasted till the change of government that happened in December 2019 when Alberto Fernandez became president and re-established an agricultural policy influenced by Kirchner idealism. Export taxes were re-instated, the exchange-rate controls led to the widening of the gap between the legal and the “other market” exchange rate and new quotas were created. The latter were variable and mainly focused on wheat, maize and for beef, as measures to reduce Argentina’s rising domestic food prices. Some of these quotas will be on till the end of 2023 such as those over wheat, whose export cannot exceed 14.5 million tons, and on seven meat cuts that are popular in the national market. The export quotas for the product just cited can be seen in the following graph.

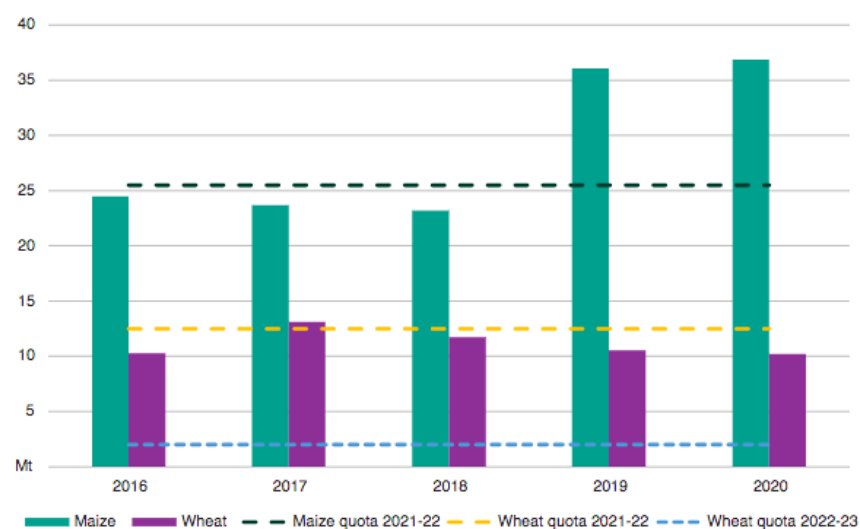


Figure 36 - Argentinian export quotas against historical volumes of exports (Australian Trade and Investment Commission , 2022)

During the Economic and Social Council meeting that took place in March 2022 in Buenos Aires, the financial and economic implications of the conflict for Argentina have been analysed. Alicia Barcena, Executive Secretary of the Economic Commission for

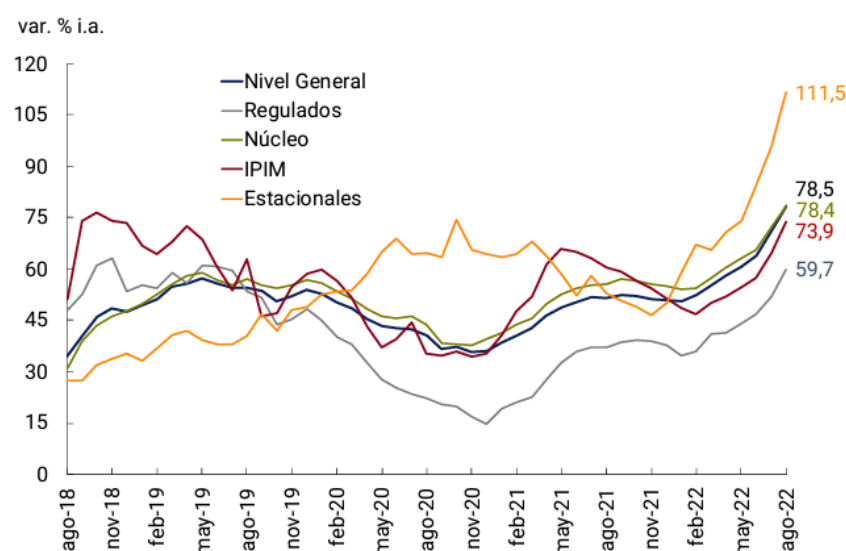
Latin America and the Caribbean (ECLAC), said that for Latin America the most severe impact will be seen in "food prices (for importing countries) and inflation, which will have a strong impact on the macroeconomy". In response to this latter statement, it became apparent that the main problem for Argentina is that of addressing the rising of prices, mainly of energy and food, in ways that safeguard the most vulnerable parts of society, which had been already negatively affected by the economic conditions post pandemic. In the end, the experts agreed on the five axes addressed and warned that in the medium term there will be a scenario of greater rearmament, less globalization and multilateralism, together with a greater intertwining of geopolitics and the economy, which will lead to an increase in the difficulties for the energy transition. (Gobierno de Argentina, 2022)

4.3.2 Central Bank reactions

In this paragraph will be considered the context in which the beginning of the war found Argentina, and its economic system, and the main actions undertaken by the Argentinian Central Bank to deal with it.

As seen in the previous paragraph, the main result of the conflict has been a massive shock in prices, registered primarily during the first trimester of 2022, that affected both developed countries and emerging markets, such as the Argentinian one.

This negative externality happened when Argentina was still recovering its economic activities from the last wave of the Omicron variant of the Covid-19 virus, and had to deal with high inflationary inertia from 2021. Despite the relatively limited rate of increase of the nominal exchange rate, the war caused a higher rate of increase in domestic food prices which, later on, spread to the rest of the economy, causing an acceleration of inflationary records and an upward revision of inflation expectations.



Graph 10 - Retail and wholesale prices increase²⁴ (Subgerencia General de Investigaciones Económicas, 2022)

The reopening of wage bargaining agreements as well as the extension of specific collective bargaining agreements implemented in response to the unanticipated inflation growth, contributed in increasing the persistence of the shock. After a brief deceleration of the general price level in April and May, in June 2022, a new update in gas and electric energy tariffs, as well as in public transportation ones, caused an upward pressure on the general price level making the third trimester of 2022 the most critical one, characterized by inflation rate reaching its highest level since April 2002.

Following the increase in inflation and the uncertainty caused in foreign market by the ongoing war, the National Government together with the BCRA adopted a series of measures to address financial volatility and lower inflation. The Central Bank intervened in the secondary Peso debt market and raised the monetary policy interest rate on several occasions causing an expansion of the system's liquidity, which was ultimately channeled into monetary regulation instruments and translated into an increase in the balance of interest-bearing liabilities. The stock of the latter instrument of the BCRA reached in August a value of 8.3% of GDP, standing 2.4 percentage points below the maximum reached during 2018. Policies were also implemented to consolidate the process of reducing the fiscal deficit and monetary financing, to encourage the liquidation of exports in order to strengthen the BCRA's international reserves, and reference price agreements were reached for some groups of commodities.

²⁴ "Núcleo" refers to core inflation which is the portion of the general increase in prices that tends to be sustained in the longer term.

The results obtained have been visible starting from the beginning of September, when the prices of bonds in domestic currency recovered, the level of international reserves increased, and a significant reduction was registered both in the exchange rates implicit in the prices of government securities and in inflation rates. (Subgerencia General de Investigaciones Económicas, 2022)

5. Conclusion

During the drafting of this paper, firstly the inflationary phenomena has been analyzed, giving an overview of what its elements are and the different interpretations given by economists throughout history. An in-depth analysis over what is hyperinflation has been carried out with the purpose of showing that in the past this phenomena has been strictly connected to either the disruption of a war or to some kind of economic disturbance inside the country and that, one of the most effective instrument that authorities can implement to ends it are Stabilization Plans.

Right after, the economic and political history of Argentina over the last fifty years has been explored in-depth, focusing on the main policies implemented by authorities and their subsequent outcomes. It has been possible to see how some plans have been effective in dealing with the constant presence of inflation, such as *“Plan Austral”* and *“Plan de convertibilidad”*, and how others led the country to waves of hyperinflation and massive financial default, such as the *“Corralito”*.

Moreover, in most cases, the situation was worsened by the continuous succession of opposing presidents, which translated into economic policies mainly aimed at undoing what the previous presidency had done rather than on actual attempts to fix the deteriorating situation. A clearly damaging dynamic that obstructs the possibility of any real positive results in the long run.

Moving on, we then wanted to focus on agriculture which, for many governments, has been Argentina's key sector. In fact, it's the first industry in terms of revenue generation and it represents the main way the country positions itself in the international trade system. It emerged how this sector has been marked by numerous cycles of *'stop and go'* due to substantially opposing policies. As one can easily guess, the times when the country's agriculture has been most severely curbed have coincided with major economic crises, and the instruments most used have been taxes on production and export of products and limitations on marketable quantities. It could be concluded that the first of the above instruments was the one that most

helped the Argentine economy in generating a positive surplus in the trade market and which, in many critical occasions, helped the state survive.

On the other hand, the consequent extremely high level of taxes, which were fluctuating over any kind of agricultural product, especially the ones with the highest export rate, never allowed producers to make real profit from their activities and made it almost impossible for them to invest in new opportunities and in R&D. Moreover, the uncertainty surrounding the policies that the government would implement as a support method had disincentive many possible outside investors.

The central role of the agricultural sector was further analyzed again in the concluding part of the paper, where we focused on the impact of the Russo-Ukrainian war over the world, and its consequences on the Argentinian economy. As a result of the study carried out, it has been possible to see that, just like Argentina, both states involved directly in the conflict have played, in recent history, a relevant role in the global production of cereal, oilseeds and soybeans. After the disruption of the war, the global prices of some grains and vegetal products increased by an average of 38%, triggering a domino effect over the prices of such products in all main importing countries, causing domestic inflation. In addition, it is clear that the multitude of sanctions imposed on Russia and the almost isolation in which Ukraine was left had substantially reduced their ability in meeting the same amount of exports they had in the past. The empty space left in the foreign trade market, has represented an opportunity for many countries, one amongst all, Argentina. The higher international prices of cereals and other agricultural products ultimately allowed the Latin country to trade at a price way higher than the one at which they used to. In fact, it has only been thanks to this extra profit that it was able to generate in the second half of 2022 that Argentina was able to offset the increase in the prices of gas and fertilizers.

The challenge for Argentina, from now on, will be to try and keep its position as a primary supplier of agricultural products for both developing countries and world powers that were supplied by Ukraine and Russia. This way, the country should be able to keep the positive trade surplus obtained in 2022 and have enough financial instruments to repay some of its public debt in order to heal its position in the complex modern economic-political system.

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