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GENEVA SCHOOL OF SOCIAL SCIENCES
Department of History, Economics and Society

Political Economy Working Papers | No. 5/2022

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Working paper

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Abstract

This study investigates, with preliminary insights, the process of Argentina's financial valorization in the 2015-2019 period, which led to a (new) sovereign debt restructuring between 2020/22 in Argentina. The paper draws a comparison with the previous indebtedness cycle (1976-2001), as well as with the Kirchner governments (2003-2015). Results indicate that approximately USD 321 billion were extracted from the national financial system from 1976-2015, while in the 1976-2001 period, foreign currencies originated from external indebtedness (both private and public). In 2002-2015, this role was played by trade surplus. Since 2016, the relationship between public external indebtedness and capital flight was reestablished, and there was a wealth externalization amounting to approximately USD 100 billion, in what was the accelerated implementation of the second financial valorization experience, which concluded with a rapid sovereign debt crisis. Its subsequent restructuring marks the limit of debt-led growth models for peripheral economies, such as the Argentine one, where the capital flight constitutes a major obstacle to recreate growth processes with income redistribution.

Key words: CAPITAL FLIGHT; EXTERNAL DEBT; PERIPHERY; ARGENTINA; FINANTIAL VALORIZATION;

1. Introduction

The COVID-19 pandemic caused one of the biggest drops in activity in recent decades. With growing expenses and cut incomes and in a context of significant capital outflow levels (Reinhart et al., 2020), numerous emerging countries are at default risk (Jubilee Debt Campaign, 2022) and more than 90 nations claimed short-term International Monetary Fund (IMF) loans (Marchesi & Masi, 2020). A new global debt crisis was looming (Kose et al., 2021).

In Latin America, the most unequal region in the world, the impact of this crisis exposed the sanitary difficulties in the public health system, as well as the structural weaknesses of the labor market to provide quality employment and decent living conditions for vast population sectors (ECLAC, 2020b). Although in this region, as in other regions in the world, expansionary policies were implemented in a low-resource environment with increasing fiscal deficit, this was done under a stagnation cycle in the last five years, with debt issues leading to payment suspension and reorganization (ECLAC, 2020a).

In fact, Latin America has displayed a deterioration in its balance of payments position since mid-2010s. This solidifies as an increase in public external indebtedness, which increased by 54% as a percentage of the GDP (Gross Domestic Product) in 2011-2019. This situation worsened since 2020 with the COVID-19 pandemic. The reversal of the upward pricing cycle of commodities exported by the region[1], plus a slowdown in the growth of central countries[2] (USA, Western Europe), led to an economic stagnation or contraction, with the consequent worsening of life conditions of large population sectors (OECD, 2021).

It was pointed out that this scenario is related to the 1980s "lost decade", given the delay in the economic, social and distributive indicators of that period, and the regional countries' setbacks in paying external commitments (Ocampo, 2020). In this context, the sovereign debt and economic development problems in the region are particularly interesting. The numerous debt crisis episodes in recent times, as well as the persistence of post-restructuring re-negotiations, signal issues in the international financial structure to handle this scenario (Cruces & Trebesch, 2013), in a region marked by traditional difficulties in the external sector (Prebisch, 1950).

Argentina is a particular case in this context, where external constraint[3] is a permanent obstacle to recreate a solid expansive economic cycle. This has led to recurrent external debt crises, which exposes this economy's inability to generate the external resources necessary to expand its production, employment and infrastructure (Wainer, 2021). Since the implementation of the neo-liberal project in 1976 (Harvey, 2007), the country has experienced three over-indebtedness cycles, crises (exchange, balance of payments and financial crises) and sovereign debt restructuring (1982-1992, 1998-2005 and 2016-2022). This persistence indicates the systemic nature of this phenomenon, which points out the limits of local capital accumulation, as well as the validity of dependency as an explanation for the inability of peripheral countries to successfully compete in the world market and achieve long-term, sustainable accumulation processes (Marini, 2007).

This study analyzes the Argentine case from its financialization form: the financial valorization (Basualdo, 2020). The focus relies on the recent situation (2015-2019), which led to a new sovereign debt restructuring process of more than USD 140 billion in 2020-2022. The paper uses theoretical categories such as accumulation regime and dependency. These are useful to analyze the development of the period's main economic policies around external indebtedness, capital flight and terms of trade. From this perspective, Argentina is a dependent nation playing a subordinate role in international finance (like other Latin American countries), but whose insertion in the neo-liberal model presents particular characteristics: there has not been a consistent capital accumulation path since the 1970s (which translates to successive currency, financial and debt crises), its role in the global financialization process is restricted to economic surplus externalization, financed with external

[1]During 2021, agricultural, mining and energy commodity pricing reversed the downward trend and recovered, which constitutes one of the causes of the reemergence of global inflation during this year (International Monetary Fund, 2021).

[2]The concepts "center" and "periphery" will be used throughout this document to distinguish countries that meet different productive force development conditions, autonomous strategic decision capacity and general living conditions. This distinction is key to the dependency approach (Furtado, 1972; Marini, 2007).

[3]External constraint refers to the insufficiency of foreign currencies in the peripheral economies to pay for imports, payments of foreign debt services, the accumulation of reserve funds (and consequently, the stability of the exchange rate) (Thirlwall, 1979); in a region with high levels of capital flight (GFI, 2020).

indebtedness (mainly public), and capital flight shows an extraordinary case of "popular dollarization" due to the persistence of inflation amid wealth-distribution struggles.

For such purposes, the study is organized as follows. After this introduction, section 2 is a review of the characteristics of the global financialization process and some of its main characteristics. After that, the two following sub-segments discusses the general and particular characteristics of the two variables that will be central to the analysis of the Argentine financial valorization: external debt and capital flight. Section 3 briefly addresses the characteristics of the 1976-2015 period. In the following section, the changes of the 2015-2019 period are analyzed. Section 5 briefly describes the changes that took place during the pandemic, when the sovereign debt restructuring process. The study closes with final remarks.

2. Financialization in the periphery. Capital flight and external indebtedness

Since mid-1970s, we have witnessed a particular stage in the development of the global accumulation process, presented as neo-liberalism. In its beginnings, Latin American countries such as Chile and Argentina pioneered through authoritarian regimes that quickly redefined the economic surplus generation, appropriation and use mechanisms (Harvey, 2007). This class project which, from the point of view of the political economy, consisted of trade opening, sectoral deregulation, privatization and commodification of public assets and services, and the regressive redistribution of the income, in turn, had a marked financial rise (Duménil & Lévy, 2014). This last issue was mainly addressed by Marxist, Post-Keynesian and Regulationist perspectives.

Financialization was defined as "the increasing role of financial incentives, financial markets, financial actors and financial institutions in the operation of local and international economies" (Epstein, 2005, p. 3). Neo-liberalism is, then, an accumulation regime[4] where the profit search in the productive sector increasingly shifts to the financial sector (Krippner, 2005). This trend towards increasing financial ways of multiplying profit at the expense of investments in physical assets marks the deterioration of a systemic accumulation cycle led by the United States (Arrighi, 2015). Particularly in central countries, this process is explained by new bank operations (which moved their businesses from lending activities towards securitization investments), the financialization of non-financial companies and the indebtedness of families due to real income drop (Lapavitsas, 2013).

The consequences of financialization, regardless of the adopted theoretical approach, are globally common: predominance of the financial sector over the real sector, the consequent transfer of incomes from the latter to the former and the increase of inequality, explained by the reduction of real wages and the concentration of wealth by shareholders and owners (Palley, 2007). At the same time, investment levels were reduced compared to the accumulation regime of 1945-1975, regardless

[4]The approach adopted is Boyer's accumulation regime, which defines it as "the set of regularities that ensure a general and relatively coherent progression of capital accumulation, in other words, that allows reabsorbing or postponing the distortions and imbalances that permanently arise from the same process" (Boyer, 2004, p. 63).

of the differences between developed and underdeveloped countries in terms of State action to mitigate the forces of inequality (Stockhammer, 2008).

At a second level of analysis, within this general trend, there is a geospatial dimension hierarchically built between central and peripheral nations (Wallerstein, 2004). Therefore, the central countries lead the financialized accumulation relations, while the peripheral countries take on a subordinate role, as the command, expansion and operation epicenters of financial markets are located in the center (Bonizzi et al., 2019). Dependecy expresses in a hierarchical division of production (where peripheral countries specialize in low value added, low wage industries) and a hierarchical currency (peripheral countries have fewer stable currencies and can not accumulate reserves in local currencies) (Musthaq, 2021).

For peripheral countries, the world trade expansion during the neo-liberal stage reinforced business competition and generated new reconfigurations: while some Southeast Asian countries were an exception, as they progressed in global value chains and achieved a rapid productive expansion, vast Asian, African and Latin American regions oriented towards commercial openness, were overshadowed in terms of economic growth and promoted a form of international insertion supported by the provision of goods and services with low added value (Gereffi, 2018). This intensified the center-periphery polarization tendency is reflected in an income (wage) deflation in the peripheral countries, organized by the economic policy of nation-states (Patnaik & Patnaik, 2016). The consequences of these processes in peripheral countries indicate that the new organization of production, the surplus appropriation and the behavior of economic agents were the factors that, along with the economic policies, generated feedback processes in dependency relationships. Peripheral countries promoted an export cycle, generally associated with primary, low-technology resources, an opening of the capital account to capture foreign currencies and wage reduction (Levy-Orlik, 2014).

The external constraint was "tackled" with sovereign indebtedness, which became a particularly increasing issue in Latin America (Bértola & Ocampo, 2013). Many countries in this region promoted inflation goal programs or currency boards, which were accompanied by high-interest-rate policies (carry trade) to attract foreign currencies. In this way, short-term speculative investments were intensified (Dos Santos, 2009). In turn, pension fund privatization and consumer finance growth generated a financialization of broad population sectors: while previously the process only affected the bourgeoisie, it began extending to wage earners. This was called “popular financialization” (Becker et al., 2010).

In this context, the Argentine case reflects a particular type of financialization in the periphery: the financial valorization, which consists of a surplus extraction and exteriorization mechanism including external indebtedness and capital flight.

a) External debt in Latin America

The central nature of external indebtedness for regional economies has taken on a central role since the 1970s, when the increase of US interest rates redefined the international financial scenario, by raising debt services for syndicated loans (Panitch & Gindin, 2012). This setting became particularly negative for Latin America and Mexico, Argentina, Brazil, Venezuela, Chile and Peru, among others. It became necessary for them to adapt their macroeconomic programs to the payment of external commitments, many of them supervised by international organizations (Alvarez & Flores, 2014).

The 1980s debt crisis exposed the structural problems in Latin America related to a poorly integrated, technologically unbalanced, and spatially concentrated productive structure. These economies faced "external constraint" problems, that is, the shortage of foreign currencies necessary to sustain significant activity levels and economic growth rates, aggravated by the payment of financial commitments with foreign banks (Furtado, 1972).

From the point of view of theoretical discussion, since the 1980s, when sovereign debt restructuring events began multiplying, some authors emphasized the debtor responsibility in these episodes, based in their "unbalanced management" of fiscal accounts and consequent loss of reputation, which penalizes defaulters with higher interest rates. Traditionally, the policy prescriptions to this doctrine resulted in a reordering of the fiscal and financial structure to reduce financing costs and improve reputation (Sachs and Williamson, 1985). In many cases, this converges in orthodox, traditional fiscal austerity paths. On the other hand, other authors pointed out the co-responsibility of payees in the indebtedness phenomena (Guzmán et al., 2016). Unlike the orthodox approach, they mention that the search for fiscal balance to make the payment of sovereign debts sustainable could generate greater depressions in consumption and investment in a context of stagnation or recession (Varoufakis, 2017).

Within this debate, a political economy perspective of emerging countries' debt indicates that these processes have a systemic logic associated with the neo-liberal project (Hardie, 2011). Sovereign indebtedness quickly became one of the phenomena conditioning fiscal and monetary policy in regional countries, which applied structural adjustment programs in the 1990s under the insolvency approach. Latin American states lacked the capacity to produce and manage public goods, which required privatization, deregulation and opening. Likewise, in Latin America, financing needs occur in a context of high capital flight (Rua, 2019), which boosts inequalities in a hierarchically organized financial system from the central countries (Arceo & Basualdo, 2006).

b. Capital flight: the economic surplus draining

Why is capital flight particularly relevant in Latin America, in general, and in Argentina, in particular? To study the capital flight phenomenon, orthodox interpretations highlighted the economic rationality regarding the optimization of the agents' investment portfolio. According to this perspective, there are three groups of factors that explain capital flight:

> The risk associated with the inflation-exchange rate relationship, the political risk, and tax motives. It is generally believed that investors decide

> where to invest by evaluating various assets from the point of view of risks and return rates. Therefore, capital flight is often assumed to occur when domestic investment return rates are lower compared to those abroad. This can lead to dollarization – the gradual replacement of domestic currency by a strong currency or group of currencies – in the country (Medina Smith, 2005: 31).

In general, orthodox positions emphasize the lack of "sound" macroeconomic policies (fiscal prudence, labor and pricing deregulation, privatization, trade opening, among others) as the main cause of the capital flight phenomenon (Schneider, 2003).

On the other hand, from a post-Keynesian point of view, Epstein (2009) highlights the political power exercised by economic groups when they create capital flight, by conditioning the amount of foreign currencies available in the economy and the investment level, in a relationship with current governments, which can be more or less close according to the degree of capital movement regulation.

Returning to the arguments of Marxist and structuralist authors, such as Baran (1988), Prebisch (1981) and Furtado (1972), the capital flight axis in developing countries followed the historical-productive characteristics of these economies. The profit sources of economic surplus, the foreignization of the most modern sectors of the productive system and the imitation of central consumption patterns by local elites, accounted for the externalization of wealth in Latin America. This expanded with the neo-liberal regulatory shift, which facilitated mechanisms to operate in stock markets (especially for companies, but also for individuals), eliminated exchange control devices and incorporated numerous financial instruments of increasing sophistication (swaps, futures, options, among others) (Chesnais, 2016).

In the case of Latin America, the dependent nature of its economies multiplied the regions' financial outflow where dominant-classes profit tradition (related to food export, fuel and mining) and evasion mechanisms in foreign trade (transfer pricing, over and under-invoicing of imports and exports) play an important role, under the aforementioned global financialization process (Podestá et.al., 2017). The economies of Brazil, Chile, Mexico, Argentina and Venezuela led this process in the 21st century (Rua, 2019).

For the study of the Argentine case in particular, due to high inflation levels, foreign currency purchase is added as a direct or indirect value reserve (to acquire properties) (Burdisso et al., 2013). Additionally, an emphasis was placed on the importance of export commodity price evolution and the profiting nature of foreign currency-generating sectors in the country, which explains the high external asset formation. Incidentally, the coexistence with high levels of inflation during the 21st century, as well as the dollarization of properties, generated a foreign currency demand as a value reserve (even by middle-income and highly-waged sectors), which also contributed to the weakening of international reserve funds and the instability of the exchange rate (Rua & Zeolla, 2018).

In this study, the relevance of economic groups (companies and conglomerates with the highest invoicing and profits) in the financial valorization dynamics is prioritized, establishing a central link from the point of view of this accumulation regime and the parties involved in the phenomenon (Basualdo, 2020).

3. The financial valorization dynamics (1976-2001) and the changes of the Kirchnerist period (2003-2015)

Financial valorization is the form acquired by the neo-liberal project in Argentina. It has been defined as:

> the placement of surplus by large firms in several financial assets (securities, bonds, deposits, etc.), in domestic and international markets. This process, which bursts forth and is predominant in the Argentine economy since the end of the 1970s, expands due to the fact that interest rates, or the relation between them, exceed the profitability of the various economic activities, since the accelerated growth of external indebtedness makes it possible to place local capital abroad by operating as a mass of recoverable surplus and/or by releasing profit for these purposes (Arceo & Basualdo, 1999, 41).

A brief review of Argentine financial valorization history points out that it had its founding stage with the civic-military coup (1976-1983) that replaced the import substitution industrialization model initiated in the 1930s. Until 2001, when this accumulation regime imploded, foreign debt played a decisive role, since fractions of the dominant capital engaged in commitments abroad, placed in financial assets in the domestic market (securities, bonds, deposits, etc.) to own surplus given the existence of a positive differential between domestic and international interest rates and, subsequently, flee them abroad, establishing a close relationship between both variables. Financial valorization was sustained in a wage relationship where the wage-earners product participation was significantly reduced (both through the increase in unemployment and underemployment, as well as through the decrease in wage incomes), together with a competition regime based on the exploitation of natural resources taking advantage of static comparative benefits (Basualdo, 2020).

Table 1. Accumulated stocks of total external debt (public and private by resident sector), capital flight (residual method of the balance of payments), interest paid and GDP variation, selected periods from 1975 to 2019 (billions of current USD)

Periods	Stock variation per periods			
	Total external debt	Capital flight	Interest payed	Variation GDP (%)
1975-1984	41,1	32,9	14,2	9,3%
1984-1990	13,4	14,4	18,2	-9,7%

1990-2001	104,1	83,0	83,0	49,1%
2001-2015	-26,4	119,8	76,8	57,3%
2015-2019	96,8	65,3	36,4	-4,1%

Source: Own elaboration based on data from INDEC (*Instituto Nacional de Estadística y Censos*, National Institute of Statistics and Censuses) (International Accounts) and the World Bank.

As it can be seen in Table 1, as external indebtedness became an instrument to obtain financial income, and not to expand real economy, there was a division regarding the real economy evolution between 1976 and 1990. This situation was related to at least two processes that severely restricted economic growth: 1) The outflow of foreign currency abroad as interest payments to foreign creditors (more than US 32 billion in that period), and 2) Capital flight, whose accumulated amount at the end of the interregnum reached US 47,3 billion. In the same period, GDP did not expand.

The regressive income redistribution established by the dictatorship, with a 14% fall on the workers side, generated the mass of capital-owned resources that gave place to financial valorization and the subsequent flight. It was one of the constitutive foundations of neo-liberalism: increasing capital profit rate at the expense of the weakening working class, using a set of economic policies such as the productive map restructuring (deindustrialization) and its consequent increase in the levels of unemployment and workforce underemployment, job insecurity (outsourcing, informal employment, part-time contracts, etc.), as well as the privatization of social rights (public health and education, access to public services, job security, retirement and pensions, etc.) (Harvey, 2007).

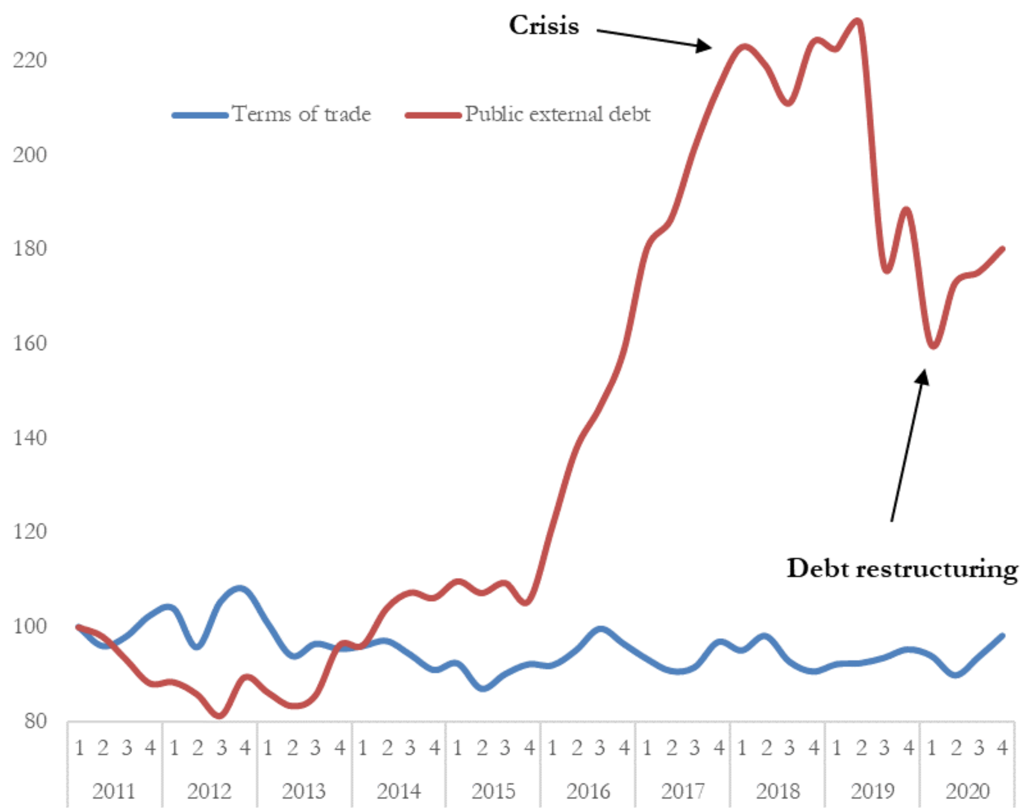
Only in the 1990-2001 period the economy registered an expansion (the 2001 GDP was 49,1% larger than the one of 1990). But when in the 1990s a cycle of external indebtedness was recreated after the public liability restructuring of the Brady Plan (1992), the debt taken in order to finance the currency board (peso-US dollar convertibility) required enormous external resources, in an economy that was struck by recession in 1998. Debt overhang left to a crisis in the accumulation regime, which was incapable of guaranteeing conditions for consistent capital reproduction (Basualdo, 2020).

Since the dissolution of the financial valorization model after the 2001 social and economic crisis, which ended with the declaration of public debt default with private creditors, and amid new struggles arising from the criticism to the Latin American neo-liberal process (Silva-Torres et al., 2021), a new economic and political period emerged, characterized at the beginning by a strong recovery of the good-producing sectors and greater state vigilance in various sectors of the economy under the governments of Kirchner and Fernández (2003-2015). Wages recovered after the 1998-2002 fall and the economy registered a notable expansion (the 2015 GDP was 57,3%.larger than the one of 2001). From the point of view of the accumulation regime dynamics, the 2001 default blocked the access to external financing that had allowed indebtedness and flight, although these favorable conditions were verified in a setting of significant improvement in terms of trade (Bértola and Ocampo, 2012).

Beyond these transformations, capital flight reached remarkably relevant levels in 2003-2015 (table 1). Although it is lower than that registered during the financial valorization period, this intensity in the resource outflow from the domestic system demonstrates that it was a key variable to explain the process of external constraint since 2012. In this context, the accumulated transfers abroad ranged between USD 100 and USD 140 billion (between 1.5 and 2 times the country's annual exports in 2021). This evidence signals that capital flight remained to be a central feature of the Argentine economy (Rua, 2019).

The external indebtedness, which had then been a pillar of financial valorization and ended with the 2001 default, underwent a change as a result of the two restructuring processes of the Kirchner period (bond swaps in 2005 and 2010; (Guzmán, 2020)). Without effective access to the international capital market in 2002-2012, although under a cycle of booming export commodity prices, the country was able to finance its economic growth with its own resources. However, the situation turned around in 2012/4 (graph 1), when commodity prices reversed and the traditional pitfalls of the external constraint generated new foreign exchange needs (Wainer, 2021).

Graph 1. Evolution of the Terms of Trade and stock of external debt of the central government at nominal value (base 1st trim. 2011 = 100)



Source: Own elaboration based on INDEC data.

In the last years of the Cristina Fernández administration (2012-2015), the attempt to obtain foreign market resources was undermined by the rulings of the New York district judge, the litigation venue for Argentine bonds. In fact, vulture funds (led by NML Capital) did not enter the 2005 and 2010 swaps (which reached an acceptance rate of 92%), and demanded payment of their claims without

principal or interest rate cuts, which was recognized by Judge Griesa. At the same time, the judge interposed the confiscation of Argentine assets in that period (Pénet & Zendejas, 2021).
The actions of the vulture funds between 2011 and 2015 prevented the placement of new debt in a context of recession and regional stagnation, although the situation would change with the government aligned with neo-liberal policies that would win the elections at the end of 2015.

4. Return to financial valorization (2016-2019)

The conservative government whose administration began in late 2015 re-defined the behavior of the economic –generally– and financial –particularly– sphere, associated to external indebtedness. The grounds of economic policy were mainly based on: currency devaluation; the elimination of subsidies and the increase of public service (energy, natural gas, running water, and transport) fees; the liberalization of foreign trade and the elimination or reduction of foods exportation rights; the elimination of restrictions to the acquisition of foreign currency; the opening of the capital and financial account; and a solid increase of interest rate (Table 2).

Table 2. Main differences in exchange, financial and commercial regulation between the periods 2011-2015 and 2015-2019

Period	2011-2015	2015-2019
Monetary policy	BCRA (*Banco Central de la República Argentina*, Central Bank of the Argentine Republic) Organic Charter reform, focused on growth and employment goals.	Inflation goal plan, with contractionary monetary policy to reduce inflation from 20-25% (2016), to 12-17% (2017), 8-12% (2018) and 3,5-6,5% (2019).
Exchange control devices	Establishment of requirements for the foreign currency purchase authorization without a specific end by the AFIP (*Administración de Ingresos Públicos*, Public Income Administration) and maximum authorized limits according to a certain percentage of the individual's income. Limitation of foreign currency withdrawal from ATMs located abroad to be made only on the account of deposits in foreign currency. Taxation over payments in foreign currency abroad ("tourist dollar").	Elimination of exchange control devices: withdrawal of the procedure for foreign currency purchase, elimination of income and personal property taxes for foreign currency purchase, elimination of requirements for non-compensated reserve funds and the increasing (and later elimination) of the monthly foreign currency purchase limit, elimination of "tourist dollar."
Interest rates, US dollar currency futures[5]	Negative real interest rates and massive placement of US dollar FX contracts in 2015 to avoid the purchase of US dollars.	Increase of (real, positive) reference interest rates, multiplication of placement of high-performance bills of exchange issued by the Central Bank.

[5] The US dollar FX contracts guaranteed by the Central Bank allowed the acquisition of US dollars in a future date (usually three months) at the exchange rate valid at the moment of purchase. These contracts were entered into in order to avoid the purchase of dollars in kind, as well as to lower currency devaluation expectations.

Capital movement and Commerce	Requirement of a 120-day minimum permanence period for short-term capital. Obligatory settlement of foreign currency from oil export and mining (previously exempt). Implementation of BCRA authorization for foreign currency purchase by importers. Reduction of the limit for foreign currency settlement to 15 days for exporters.	Elimination of the minimum period requirement for short-term capital. Elimination of the settlement period for foreign currency from exports. Elimination of foreign currency perception affidavits for exporters. Elimination of control devices for imports.

Source: Own elaboration based on official sources.

This policy package triggered a notable change in relative pricing and a transfer of workers' resources towards concentrated capital, as the price increase was followed by a wage-reduction policy, typical of the neo-liberal period (Wainer, 2021).

The financial system re-organization annulled the objectives that had been traced by the previous administration since 2012, which prioritized production and employment growth (making pricing objectives secondary to such end). This orthodox turn of the new administration focused on fighting inflation which, at the moment of inauguration, was around 25% annually. For such purpose, an inflation targeting plan was designed.

As a restrictive monetary policy was being established, the existing regulations over the financial and commercial sector, opposing the measures in force until 2015, were eliminated (Table 2). The termination of the obligation to exchange export dollars to pesos; the removal of the limit to foreign currency purchase and the minimum permanence periods for investments (allowing for capital flight), along with the increase of reference fees (as a part of the inflation goal plan), created the conditions to reestablish financial valorization. Mauricio Macri's government self-defined as the counterpart to the "populist" experiences of the 1998-2015 progressist period in Latin America and intended to initiate a conservative surge in the region. The reversion of re-distributive policies was key to this (Silva-Torres et al., 2021).

The indebtedness strategy leaned on low international interest rates (even when they were high for Argentina, due to its low reputation) and did not consider the positive evolution of exchange terms, which were undergoing a certain recovery cycle in 2016 (Graph 2). However, the region and, fundamentally, the country's main commercial partner (Brazil) went through a stagnation/recession period in an international scene of slow economic growth and increasing of global indebtedness[6] (Kose et al., 2021).

The Macri administration committed to re-install external indebtedness as the country's main source of foreign currency (as it eliminated the obligatory exchange of US dollars to pesos for exporters).

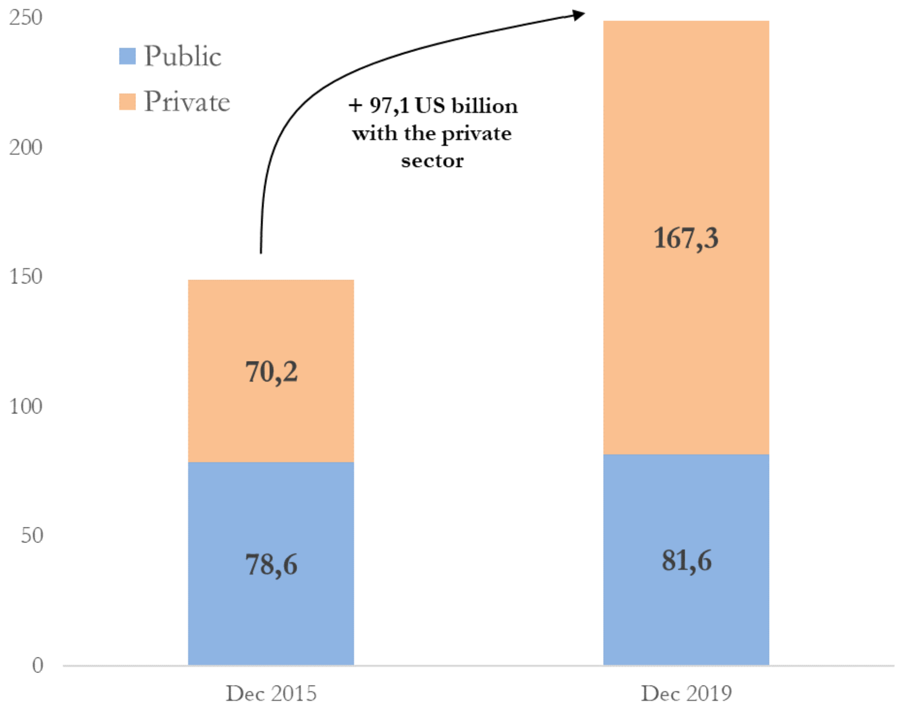
[6] Low-cost external financing in 2012-2021 (real interest rates close to zero) contributed to the increasing global indebtedness (Kose et al., 2021).

This was sustained by some sort of debt-led growth, which would allow the country to be re-inserted into international markets, improve its relation with central countries and, in a (local and foreign) investment-friendly environment, gain reputation to obtain debt re-financing at decreasing rates (Sturzenegger, 2019).

To achieve this goal, one of the first steps was to accept New York Judge Griesa's opinion, who forced the Argentine government to pay 100% of the debt to the so-called "vulture funds" or "holdout" which refused to enter the debt reestructuring of 2005 and 2010. Argentina then placed USD 16.5 billion in bonds in international markets, which was the most voluminous emission in its history and one of the highest worldwide. This process reverted the previous Argentine position[7] and scored a new victory for the vulture funds and their strategy of claiming against peripheral countries (Datz, 2021).

The litigation outcome with these creditors quickly allowed for new title placing in international financial markets based on bond issuing in various currencies (Euros, Swiss Francs and US Dollars). Out of the USD 100 billion which entered the country between January 2016 and April 2018, 64.5% belonged to the national public sector, 11.4% to sub-national governments, 11.8% to companies and 12.3% entered as speculative capitals (portfolio investments) (Argentine Central Bank, 2020).

Graph 2. Public external debt by holder (in US dollar billion). December 2015-December 2019.



Source: own elaboration based on data from the Ministry of Finance.

[7] In 2014, Argentina had promoted a set of criteria for sovereign debt restructuring which aimed to blocking the actions of the vulture funds, and obtained the approval of the United Nations General Assembly (Datz, 2021).

As shown in graph 2, the government increased public external debt in more than US 100 billion in four years, but most of this augmentation was explained by new commitments with the private sector (US 97,1 billion).

Thus, the conditions for financing the capital flight process with indebtedness, as it had happened in 1976-2001, returned. This time, carry trade mechanism (based on exchange rate appreciation and deregulation) lasted till the 2018 crisis (where capital outflows, together with sudden stops, generated an external crisis in April). Till April 2018, more than US 12 billion entered the country as portfolio investments, but after the sudden stop, almost all of them flu away. Even when real interest rates where high, that did not compensate currency devaluation (table 3).

Table 3. Real interest rate (Central Bank Bills) and exchange rate (december 2015-april 2018 = 100), on average by periods. Accumulated portfolio investments in US billion.

Variables	December 2015-April 2018	May 2018-December 2019
Exchange rate (mean)	100	129,4
Interest rate (interannual mean)	-3%	15%
Accumulated Portfolio Investment	**12 233**	**-11 506**

Source: own calculations based on BCRA, CIFRA (*Centro de Investigación y Formación de la República Argentina*, Center for Research and Education of the Argentine Republic) and INDEC.

In April 2018, the financial valorization experience crisis began. An orthodox interpretation of the situation was offered by the president of the Argentine Central Bank, who considered that having abandoned the inflation goal plan by the end of 2017 was the cause of the problem. From his perspective, the relaxation of inflation goals had left behind the "progress" of the Central Bank's monetary program (inflation reduction, accumulation of international reserve funds and elimination of exchange and capital control devices) (Sturzenegger, 2019).

However, there are other reasons to be noted. The counterpart to this debt-led growth period of 2016-2017 was a speculative fever. Investment funds accumulated capital valued as Central Bank debt in Bills that would unfailingly gravitate towards foreign currency purchase, completing the valorization and flight cycle. A crisis would burst soon after the signs of capital entry were reverted, which happened in the second quarter of 2018. However, this investment portfolio reconversion process was a consequence of social dynamics.

When, in late 2017, the Macri administration started "second generation" structural reforms (new tax, social security and labor laws), a strong social mobilization unleashed, which was repressed. Resistance from various unionist social organizations regarding the set of neo-liberal biased economic measures presented by the party in power changed the political dynamics of the government. This is in addition to the 2018 drought (in an agricultural product-dependent country), as well as the United States decision to increase reference interest rates, which normally affects peripheral countries due to the speculative capital migration towards assets of smaller risk, like those of the Northern country (Basualdo, 2020).

In this hostile context, Argentina's current account deficit, financed by indebtedness, signaled this model's exhaustion to economic agents. This triggered a strong financial crisis due to a massive unwinding of positions in pesos, which were dollarized with the sale of Central Bank reserve funds, thus consolidating high returns in foreign currency which soon exited the formal system with the subsequent local currency devaluation, acceleration of the inflationary process and implosion of inflation goals. The total deregulation of financial activity generated a high external and financial vulnerability of the local economy (Wainer, 2021).

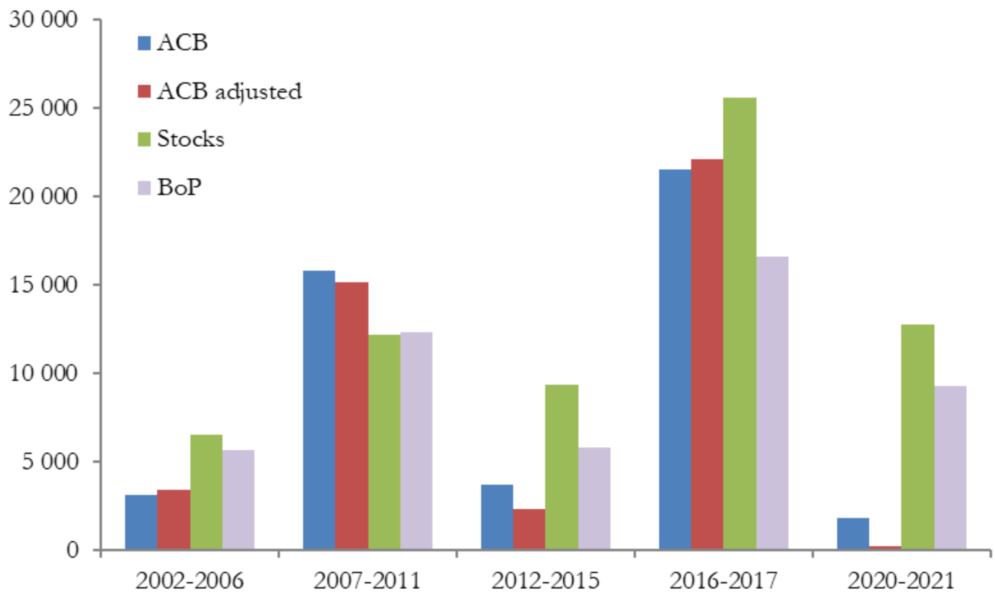
The impossibility of accessing the capital market, along with the massive exit of foreign currency after the exchange crisis, resulted in a decision that exposed the economy weakness: a three-year FMI stand-by loan by an astounding resource volume (USD 57 billion), that even failed to comply with the rules of this body and was explained by the affinity of the conservative government to the Trump administration in the USA. The financing package was conditioned by the comeback of "permanent monitoring" of the country's economy, in force since the 1980 debt crisis (Sgard, 2022)[8].

In practice, this loan[9] guaranteed a new foreign currency flow so that dominant sectors could close the financial valorization cycle with the capital flight (graph 3). As from mid-2017, there has been a high amount of capital exit, which foreshadowed Macri's model inconsistency, as it accelerated foreign currency necessities to cover the financial valorization process and the current account deficit.

Graph 3. Capital flight calculated through different methods (Argentine Central Bank, Argentine Central Bank adjusted, Stocks and Balance of Payments). Annul mean. US million. 2002-2021. Selected periods.

[8] The agreement included the following conditions: a fiscal goal of bringing the 3.8% GDP primary deficit in 2017 down to 0% in 2020, with reduced transfers to provinces, cuts in subsidies, state personnel and wages reduction, etc.; greater emphasis in the combat against inflation; commitment to increasing international reserve funds and reduction of Central Bank Bills of Exchange stock; Central Bank Organic Charter reform prioritizing pricing stability and guaranteeing its autonomy; among others.

[9] Although the agreement amounted to USD 57 billion, USD 44.154 billion were transferred until late 2019, when the administration that succeeded Macri disregarded the agreement.



Source: Own elaboration based on data from the BCRA and INDEC.

Focusing on capital flight, graph 3 shows four different methods to calculate it. The Argentine Central Bank (ACB) presents the external asset formation registered officially. This measure is monthly and precise, but does not consider the reintroduction (or externalization) of these foreign currencies in the local financial system. It also disregards trade transfer prices. In order to capture the assets reintroduced in the system, the ACB adjusted accounts for the variation of deposits in foreign currency in the system. The Stocks method is based on the declaration of foreign assets by firms and families. It is also an official estimation, based on the asset value considered according to changes in prices and previous declarations. As a disadvantage, it does not consider non-declared wealth and it has lack of precision on value estimations. Finally, the balance of payments method summarizes all foreign currency introduced in the country (current account balance, foreign direct investment entries and net external debt flows) that does not constitute international reserves. It is the capital flight estimation suggested by the IMF and the World Bank (Barrera and Bona, 2021).

These estimations show the relevance of capital flight in Argentina in the 21st century. Kirchner's administrations suffered an important exteriorization of wealth and only reduced capital flight when capital controls were defined (2012-2015). The Macri's government, through its deregulation measures, permitted a substantial amount of capital flight, financed with public external debt, instead of the current account surpluses of the previous experience. The exchange, commercial and financial deregulation during 2016-2019 resulted in an externalization of foreign currencies of nearly USD 90 billion, as the external indebtedness was around USD 15 billion over that number. This gap between external debt and flight equals the increase of the international reserve funds during this period.

The process is explained by the kick-start of a new financial valorization process, in which the national public sector organized a three-component scheme: a) transfer of income from employment to capital, by means of an important reduction of real wages and employment; b) implementation of the carry-trade mechanism through high interest rates and ease for short-term operations in foreign currency; and c) external public indebtedness guaranteeing that the foreign currency completes the foreign currency exit cycle by exchange deregulation. Thus, the conditions for capital flight to disconnect from the economic activity[10] and the genuine foreign currency generation were re-created.

5. Brief notes on the new sovereign debt restructuring (2020-2022)

The dynamics of the previously described external public indebtedness elevated significantly the financial vulnerability of the Argentine economy in 2015-2019. In only four years, Argentina increased its gross public debt from 53% to 89% of the GDP (OECD, 2021), to a great extent due to the evolution of the central government external debt (with the private sector and the IMF), which went from 13% to 44% of the GDP (World Bank, 2022).

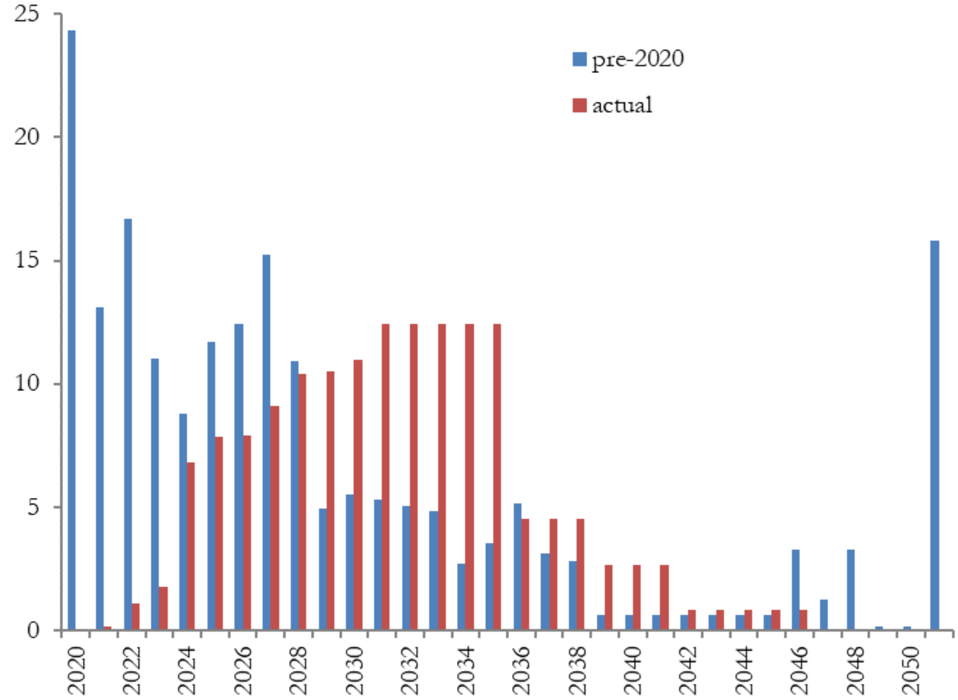
Without greater progress in exports (the historical maximum was reached in 2011) and under the previously described capital flight levels, the re-paying capacity towards late 2019 was bleak. The new administration, which started in December that year, anticipated that the commitments were not payable in those conditions. Therefore, less than two decades after the 2001 default and after the litigation background against vulture funds in international courts throughout 2002-2015, Argentina re-initiated a process of sovereign debt restructuring.

This time the goal was to exchange private sector credit in foreign currency by around USD 66.238 billion. The operation was made in 2020 with a discount, mainly in interest, of around 18-35% on the present net value, according to different estimates. Debt restructuring with private sector in foreign currency, as shown in graph 4, permitted to postponed short term commitments, but did not represent a substantial transformation on debt profile. For the 2028-2035 period, post restructuring maturities are higher than the previous ones[11].

Graph 4. Debt restructuring in Argentina. Previous and post 2020 situation. US billion.

[10] According to World Bank data, the Argentine GDP per capita of 2019 was lower than that of 2010, as measured in current USD, which shaped a new "lost decade".

[11] Shortly after that, USD 44.715 billion were exchanged with creditors in local currency, with a restructuring total of nearly USD 100 billion between both operations, in a cycle that pushed most of the payment dates from 2020-2027 to 2028-2035 (Bona, 2020).



Source: own elaboration based on the Argentine Ministry of Finance.

In early 2022, the IMF transfer of USD 44.154 billion from the stand-by agreement of 2018 was being restructured. Under the new conditions, the country will get a new loan from the IMF in order to pay the previous one, and will extend commitments for the next ten years. But the new agreement does not exclude the traditional economic policy conditioning that the IMF has performed since the eighties (Sgard, 2022), such as fast reduction of fiscal deficit, with IMF quarterly supervision of the fiscal and monetary policies. Argentina could not get a hair-cut, even when the stand-by of 2018 agreement was political and did not applied to IMF criterions (Bohovslavsky & Cantamutto, 2021). Meanwhile, the Fernandez administration (2019-2023) extended the market and exchange control devices that the previous government had reinstalled to moderate capital flight[12], delayed payment commitments to creditors in order to generate product and export growth, in search of a debt sustainability approach consistent with the Post-Keynsian premise (Guzmán et al., 2016). The economic policy instruments recovery of 2011-2015, as previously analyzed, seems to be a necessary condition but not enough to avoid the structural problems of a peripheral economy.

6. Final remarks

In a context of potential global debt crisis since the COVID-19 pandemic outbreak, Latin America faced considerable challenges handling external commitments. Argentina is one of the countries with greater difficulties since, as analyzed herein, in 2015-2019, its public external debt increased

[12] With the unleashed economic crisis and massive capital exit from the system, in 2019, the previous government had reinstalled capital control devices, restricting foreign currency purchase with a maximum of USD 1,500 per person, in addition to the re-installation of the foreign currency obligatory liquidation originating from foreign trade.

considerably, which led to a new restructuring process. The understanding of this external indebtedness cycle involves a set of factors of structural nature, along with others of circumstantial nature.

Among the structural factors, the first one to be noted is the depending character of the Argentine economy, which shows a lack of competitive capacity for the global market in order to generate the foreign currency necessary to finance the capital accumulation process. With this, during external constraint periods (usually originated by movements in commodity pricing that deteriorate the terms of trade, (Prebisch, 1950)) external resources are usually requested, encouraging indebtedness processes.

This economy depending nature and its persistent indebtedness cycles, in the Argentine case, are bound to another phenomenon that restricts the possibilities of growth and/or redistribution: capital flight. Independently of the gross domestic product evolution, the international situation and the changes in economic policies, since 1976 excessive economic drainage persists like a definitive characteristic of the economy. Although this resource transfer is replicated in Global South countries (Kar & Freitas, 2012) and is of utmost importance in Latin America (Rua, 2019), it develops in a particular way in Argentina. In fact, neo-liberalism was installed in the mid-seventies' through financial valorization, which established a direct link between external indebtedness and capital flight (Basualdo, 2006).

Capital flight is a behavioral trait of local dominant classes, who account for most of the surplus drainage (Bona & Barrera, 2021). However, one of the phenomena that make the Argentine case a singular one is the bi-monetary economy: with high inflation levels, not only the high bourgeoisie but also a part of the working class with high income levels, in an attempt to protect their savings, accumulate foreign currency. Unlike the "popular financialization" of European peripheral countries through high family indebtedness (Becker et al., 2010) Lapavitsas; 2013), this case shows a "popular dollarization" that often operates outside formal channels and puts pressure on the exchange rate.

Among the circumstantial factors that explain the recent process of financial valorization, stands out the political proposal of a neo-liberal project during the Macri administration (2015-2019). This explains the exchange, commercial and sectorial deregulation policies implemented during this period, which facilitated capital flight mechanisms, as well as public indebtedness multiplication, which allowed to finance it. As a subordinated economy (Bonizzi et al., 2019), Argentina is not a part of the main international financial circuits and has a shallow financial system which, in the context of the financial valorization strategy, hardly fulfills the role of foreign currency exporter to central countries.

This financial valorization proposal used traditional methods to redistribute income from work to capital in 2015-2019: reducing the working-class product participation (via successive currency devaluations and increasing unemployment), requesting multilateral credit organizations to monitor public expenditure adjustment and tax reduction policies for the most concentrated sectors. This wage deflation, typical of neo-liberalism (Patnaik & Patnaik, 2016), reverted the trend towards the reduction of inequality of the first decade of the 21st century. Therefore, not only the increase of external indebtedness in Argentina positively correlates to capital flight, but also to increased inequality.

It seems to be confirmed that, although the circumstantial factors of financial valorization crises can be approached (the 2003-2015 Kirchner governments could be an example, although in a favorable international context), structural factors are much more difficult to modify for peripheral economies, in a context of neoliberalism.

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