

**Um programa de estabilização libertário e suas
consequências**

A libertarian stabilization program and its consequences

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consecuencias**

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Resumo: A vitória de Milei nas eleições presidenciais de 2023 na Argentina desencadeou uma grande mudança nas políticas econômicas. A nova administração implementou um programa voltado para evitar riscos hiperinflacionários. Neste artigo, descrevemos o programa e argumentamos que os riscos que justificaram sua implementação foram superestimados, à luz de dados históricos sobre hiperinflações. Também argumentamos que este programa impõe custos desnecessariamente altos sobre a atividade econômica e assume grandes riscos de crises cambiais. Com base em evidências internacionais, defendemos uma abordagem alternativa para mitigar os impactos sociais e reduzir a dependência de dinâmicas cambiais arriscadas.

Palavras-chave: Argentina, Hiperinflações, Programa de estabilização.

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Abstract: Milei's victory in the 2023 presidential election in Argentina triggered a major change in economic policies. The new administration implemented a program aimed at avoiding hyperinflationary risks. In this article, we describe the program and argue that the risks that justified its implementation were overestimated, in light of historical data on hyperinflations. We also argue that this program imposes unnecessarily large costs on economic activity and assumes large risks of currency crises. Based on international evidence, we advocate an alternative approach to mitigate social impacts and reduce dependence on risky exchange rate dynamics.

Keywords: Argentina, Hyperinflations, Stabilization Program.

Resumen: La victoria de Milei en las elecciones presidenciales de 2023 en Argentina desencadenó un gran cambio en las políticas económicas. La nueva administración implementó un programa dirigido a evitar los riesgos de hiperinflación. En este artículo, describimos el programa y argumentamos que los riesgos que justificaron su implementación fueron sobreestimados, a la luz de datos históricos sobre hiperinflaciones. También argumentamos que este programa impone costos innecesariamente altos sobre la actividad económica y asume grandes riesgos de crisis cambiarias. Basándonos en evidencia internacional, abogamos por un enfoque alternativo para mitigar los impactos sociales y reducir la dependencia de dinámicas cambiarias riesgosas.

Palabras clave: Argentina, Hiperinflaciones, Programa de estabilización.

Introduction

In November 2023, Javier Milei, a self-defined anarcho-capitalist candidate, won the second round of Argentina's presidential elections, becoming president for the following four years. The rise of the libertarian liberal was surprising and implied a deep political change (liberalism had played a little role in the country's recent history) and a promise of a 180-degree turn in economic policies.

As expected, the Government began with a big policy package, argued to be a stabilization program.³ These measures were justified by saying that there was a hyperinflation around the corner.⁴ According to the president, avoiding this risk would be

³ Some affirm it is a full stabilization program (the president and the IMF among them) and some others think it is not. As Bertholet (2024) said “We are not sure whether it is a stabilization program or just an attempt to create the conditions for one. Is it an attempt to align relative prices via devaluation? Or is it a stabilization plan? Many times we can evaluate that only ex-post. (...) It is not possible to predict which path the government wants to adopt in the coming months and years. It is not known if it is to establish the initial conditions for a stabilization plan, for a dollarization, or if this is the plan itself.” (translated by the authors).

⁴ This was said in the presidential inauguration, which can be seen in <https://www.youtube.com/watch?v=jySRdtIemLU>. The entire transcript is available in <https://derechadiario.com.ar/argentina/discurso-completo-del-presidente-javier-milei-en-las-escalinatas-del-congreso-ante-el-pueblo-argentino>

worth whatever it took. However, there are several reasons to think there was no such risk. Moreover, having transpired several months of the government, there is already enough material to analyze the beginning of the mandate, and what were the initial consequences of this so-called stabilization attempt (despite not knowing yet what the outcome will be). In this article, we intend to describe Milei's -first- economic program, its accuracy, and its preliminary results.

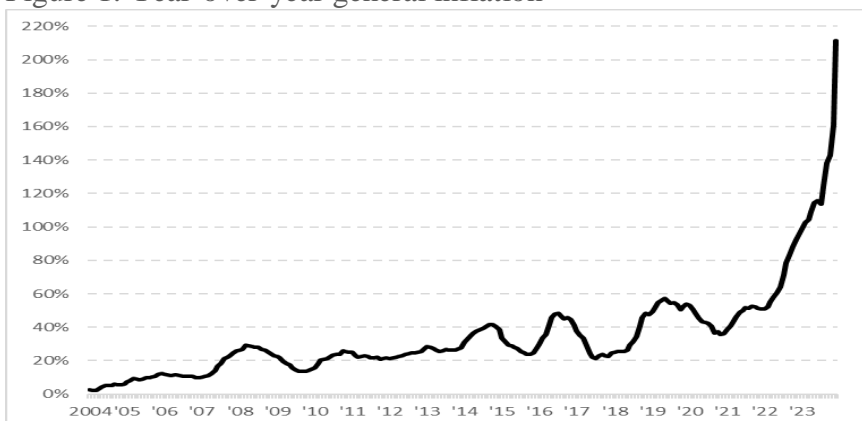
The rest of the article is organized as follows. In section 2 we explain how the economy had worked before Milei's electoral victory. In section 3, we describe the economic measures taken in the first months of the new Government. In section 4, we discuss whether these measures were necessary or not, in light of historical data on hyperinflations. In section 5, we quantitatively estimate the cost of the current fiscal adjustment, based on Jordà & Taylor (2016), and present some preliminary effects of the ongoing program. Lastly, we conclude in section 6.

2. A long stagnation

As described by Gerchunoff and Llach (1998), Argentine economic history has been a succession of cycles of illusion and disenchantment. The last decade has been no exception. However, during this period, illusion has become shorter and disenchantment has prevailed.

Since mid-2007, year-on-year inflation has continuously exceeded 15% (except for a few months in 2009, due to the international crisis). Even worse, with some ups and downs, the trend has been generally upward. Particularly, 2022 and 2023 were accelerating years: in February-23 inflation situated above 100% for the first time in decades, and in December-23 it exceeded 200%. This can be seen in Figure 1.

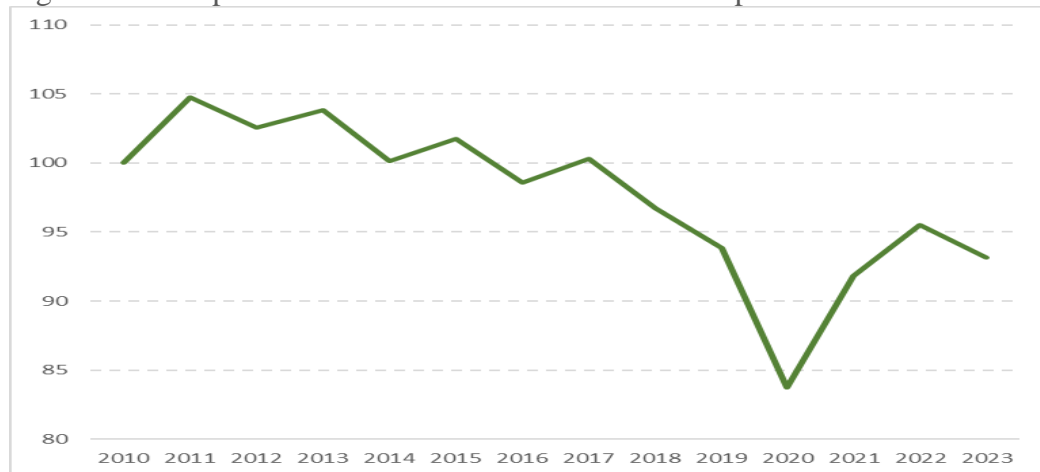
Figure 1. Year-over-year general inflation



Source: Own elaboration using INDEC data and private estimates in the period of INDEC’s intervention (between 2007 and 2015, the inflation data published by INDEC were distorted by reporting lower inflation rates than those estimated by subnational Governments and private economists)

Amid this context of chronic inflation, the performance of economic activity was no good, as it is illustrated in Figure 2. Per capita GDP chained 8 consecutive years of ups and downs, interrupted only when a currency crisis got together with the COVID-19 pandemic, causing the GDP to fall for 3 years in a row (2018-19-20). We are not intending to establish causality from higher inflation to lower (negative) growth. However, this is a plausible hypothesis, in light of Barro (1995), Bruno & Easterly (1995), and Heymann & Leijonhufvud (1995), among others.

Figure 2. Per capita Gross Domestic Product at constant prices. 2010 = 100



Source: Own elaboration using INDEC data

The stagnation process was harmful to workers in, at least, two ways. In the first sense, wages lost a significant portion of their purchasing power, as can be seen in Figure 3. The real wage lost 15% in real terms between 2013’s average and 2019’s average. It did not recover later but stabilized around that value (2023’s average value ended 17% below 2013’s). Moreover, workers went from better to worse jobs in terms of labor rights. Looking at self-declared survey data, the informality rate (*‘asalariados sin descuento jubilatorio’*), as a percentage of employed people (*‘asalariados’*), went from 33% in 2016 (previous data are subject to doubts due to the INDEC’s intervention) to 36% in 2023. Using administrative data from the Labour Ministry (*Ministerio de Trabajo, Empleo y Seguridad Social*), workers with *‘monotributo’* (a single-tax regime that allows people to be registered and make contributions

to social security without giving them full laboral rights) went up from 14% of formal workers in 2011 to 20% in 2023.⁵

Figure 3. Real Wage. Gross average salaries of registered private workers, seasonally adjusted. 2010 = 100



Source: Own elaboration using Ministerio de Trabajo, Empleo y Seguridad Social, INDEC data and private estimates in the period of INDEC's intervention

Zooming in on 2023's economy, Argentina had high inflation, 42% of the population under the poverty line, lack of international reserves (the net amount, as measured by the IMF, was negative USD 11.2 billion as of December 7th; International Monetary Fund, 2024a), and FX and capital controls, which made difficult to get dollars even for importers. The poor economic performance and the recent failures of both major parties raised ground for an outlier presidential candidate, who had the advantage of being new to the system. Milei obtained 30% of the votes in obligatory simultaneous primaries (in August-23), becoming the most-voted single candidate. He then obtained 30% of the votes in the first round (in October-23), entering the ballotage, which he won with 56% of the votes (in November-23). He took charge on December 10th, 2023.

3. Milei's Plan

Milei's economic program was first announced by Finance Minister Luis Caputo on the Government's third day.⁶ He announced ten measures that included an official exchange rate devaluation (the FX jumped 118%) and several policies of austerity. This announcement was complemented by a deregulation presidential decree and a big law project (sometimes

⁵ Some people may be duplicated, as the official data informs job positions and not workers. It includes 'Monotributo social'.

⁶ The complete announcement is available here: <https://www.youtube.com/watch?v=ypCoTFn2Nh8>

referred to as “Ley Ómnibus” or “Ley Bases”).⁷ The Central Bank also announced a new regime of monetary and exchange rate policy in which the FX will crawl at a rate of 2% per month (after the devaluation).⁸ Some other measures were taken, but the central aspects of the program can be resumed as:

- A big fiscal adjustment (planned to amount to 5.2% of GDP).
- A significant devaluation and then an active crawling peg of 2% per month (far below inflation).
- A correction of relative prices by increasing regulated prices (public utility rates, fuels, health insurance, and public transport).
- A slow gradual liberalization of external trade and capital controls to manage the flows of dollars and keep the exchange rate under control. This included export incentives and import payments mandatory postpones.
- A monetary contraction, consisting of the elimination of financing to the treasury and the reduction of the Central Bank's interest payments to commercial banks (the interest rate of these debts went down to negative double digits in real terms).⁹ This eroded the quantity of money (despite lowering the real interest rate).

According to the president himself, the economic program was designed to stop a so-called upcoming hyperinflation, which would be the consequence of the inherited fiscal disequilibrium (4.4% of GDP). In his inauguration speech, Milei said:

The outgoing government has planted us a hyperinflation and it is our top priority to make every possible effort to avoid such a catastrophe that would push the poverty rate above 90% and the indigence rate above 50%. Consequently, there is no alternative solution to adjustment.¹⁰

The situation would call for a hurtful shock therapy to get the economy back on track. Announcing an unavoidable spike in prices around the corner allowed the authorities to take unpleasant measures, which might not have been bearable without being framed in that way.

⁷ The former has been partially stroke down by the judiciary and the latter has been disaproved by the Congress, and is still being discussed with changes.

⁸ This announcement can be read in <https://www.bcra.gob.ar/Noticias/Nuevo-marco-de-politica-monetaria-y-cambiararia.asp>

⁹ This is possible because of the remaining capital controls that prevent banks to invest abroad.

¹⁰ Translated by the authors. The original phrasing was “El gobierno saliente nos ha dejado plantada una hiperinflación y es nuestra máxima prioridad hacer todos los esfuerzos posibles para evitar semejante catástrofe que llevaría a la pobreza por encima del 90% y la indigencia por encima del 50%. En consecuencia, no hay solución alternativa al ajuste.” The complete statement can be seen in <https://www.youtube.com/watch?v=jySRdtIemLU> The entire transcript is available in <https://derechadiario.com.ar/argentina/discurso-completo-del-presidente-javier-milei-en-las-escalinatas-del-congreso-ante-el-pueblo-argentino>

However, to evaluate the current program, we must question the Government's rhetoric and ask ourselves: was the Argentine economy destined to suffer a hyperinflation?

4. Were there real risks of hyperinflation?

To answer whether there was a hyperinflation upcoming or not, we will analyze those that occurred in the last 50 years, their causes, and effects. A hyperinflation is a phenomenon in which prices rise exponentially, causing money to lose all its functions and the currency to virtually disappear. These events occur when society does not want to keep domestic currency and all its inhabitants try to get rid of it as quickly as possible (either by buying goods or foreign currency). It is common to use Cagan (1956) definition to delimit hyperinflations. It distinguishes hyperinflations as price increases of more than 50% per month. Hyperinflations throughout history have been strongly linked to collapses of state power due to war conflicts, abrupt political and institutional changes, or sovereign debt crises (Hanke & Krus, 2013; Llach, 1987; Reinhart & Savastano, 2003).

Since 1970, 44 episodes of hyperinflation have been recorded worldwide.¹¹ In this article, we will discard those that occurred in the countries emerging from the former Soviet Union,¹² and analyze the remaining 14 cases, all of which occurred in Africa and Latin America (they are listed in Chart 1). Hyperinflations are extremely painful processes, which are worth avoiding: although they usually last about a year (11 months on median, 15 on average)¹³, they generate average GDP falls of 10%. The most severe experience occurred in Venezuela between 2017 and 2020, where output fell by a total of 66%.¹⁴

There is abundant literature pointing to high fiscal deficits as one of the main causes of hyperinflations, with the central bank acting as a monetary accomplice (Dornbusch &

11 We used International Monetary Fund's International Financial Statistics database, and completed with domestic sources when necessary (in Argentina, Brazil, Nicaragua, Venezuela). After that, we also used Hanke & Krus (2013) database. This allowed us to capture Zimbabwean hyperinflation, among others for which we do not have monthly inflation.

12 We discarded hyperinflations that happened in Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Georgia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Republika Srpska, Russia, Slovenia, Tajikistan, Turkmenistan, Ukraine, Uzbekistan and Yugoslavia. Regarding these experiences, see Fischer, Sahay & Végh (1996), Hanke & Krus (2013) and their references.

13 We consider the hyperinflation finishes the first month in which monthly inflation is less than 50% if it stays there for at least a year (if it resurges earlier, we will call it the same process of hyperinflation).

14 The source for GDP data is International Monetary Fund's World Economic Outlook database. The whole year's performance is included for each year in which at least one month had hyperinflation.

Simonsen, 1987; Kiguel & Liviatan, 1995; Sargent, 1980, 2013). All the cases studied started from fiscal deficits that discouraged the holding of local currency.¹⁵

The difference between Argentina's situation and hyperinflationaries' experiences lies in the size of the deficit. The imbalance in the 14 hyperinflations found was, on average, 14% of GDP (16% in median), 10 points of GDP above the Argentine deficit in 2023. This reveals the notorious difference between the conditions inherited by the current government and those associated with hyperinflations.

Table 1. List of Hyperinflations

Countries	Beginning	End	Duration (in months)	Initial overall fiscal balance	Accumulated change in GDP
Angola	dic-94	feb-97	26	-20%	46%
Argentina	may-89	abr-90	11	-7%	-8%
Bolivia	abr-84	oct-85	18	-18%	-2%
Brazil	dic-89	abr-90	4	-8%	-1%
Chile	oct-73	nov-73	1	-23%	-5%
Congo Dem. Rep.	oct-91	oct-92	12	NA	-18%
Congo Dem. Rep.	nov-93	oct-94	11	NA	-19%
Congo Dem. Rep.	ago-98	sep-98	1	NA	-4%
Nicaragua	jun-86	abr-91	59	-16%	-16%
Peru	sep-88	oct-88	1	-12%	-9%
Peru	jul-90	sep-90	2	-9%	-5%
South Sudan	jul-16	ago-16	1	-19%	-13%
Venezuela	dic-17	ene-21	38	-23%	-66%
Zimbabwe	mar-07	dic-08	21	-3%	-19%

Source: Own elaboration based on the International Monetary Fund's International Financial Statistics, International Monetary Fund's World Economic Outlook, national sources, Kehoe & Nicolini (2022), Mauro, Romeu, Binder & Zaman (2013), Kaminsky, Reinhart & Vegh (2004), and Hanke & Kruse (2013).

From the above, we conclude that hyperinflation is a fearful event that may justify important fiscal measures, but it was not just around the corner in the Argentine case. On the

¹⁵ The main source for fiscal data is Kehoe & Nicolini (2022). When it does not have data, the gaps were completed with Mauro, Romeu, Binder & Zaman (2013) data. When it also does not have data, the gaps were completed with International Monetary Fund's World Economic Outlook database. Finally, when none of those databases have data, the gaps were completed with Kaminsky, Reinhart & Végh (2004) data. We still could not find data for the Congo Democratic Republic's experiences.

contrary, it occurs in much more extreme contexts. At the same time, the official statements themselves fueled price increases, generating an increase in inflation that was useful to the Government for financial (as it reduced the real value of the Central Bank's debts) and political reasons (as it strengthened the necessity to do 'whatever it took' to avoid hyperinflation). Maintaining the previous economic trajectory, with public spending going up and taxes on the rich going down, was neither sustainable nor desirable. However, the path chosen was not determined by the circumstances; it was not the only possible.

5. The adjustment and its effects

The adjustment is underway and leaves hyperinflationary risks (in the opinion of the authors of this article, exaggerated) in the past. The overall fiscal balance has changed its sign from a deficit of 0.7% of GDP in the first quarter of 2023 to a surplus of 0.2% of GDP in the first quarter of 2024 (see Chart 2 below).

Along with the fiscal consolidation process and the active crawling peg (which has made the currency appreciate up to 43% from the devaluation day -December 13th- to the last data -May 10th-, according to the Central Bank's data), the Government also discouraged rises in wages. This conjunction made inflation descend from 25.5% monthly in December to 8.8% in April.

Table 2. Fiscal changes during the first quarter of 2024

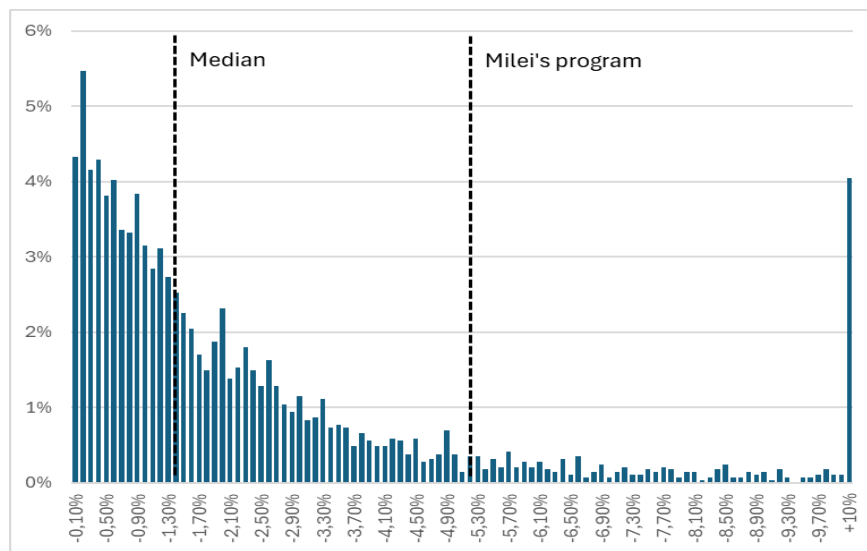
	Accumulated in the first quarter of 2023 as % of GDP	Accumulated in the first quarter of 2024 as % of GDP (projected)	Change in real terms (%)	Change as % of GDP (P.P.)
Total Income	2.6%	2.5%	-4.5%	-0.2
Total expenditure	3.4%	2.3%	-30.4%	-1.1
Primary expenditure	3.0%	1.9%	-35.0%	-1.1
Social benefits	1.7%	1.2%	-26.8%	-0.5
Economic subsidies	0.3%	0.2%	-45.8%	-0.1
Capital expenditure	0.3%	0.0%	-86.8%	-0.2
Other primary expenditure	0.7%	0.5%	-31.4%	-0.2
Interest payments	0.4%	0.4%	4.9%	-0.0
Primary balance	-0.4%	0.5%	-	+0.9

Overall balance	-0.7%	0.2%	-	+0.9
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Source: Own elaboration based on Ministerio de Hacienda, INDEC and private projections

However, such aggressive fiscal measures also impact the economy. A primary adjustment of 5.2% of GDP (the announced cut) would be the largest in Argentina since 1977 and has few precedents on a global scale. In the last 40 years, among all cases of countries reducing their deficits, only 12% of adjustments are of this magnitude or more, as can be seen in Figure 4. The median adjustment is 1.4 percentage points of GDP, including the significant improvements after contracycle expansions due to the pandemic.

Figure 4. Primary fiscal adjustment distribution. 1981 – 2023



Source: Own elaboration using IMF WEO database

This kind of fiscal adjustment is not only atypical but also harmful. Recent studies (Jordà & Taylor, 2016; Carrière-Swallow, David, & Leigh, 2021) show that fiscal austerity has a contractionary effect on GDP, with a more pronounced effect in economies that were already depressed: A fiscal adjustment equivalent to 1% of GDP results in an average loss of 0.37% of GDP per year over the five-year horizon in booms, and 0.73% of GDP per year in recessions. Considering that the -necessary- devaluation of the official exchange rate alone would have induced an economic crisis (Diaz Alejandro, 1969; Krugman & Taylor, 1978; Bahmani-Oskooee & Miteza, 2006; Bebczuk, Galindo & Panizza 2010) and using this calculation, we estimate that the current primary adjustment implies a yearly sacrifice of 3.8% of GDP.

This additional fall is in line with IMF's calculations. Between October's World Economic Outlook (International Monetary Fund, 2023) and April's (International Monetary Fund, 2024b), Argentine growth projection worsened from +2.8% to -2.8% (5.6 percentage points of deterioration). In the same period, the Central Bank's Market Expectations Survey median passed from a growth projection of -1.6% to one of -3.5% (2.9 percentage points of change). Furthermore, cuts in areas such as education (in April, this expenditure has fallen by 42% YoY in real terms) and public infrastructure may hinder economic recovery and growth in the medium term.

There is still not much data to confirm the effective decline in activity. However, early indicators suggest the crisis has deepened: economic activity fell 9% between November-23 and February-24; supermarket and wholesale constant prices sales declined 10% in the same period; manufacturing industry decreased 16% between November-23 and March-24; and building activity plummeted 33% in the same period.

Finally, although fiscal balance is a prerequisite for successful stabilization, it is not the stabilization itself. The current program resembles experiences -such as Brazil or Mexico in 1983- where state retrenchment without coordinated disinflation failed to end chronic inflation in a lasting way (Palazzo, Rapetti & Waldman, 2023). Several unsuccessful experiences began with real exchange rate appreciations that could not be sustained over time, leading to a currency crisis (Reinhart & Végh, 1999). Not many of those cases could bear an appreciation bigger than the actual 43%. In light of that evidence, it would be convenient to keep an eye on the real exchange rate dynamic to avoid such a crisis.

Concluding remarks

Milei's libertarian experiment arose as an answer to a long-lasting stagnation and ramping inflation. Hyperinflation fear (although overvalued) was used to support a big reduction in fiscal deficit. This program also included an exchange rate active crawling peg, and has, for the moment, been effective in slowing down inflation. However, it is leading to a significant deterioration in economic activity, along with a non-trivial real exchange rate appreciation. We presented some of these features in light of international evidence to question the aggressiveness of the Government's strategy. In this way, we suggest seeking alternatives that reduce the social impact of the fiscal tightening and avoid relying too much on a risky appreciation.

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