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Case Study

Growth Through Radical Fiscal Reform? Argentina's Chainsaw Policy as a Blueprint for Countries with Dysfunctional Budgets

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ABSTRACT

This paper analyses Argentina's fiscal policy transformation under President Javier Milei as a case of radical fiscal consolidation implemented under conditions of extreme macroeconomic instability and weak institutional credibility. Drawing on a contrastive single-case design, the study examines whether rapid and expenditure-based fiscal adjustment can coincide with short-term macroeconomic stabilisation and shifts in confidence-related expectations. Using validated data from international institutions, the analysis documents a simultaneous weakening of inflation dynamics, a marked reduction in the primary fiscal deficit, changes in investment-related indicators and declining sovereign risk premiums during the first year of reform implementation. While no causal attribution of individual policy measures is possible, the observed developments challenge the assumption that rapid fiscal consolidation necessarily entails short-term macroeconomic disruption. The paper situates these findings within the literature on fiscal credibility, executive self-commitment and expectation formation, arguing that under specific political and institutional conditions fiscal credibility may emerge not only through formal rules but also through consistent executive action and visible policy breaks. At the same time, the analysis emphasises the strong context dependence and limited transferability of such reform paths. Rather than presenting Argentina as a reform model, the paper conceptualises the Milei reform agenda as an analytical borderline case of fiscal self-correction. The contribution lies in differentiating potentially transferable elements of fiscal control from strictly context-specific conditions and in reframing fiscal consolidation as a credibility-driven control architecture rather than a purely quantitative adjustment of government spending.

Keywords: Fiscal Consolidation, Austerity and Growth, Argentina Economic Reform, Investment Confidence, State Retrenchment

INTRODUCTION AND THEORETICAL BACKGROUND

Argentina has been analysed in the economic literature for several decades as a paradigmatic case of recurring fiscal instability and fragile macroeconomic governance (Zettelmeyer, 2006). Structural budget deficits, pronounced political volatility and persistent monetary tensions have repeatedly impaired economic development and weakened the institutional credibility of the state (Bortz, Toftum & Zeolla, 2021). Against this background, fiscal policy in Argentina has historically been characterised by incremental adjustment strategies that failed to generate durable stabilisation, resulting instead in repeated cycles of inflationary erosion, confidence loss and external dependence (Zettelmeyer, 2006). In December 2023, President Javier Milei took office with the declared objective of sharply reducing state intervention and initiating a fundamental shift towards fiscal consolidation and market-oriented reforms (Knoell, 2024; Panigo & Carrera, 2025; Castagno, 2025; Bebchuk, 2024). The reform agenda was explicitly framed as a break with Argentina's established fiscal policy trajectory, emphasising rapid expenditure cuts, the reduction of subsidies and a strong concentration of executive control. The political coalition supporting this agenda, as well as the sources of resistance and social contestation, are analysed in detail by Panigo and Carrera (2025), while the ideological framing and communicative strategy of Milei's programme are examined by Knoell (2024). After approximately twelve months, first developments can be assessed on the basis of available macroeconomic indicators. Reports by the International Monetary Fund and the OECD document a slowdown in inflation dynamics, improvements in selected fiscal indicators and changes in investment-related expectations during 2024 (International Monetary Fund, 2024; OECD, 2024; OECD, 2025). These developments are empirically observable, yet they do not allow a clear causal attribution to individual policy measures due to the simultaneity of fiscal, monetary and external influences (International Monetary Fund, 2024). From a theoretical perspective, this constellation directly relates to the literature on fiscal credibility and expectation formation. Fiscal policy in unstable states is increasingly analysed not only as an instrument of redistribution or macroeconomic management, but also as a mechanism of institutional credibility-building vis-à-vis capital markets, citizens and international actors (Debrun & Jonung, 2019). The design of fiscal rules and budgetary architectures can constrain political discretion and structure expectations, but credibility may also arise through consistent political signalling and executive self-commitment under certain institutional conditions (Aaskoven, 2024). Game-theoretic and political economy approaches further suggest that in environments of high fiscal volatility, clearly recognisable policy breaks may exert stronger expectation effects than gradual adjustment strategies, provided they are implemented coherently and can be externally observed (El-Khishin & Kassab, 2022). At the same time, the literature emphasises that such effects are highly context-dependent and cannot be generalised across political systems with differing governance structures and veto configurations (Debrun & Jonung, 2019). Against this theoretical backdrop, the Argentine case is analysed not as an idiosyncratic exception, but as a potentially instructive test case for countries characterised by weak fiscal institutions and high macroeconomic volatility (Papaioannou & Siourounis, 2008). Comparative political economy research shows that fiscal adjustment outcomes are closely linked to institutional quality, executive capacity and political legitimacy, particularly in states with constrained fiscal sovereignty and inflationary pressures (Polterovich & Popov, 2007). At the same time, the literature highlights substantial risks associated with radical consolidation strategies. Social destabilisation, institutional erosion and increased dependence on external adjustment mechanisms may undermine the sustainability of short-term stabilisation effects (Panigo & Carrera, 2025; Nagel & Van Kerckhoven, 2025). Kleinheyer and Schnabl (2025) provide an early assessment of the macroeconomic trade-offs emerging under Milei's reform agenda, emphasising both stabilisation signals and unresolved structural vulnerabilities.

Against this background, this study examines Argentina's economic policy transformation under President Milei as a theoretically feasible case of fiscal self-correction

(Debrun & Jonung, 2019). The analytical contribution lies in the systematic differentiation between potentially transferable control elements and strictly context-specific factors. The analysis proceeds along contrastive hypotheses and is grounded in empirical data, economic policy documents and established concepts from political economy.

METHODOLOGY

This study follows a normative analytical research approach that is orientated towards the problem structure of fragile fiscal systems. The aim is to draw theoretically sound and empirically supported conclusions from the specific case of Argentina's economic policy under President Javier Milei as to whether and under what conditions a radical fiscal retreat can act as a stimulus for economic stabilisation and growth-effective investor confidence. The methodology is based on a case-centred design with a theory-capable replication perspective and combines qualitative control analysis with quantitative indicator evaluation. The central base unit is a contrastive single case study. The case of Argentina is not interpreted as an idiosyncratic exception, but as a particularly instructive test case. Typologically, it exhibits characteristics of a state with high fiscal vulnerability, including structural budget deficits, inflationary erosion, institutional weaknesses and low investment dynamics, as documented in the country analyses of the International Monetary Fund and the OECD. According to Lijphart's typologisation, this is a so-called most unlikely case, in which an economic turnaround is particularly in need of explanation and therefore has increased analytical relevance (Lijphart, 1971). The empirical basis is based on validated primary data from publicly accessible international institutions, in particular the International Monetary Fund and the OECD. These sources provide time series on key macroeconomic indicators such as real economic development, inflation dynamics, the investment ratio and the primary fiscal balance. In addition, official reform instruments of the Argentinian executive are analysed qualitatively in order to systematically reconstruct the fiscal control architecture and its implementation. The data analysis is structure-orientated and not econometric. Due to the short observation period of 2023 to 2025 and the large number of exogenous influencing factors, formal causal models are deliberately avoided. Instead, the development of key indicators is interpreted using a contrastive hypothesis grid. Two pairs of hypotheses are compared in each case. On the one hand, there is the assumption that fiscal radicalism has a growth-promoting effect under conditions of executive coherence, labelled H1. On the other hand, the counter-hypothesis is formulated that short-term stabilisation generates long-term control weaknesses, referred to as GH1. Similarly, it is examined whether external institutional anchors such as the International Monetary Fund contribute to increasing fiscal credibility (H2) or whether they undermine fiscal self-control in the long term (GH2). This dualistic test structure makes it possible to derive empirical developments in a theory-critical manner rather than evaluating them normatively. An indicator-based criteria grid is developed to assess the replicability of Argentina's fiscal strategy in other countries. It comprises five dimensions. These include the initial fiscal situation with a particular focus on the deficit and subsidy structure, executive capability, monetary framework conditions, external investor reaction and social resilience. The Milei strategy is only considered transferable if at least four of these five criteria are met in a potential reference country. This heuristic limitation ensures analytical reliability and protects against inadmissible generalisation. The methodological approach is thus fourfold. Firstly, the macro-structural categorisation of Argentina's initial situation is carried out. Secondly, a qualitative decoding of the fiscal reform measures is undertaken. Thirdly, a data-driven measurement of economic reactions follows. Fourthly, a systematic reflection on the conditions for transferability follows.The work does not claim to be prognostic, but pursues the goal of describing fiscal reform processes in a theoretically sound manner, interpreting them structurally and making them comparable in terms of political economy. Limitations arise from the limited availability of data, the short observation window and the exogenous volatility of global markets. In addition, it cannot be ruled out that political path breaks or external shocks (e.g. commodity prices, geopolitical conflicts) may overlay the observed causal relationships. The results of the study can therefore be interpreted as structurally relational, but are not deterministic or permanently transferable.

ANALYSIS AND RESULTS

At the same time, inflationary momentum is slowing. After very high annual inflation rates in 2023, price increases declined noticeably over the course of 2024, but remained at an exceptionally high level (OECD, 2024). High-frequency monthly data show a significant slowdown in month-on-month inflation momentum since mid-2024, even though the absolute price level continues to rise sharply (Trading Economics, 2025). The development of the investment ratio is particularly significant. OECD national accounts data indicate that gross fixed capital formation relative to gross domestic product increased again in 2024 after a low level in 2023 and is expected to rise further in 2025 (OECD, 2025). This development coincides with a phase of sharply reduced public investment spending and may indicate a relative shift in favour of private investment activity, without allowing direct conclusions regarding causality (OECD, 2025). The fiscal position also improved markedly. The International Monetary Fund forecasts a substantial reduction in Argentina’s primary deficit between 2023 and 2024, with a further move towards a balanced budget in the subsequent period (International Monetary Fund, 2024). This consolidation phase is predominantly expenditure-based and thus differs structurally from previous adjustment episodes that relied more heavily on revenue increases (International Monetary Fund, 2024). Financial market reactions likewise reflect a change in risk assessment. OECD analyses document a significant reduction in sovereign risk premiums on Argentinian government bonds and a stabilisation of external capital flows since late 2023 (OECD, 2025). At the same time, the implementation of fiscal commitments under the current IMF programme was assessed positively in 2024 (International Monetary Fund, 2024). These developments can be interpreted as consistent, albeit ambiguous, indications of improved fiscal credibility (Debrun & Jonung, 2019). Overall, the empirical findings suggest that radical fiscal adjustments can be accompanied by macroeconomic stabilisation and positive expectation effects under specific institutional and external framework conditions (Debrun & Jonung, 2019). At the same time, these effects remain highly context-dependent and should not be interpreted as a generalisable causal relationship (Panigo & Carrera, 2025). Social tensions, protest dynamics and political polarisation cannot be adequately captured by the available quantitative indicators, but constitute potential counterforces that may influence the long-term sustainability of the reform path (Panigo & Carrera, 2025). Against this background, a critical reflection on the transferability of the Argentinian case is necessary.

SUMMARY AND OUTLOOK

Key findings

The study shows that under President Javier Milei, Argentina has undergone a pronounced change in fiscal policy characterised by an unusually high speed and consistency of budget consolidation (Kleinheyer & Schnabl, 2025). Extensive spending cuts and the reduction of central subsidies were implemented within a short space of time, accompanied by strong executive control (OECD, 2025). At the same time, positive changes in key macroeconomic indicators can be observed. Inflation dynamics declined over the course of 2024 (OECD, 2024), the investment ratio increased (OECD, 2025), the primary deficit was significantly reduced (International Monetary Fund, 2024) and the risk premiums on Argentinian government bonds fell considerably (OECD, 2025). These developments coincide with the fiscal consolidation strategy, although no clear causality can be derived from this (International Monetary Fund, 2024). Nevertheless, they contradict simple assumptions that rapid fiscal consolidation is inevitably accompanied by short-term macroeconomic stagnation. The observed developments are therefore in line with the literature on fiscal adjustments on the expenditure side, which shows that consolidation programmes have less of a dampening effect on growth under certain conditions, especially if they are primarily implemented through spending cuts and are communicated credibly (Alesina & Perotti, 1996). Rather, the trends observed suggest that under conditions of high executive coherence and clear fiscal self-commitment, stabilising effects can also occur in the short term (Debrun & Jonung, 2019).

Significance for fiscal policy reform debates

The Argentinian case expands the analytical framework of fiscal policy design by revealing alternative mechanisms of credibility-building (Debrun & Jonung, 2019). The developments observed suggest that fiscal credibility does not have to be established exclusively through formalised institutional rules, but can also arise under certain conditions through visible and consistently implemented executive self-commitment (Aaskoven, 2024). This includes, in particular, the rapid withdrawal of the state from central allocation areas, as was observed in the course of budget consolidation (Kleinheyer & Schnabl, 2025). At the same time, the case suggests that in highly volatile fiscal contexts, gradual adjustments may be less effective than clearly recognisable policy breaks, provided they are implemented coherently and can be observed externally (El-Khishin & Kassab, 2022). However, this interpretation remains case-specific and does not allow a generally valid statement to be made about the superiority of radical consolidation strategies (Debrun & Jonung, 2019). For the international reform debate, this results less in a normative model than in an analytical indication that, under specific institutional and political conditions, state retrenchment can act as a stabilising impulse without having to be interpreted per se as mere austerity (Alesina & Perotti, 1996).

Limits of transferability

At the same time, the transferability of this approach is clearly limited. The comparative growth literature shows that political regime changes and phases of institutional upheaval can, under certain conditions, be accompanied by temporary growth effects, the sustainability of which depends largely on subsequent institutional consolidation (Papaioannou & Siourounis, 2008). The Argentinian reform path was only possible under specific political and institutional conditions. These include an exceptionally high level of executive assertiveness, a highly polarised political environment with limited veto players and an external framework shaped by international financial institutions (Panigo & Carrera, 2025; International Monetary Fund, 2024). The political economy of reforms emphasises that, particularly in pluralistic decision-making systems or in states with strongly entrenched institutional arrangements, comparable reform strategies frequently encounter resistance, political blockages or destabilising macroeconomic feedback effects (Polterovich & Popov, 2007). In addition, evidence from Latin America shows that fiscal adjustment episodes can entail significant distributional effects, particularly when consolidation is expenditure-based and social compensatory mechanisms are weak, which may undermine social cohesion and long-term political sustainability (Cornia, Gómez-Sabaini & Martorano, 2011). Against this background, the case of Argentina is not suitable as a universal reform model, but rather as an analytical borderline case of fiscal self-correction, in which the conditions, mechanisms of action and limits of radical consolidation strategies can be observed with particular clarity (Debrun & Jonung, 2019).

Open questions and future research needs

Argentina's political and economic development remains dynamic (Panigo & Carrera, 2025). Whether the current growth path is sustainable in the long term, whether social coherence can be maintained despite far-reaching fiscal cuts and whether investor confidence can be stabilised in the long term is an open question at the time of this analysis (International Monetary Fund, 2024; OECD, 2025). It also remains unclear whether the approach adopted under President Javier Milei can result in an institutionalisable reform model or whether it is a temporary episode of fiscal disruption (Nagel & Van Kerckhoven, 2025). This results in a clear research mandate for comparative public finance research. This consists of systematically analysing fiscal transformation paths under conditions of post-populist volatility and investigating their political, social and macroeconomic side effects (Papaioannou & Siourounis, 2008; Polterovich & Popov, 2007).

DISCUSSION

The analysis of the macroeconomic effects of fiscal policy under President Javier Milei suggests that rapid and far-reaching fiscal consolidation does not necessarily have to be accompanied by immediate macroeconomic instability or a slump in investment activity (International Monetary Fund, 2024; OECD, 2025). In the Argentinian case, growth-related signals, an improvement in investment-related expectations and a weakening of inflation dynamics can be observed simultaneously, while the state structurally reduces its direct allocation role (OECD, 2024; OECD, 2025). This constellation is empirically unusual and raises the question of whether and under what conditions such a reform path is transferable beyond the individual case. Comparative political economy and growth research show that fiscal consolidation can, under certain institutional conditions, coincide with macroeconomic stabilisation, but that no uniform or linearly reproducible mechanism can be derived (Papaioannou & Siourounis, 2008; Polterovich & Popov, 2007). What these cases have in common is that fiscal consolidation does not occur in isolation, but is embedded in broader processes of institutional restructuring and external anchoring (Polterovich & Popov, 2007; Zettelmeyer, 2006). Taken together, these comparative insights suggest that fiscal radicalism can exert stabilising effects only when embedded in comprehensive institutional and political transformation processes (Debrun & Jonung, 2019). The direct transferability of individual measures therefore remains limited and strongly context-dependent (Panigo & Carrera, 2025). The Argentinian case differs insofar as the fiscal change of course has so far been implemented primarily through executive control instruments and has not yet been accompanied by a comprehensive institutional reorganisation or a long-term integration perspective (Nagel & Van Kerckhoven, 2025). An analytical five-dimensional grid is used to assess replicability. It comprises the fiscal structure, executive steering capacity, monetary framework conditions, investor perceptions and social and political resilience. Only countries that exhibit structural similarities with Argentina across several of these dimensions can be considered to display limited and context-bound transferability (Polterovich & Popov, 2007). This does not imply a mechanical replication of individual measures, but rather a context-dependent approximation of comparable fiscal starting positions, institutional room for manoeuvre and external dependencies. A conclusive identification of specific reference states therefore remains analytically open and constitutes a task for further comparative research. A central risk of radical fiscal consolidation strategies lies in the absence of robust socio-political feedback mechanisms. In the Argentinian case, reform efforts have so far focused primarily on short-term macroeconomic stabilisation and the restoration of market confidence (Panigo & Carrera, 2025). International assessments by the International Monetary Fund indicate that far-reaching consolidation processes without accompanying social safeguards can generate political tensions and acceptance problems in the medium term (International Monetary Fund, 2024). The role of external anchor institutions is likewise ambivalent. In the case of Argentina, the International Monetary Fund functions as a stabilising reference framework for fiscal targets and reform communication (International Monetary Fund, 2024). At the same time, the comparative literature on political economy stresses that external conditionality cannot permanently compensate for deficits in domestic political legitimacy and may contribute to institutional blockages in complex governance systems (Polterovich & Popov, 2007). Finally, the long-term sustainability of the observed effects remains uncertain. While short-term stabilisation signals and positive expectation effects can be identified, it remains unclear whether these effects will persist over a longer time horizon, particularly if political or social feedback mechanisms place pressure on fiscal self-commitment (Nagel & Van Kerckhoven, 2025). To summarise, Milei's so-called chainsaw policy appears replicable only in highly specific contexts. The simultaneous presence of pronounced initial fiscal weakness, strong executive capacity, monetary compatibility and an external anchor institution constitutes a necessary precondition. In the absence of any one of these elements, the risk of social or macroeconomic instability increases substantially (Debrun & Jonung, 2019; Panigo & Carrera, 2025).

CONCLUSION

This analysis shows that Argentina's fiscal policy change under President Javier Milei was accompanied by a stabilisation of key macroeconomic indicators (International Monetary Fund, 2024; OECD, 2025). From 2024 onwards, real gross domestic product returned to positive growth, while inflationary momentum weakened, the primary deficit was significantly reduced and investment activity increased again (International Monetary Fund, 2024; OECD, 2024; OECD, 2025). These developments occurred contemporaneously with far-reaching fiscal adjustments and a structural withdrawal of government spending (OECD, 2025; Kleinheyer & Schnabl, 2025). A clear causal attribution of individual effects is not possible (International Monetary Fund, 2024). Nevertheless, the Argentinian case suggests that fiscal radicalism does not necessarily have to exert growth-inhibiting effects under certain institutional and political conditions, but can coincide with stabilisation of expectations and investment-related signals (Alesina & Perotti, 1996; Debrun & Jonung, 2019). The analysis further indicates that the reform path initiated under President Milei constitutes a qualitative break with Argentina's previously dominant fiscal policy approaches (Bortz, Toftum & Zeolla, 2021; Panigo & Carrera, 2025). For decades, incremental adjustment strategies failed to durably overcome structural deficits, inflationary erosion and recurring losses of confidence (Zettelmeyer, 2006; Bortz, Toftum & Zeolla, 2021). Against this background, Milei's agenda can be interpreted as the beginning of a new fiscal policy phase characterised by deliberate disruption of established control logics rather than incremental modification (Knoell, 2024; Kleinheyer & Schnabl, 2025). The empirical findings suggest that prior arrangements did not provide viable long-term prospects and that a radical break with existing path dependencies was associated with a reassessment of economic expectations (Panigo & Carrera, 2025). However, the conditions underpinning the observed stabilisation pattern remain narrowly circumscribed. As systematically developed in this study, they include pronounced initial fiscal weakness with high deficit and inflation burdens, strong executive capacity combined with consistent communication, a credible monetary framework supported by an external fiscal or monetary anchor, and temporarily limited political resistance enabling implementation (International Monetary Fund, 2024; Debrun & Jonung, 2019; Panigo & Carrera, 2025). For other reform states, this does not constitute a direct blueprint for action, but rather an analytical framework for categorising fiscal reform options in highly volatile environments (Polterovich & Popov, 2007). At the same time, the Argentinian case reveals the structural limits of fiscal radicalism. Without accompanying institutional reforms, including in areas such as social policy and subnational governance, short-term stabilisation effects risk being undermined in the medium term by political reactance, social polarisation and legitimacy erosion (Panigo & Carrera, 2025; Nagel & Van Kerckhoven, 2025). From a political economy perspective, Argentina should therefore not be interpreted as a universally transferable model, but as an analytical borderline case of fiscal self-correction under conditions of extreme fiscal dysfunction (Debrun & Jonung, 2019). The empirical findings further indicate that credibly communicated government retrenchment can be accompanied by positive expectation effects under specific conditions (Alesina & Perotti, 1996). Whether these dynamics are sustainable in the medium term and can be transformed into a permanently institutionalised fiscal order remains an open question and constitutes the central test for the future of the reform project (International Monetary Fund, 2024; Nagel & Van Kerckhoven, 2025). Overall, the Argentinian case expands the understanding of fiscal policy as a control architecture in which credibility, rather than the sheer volume of government spending, emerges as a key determinant of fiscal effectiveness (Debrun & Jonung, 2019). For countries characterised by chronic fiscal instability, this represents less a guide for imitation than an invitation to reassess fundamental fiscal assumptions.

ABOUT AUTHOR

Enrico Moch studied business administration at the University of Wismar and subsequently completed a degree in business law at Saarland University. Several years later, he completed a doctorate in economics on the topic of the influence of artificial intelligence on the world of work. His main job is as an administrative officer at the DLR Project Management Agency in the Society, Innovation and Technology division, where he is assigned to the AI Applications in Business department. In this role, he deals with the monitoring, evaluation and structuring of research and innovation projects in the context of digital technologies. Enrico Moch also works as a university lecturer at various institutions in Germany, including the Baden-Württemberg Cooperative State University Ravensburg. He also holds the position of Assistant Professor of Economics at the IICUT. He has been Academic Director of the Herford-based GrandEdu Research School for several years. His research focuses on AI governance, technical data protection and the institutional governance of digital platforms. In terms of content, his work focuses on regulatory frameworks, governance structures and the economic impact of artificial intelligence and data-driven systems. Enrico Moch regularly publishes scientific articles, is involved in interdisciplinary book projects and is active in academic peer review. He is also active in knowledge transfer between academia and practice and hosts the podcast "GrandEdu Research School - On the trail of the economy!".

Declaration by Authors

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