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Front-Loaded Stabilizations: Lessons from Milei’s Chainsaw Reform Program

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Abstract

The literature on delayed stabilization has built its analytical framework on the premise that stabilization entails costs. We argue that this premise is incorrect: stabilization and economic reform deliver benefits rather than costs. If so, reforms should be front-loaded rather than delayed. We use the case of President Milei’s radical — “chainsaw” — reform program to illustrate such a front-loading approach in action. We argue that the case suggests the need to substantially reformulate the literature on economic reform and delayed stabilization.

1. Introduction

During the 1990s, a substantial literature developed on delayed stabilizations and economic reforms (see Tommasi & Sturzenegger, 1994, and Drazen, 2000, for comprehensive reviews). That decade combined sweeping reforms in Eastern Europe with procrastination and recurrent crises in Latin America. Toward the turn of the century, however, macroeconomic policies improved substantially and interest in the topic subsided. Yet, while macroeconomic policy has improved, delayed action along other dimensions — immigration policy being a salient contemporary example — warrants revisiting this literature. In this paper we use the case of Argentina during the first two years of the Milei administration to argue that the literature needs to be reframed and, in fact, radically revised.

The literature on delayed stabilization rests on the premise that stabilization or reform efforts are costly. A direct corollary of this cost is that political actors attempt either to postpone the pain of stabilization (Fernández & Rodrik, 1991; Laban & Sturzenegger, 1994a, 1994b) or to shift the burden onto other players (Alesina & Drazen, 1991). In either case, the equilibrium outcome is

procrastination. Years of crisis in both developed and emerging economies motivated the need to rationalize this outcome, which otherwise appears puzzling in light of its large social costs. Indeed, in some cases only large crises have operated as catalysts for change (Drazen & Grilli, 1993), although the resulting reforms have often proved difficult to sustain (Mondino, Sturzenegger, & Tommasi, 1996).

In addition to the question of timing, the literature has engaged a parallel debate over the strategy of reform, mainly between radical or “big-bang” approaches and incremental ones. Gradualist strategies emphasize sequencing, coalition building, and the minimization of political backlash (Dehejia, 1996; Dewatripont & Roland, 1995; Wei, 1997). Radical strategies, by contrast, emphasize breaking through political blockages and rapidly shifting expectations (Sachs, 1993; Williamson, 1994).

Argentina’s current reform program is a particularly interesting case, both because of the scale and speed of the changes undertaken and because they were implemented within a democratic political system in which the Executive held minimal parliamentary representation. The experience with big-bang reforms, however, is not unique to Argentina: it has parallels in radical reform episodes elsewhere, such as the liberalization of Eastern Europe in the early 1990s (Aslund, 2007; Przeworski, 1991; Sachs, 1993), when gradualism was judged to be politically and economically unviable. The Argentine reform program, however, is not part of a wider geopolitical shift (as was the case of Eastern Europe in the early 1990s), nor does it rely on authoritarian power to bypass institutional checks. It is a reform attempt implemented in isolation and within the rules of a constitutional republic.

We argue that Milei’s first two years in office show that, contrary to the conventional understanding of the delayed-stabilization literature, reforms produce direct and immediate benefits for the population. The implication is that stabilization should be accelerated rather than delayed. Contrary to conventional wisdom, the Milei experiment validates the benefits of front-loading reforms.

Argentina is an especially appropriate laboratory for this discussion because it occupies a paradoxical position in the history of modern economic development. At the beginning of the twentieth century, the country was among the wealthiest nations in the world and its export-oriented growth model made Buenos Aires a hub of global commerce. Over the course of

the twentieth century, however, Argentina experienced a steady relative decline, characterized by institutional instability, macroeconomic volatility, and recurrent policy reversals (Díaz Alejandro, 1970; Dornbusch & Edwards, 1990; Gerchunoff & Llach, 1998). Inflationary cycles, fiscal imbalances, and sovereign defaults became recurrent features of economic life, eroding credibility and constraining development. Argentina was the king of delayed stabilizations. Yet no reform, even if late, seemed to work.

In the decade preceding Javier Milei's presidency, conditions worsened further. Between 2011 and 2023, per capita income fell. By December 2023, inflation had accelerated to 25 percent per month — toward the end of that period, it reached the equivalent of 1.5 percent per day — placing the country on the brink of hyperinflation. Emigration surged: roughly two million Argentines, about 5 percent of the population, left the country during this period, many of them young and skilled.

It was in this context that Javier Milei won the presidency in late 2023 on a radical program centered on fiscal consolidation and deregulation. His reform strategy rested on two pillars. The first was a rapid fiscal adjustment aimed at eliminating the fiscal deficit within months. The second was a radical deregulation effort aimed at dismantling the dense legal and regulatory architecture that had accumulated over decades. This strategy, which President Milei dubbed the “chainsaw approach” (he literally campaigned wielding a chainsaw), stood in sharp contrast to the gradualist reforms historically pursued in Argentina and in many other countries. Most strikingly, this approach translated into action very quickly. The fiscal adjustment engineered by the Milei administration was immediate and large. In the first full month in office (January 2024), the government reduced public expenditure by approximately 5 percent of GDP — an adjustment of unprecedented size in peacetime. In parallel, the government implemented a substantial overhaul of Argentina's legal system. Within ten days of Milei's inauguration, the government issued Decree 70/23, which eliminated dozens of laws and amended key legal codes. Ten days later, the government sent a mammoth “Bases” bill to Congress, which was ultimately approved on July 8, 2024, after seven months of debate. Together, these two initiatives represented a decisive attempt to reset Argentina's regulatory framework.

The objective of this paper is, first, to provide a case study of radical and swift reform in order to gain insights into the core assumptions upon which the literature on delayed stabilization

is built. I then discuss the political economy of sustaining radical reform, including resistance from vested interests and the strategic use of presidential communication to overcome institutional veto players. The remainder of the paper is structured as follows. Section 2 provides a brief historical and institutional background to Argentina's regulatory and fiscal framework. Section 3, the core of the paper, contrasts the main assumptions of the reform literature with the experience of Milei's first two years in government and argues that some of these assumptions are flawed and require reassessment. Section 4 leaves theory behind and describes the nuances and lessons associated with the implementation of a front-loaded reform program. Section 5 discusses political economy challenges and sustainability, and offers concluding remarks.

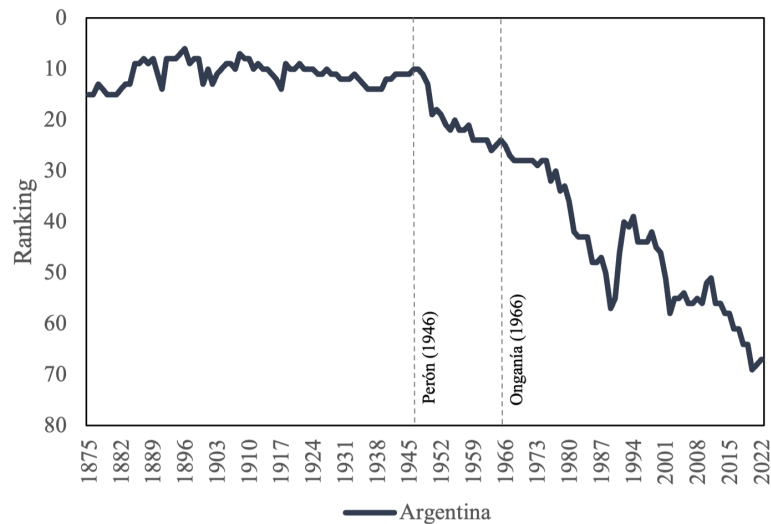
2. A Status Quo Society

To understand the logic of the reform strategy pursued in this episode, it is essential to situate it in the historical and institutional context of Argentina's political economy. The regulatory and fiscal architecture confronted in 2023 was not the result of a single policy choice but rather the cumulative outcome of decades of political bargains that strongly favored the status quo.

The origins of this structure can be traced back to the rise of Peronism in the 1940s. Juan Domingo Perón's administration reshaped Argentina's political economy through an expansion of state intervention, import-substitution industrialization (ISI), and the incorporation of organized labor into the political system. It was, however, General Onganía — some twenty years after the rise of Peronism — who finally cemented the corporatist structure in the late 1960s. The Onganía regime promoted legislation that transferred financial resources to the unions (e.g., granting the unions the running of the health system and imposing mandatory contributions on non-unionized workers), as well as to specific economic sectors. This financial empowerment of particular interests was, in effect, irreversible. On the contrary, the drive by privileged economic sectors to protect their rents, together with a bureaucracy that benefited from regulation, set the economy on a path of overregulation.

Not surprisingly, after Onganía Argentina stopped growing. Argentina's per capita GDP grew at an average annual rate of just 0.64 percent between 1970 and 2023 — one of the poorest performances in the world. Poverty jumped from around 5 percent to nearly 50 percent. A country that, in the late 1960s, was significantly wealthier than Spain became significantly

poorer. The corporatist state led to gridlock and stagnation. Figure 1 illustrates Argentina’s relative decline throughout this period.



Source: Maddison Project Database 2023

Figure 1. Argentina’s position in the global GDP ranking.

The fiscal dimension of this historical catastrophe is equally important. Argentina’s state expanded through recurrent episodes of populist fiscal expansion financed by inflation or debt (Dornbusch & Edwards, 1990). Periods of fiscal consolidation were typically short-lived and driven by economic or financial crises; once the crisis subsided, fiscal deficits reemerged. When markets closed, the authorities turned to monetary financing, which in turn fueled inflationary cycles. The hyperinflation of the 1980s, the recurrent fiscal slippages of the 1990s, the default of 2001, and the inflationary resurgence of the 2010s all reflect this pattern (Díaz Alejandro, 1970; Dornbusch & Edwards, 1990; Sturzenegger & Zettelmeyer, 2006). Crucially, many fiscal commitments — particularly subsidies, transfers, and public employment — became institutionalized in law and regulation, making them difficult to reverse through ordinary budgetary processes.

Over time, this structure produced a status quo bias — what President Milei calls a “caste” system — deeply embedded in the legal and political architecture. A large number of laws created privileges for specific actors, such as licensing requirements that shielded incumbents, exemptions in the tax code, or sectoral boards with price-setting authority. Because these privileges were codified in law, they could not easily be undone through executive discretion

alone. Regulatory reform required new legislation, and successive governments lacked either the political capital or the will to tackle these legal structures head-on. In some cases, the beneficiaries of the status quo financed political campaigns to secure the continuation of their protections. They also acquired media outlets that were subsequently used to deter any attempt to dismantle their privileges.

By the early 2020s, the Argentine economy was governed by a legal architecture that locked in inefficiencies. Market entry in many sectors was constrained by outdated or protectionist licensing rules. Trade was hindered by a combination of tariffs, non-tariff barriers, and bureaucratic procedures, making Argentina one of the most closed economies in the world (Consejo de Mayo, 2025). Labor markets were highly rigid and channeled substantial resources to unions (Consejo de Mayo, 2025). Public procurement and price-setting mechanisms were fragmented and politicized. At the same time, the state was running large and persistent fiscal deficits financed by money creation, which drove inflation ever higher.

It was this institutional landscape — a dense, inert legal architecture combined with fiscal populism — that the Milei administration confronted upon taking office in December 2023. Past governments that attempted gradual liberalization were either captured by vested interests or overwhelmed by macroeconomic crises before they could complete the reform agenda. The status quo was resilient because it was written into law and because multiple actors benefited from it. To restore Argentina’s economic functionality, a radical and comprehensive strategy was required — one that would act simultaneously on fiscal imbalances and on the legal architecture that sustained them.

3. The Theoretical Justification for Front-Loading

As noted above, the reform strategy designed and implemented during the first year of the Milei administration provides an example of a front-loaded, or “chainsaw,” reform. The chainsaw image is not merely a rhetorical device: it encapsulates a specific analytical perspective on how entrenched institutional structures emerge and persist, why incremental strategies often fail to dismantle them, and under what conditions radical, simultaneous interventions can succeed. It also provides a fresh case study with which to revisit the reform literature at a time when deregulation efforts are sprouting across many countries.

In the 1980s and 1990s, when reform was a central topic in Eastern Europe and Latin America, the reform literature covered primarily two strands: the reasons for delay — that is, attempts to explain why countries resist stabilizations — and the strategy of reform. The first question, in turn, can be split into four important sub-literatures, each focusing on a distinct hypothesis: (a) the action of interest groups that block reform; (b) conflict over who bears the burden of adjustment; (c) uncertainty about reform outcomes as a deterrent to change; and (d) crises as catalysts of change. Regarding strategies of reform, the literature focused on the speed of reform — cold turkey versus gradualism — a question closely related, though not identical, to that of bundling versus unbundling.

A fair assessment of this literature is that it concluded in favor of strong arguments for delay. On the strategies of reform, the literature was more mixed, with arguments on both sides. The objective of this section is to revisit this body of work in light of Milei’s drastic reform program.

Theories of delayed stabilization

Let us begin with the vested-interests hypothesis, which was central to the intellectual construction of Argentina’s reform program. At its core, the chainsaw approach stems from a diagnosis that regulations are defended by concentrated groups that benefit from them, while the costs are borne diffusely by consumers and taxpayers.

This structure is precisely the kind of equilibrium that Mancur Olson (1982) theorized in *The Rise and Decline of Nations*, as well as in his celebrated collective-action theory (Olson, 1971). Distributional coalitions organize to secure rents through the political process. Because policy action tends to benefit a few players significantly, concentrated beneficiaries can organize easily, while those harmed by the system — typically consumers — are diffuse, and each individual has little at stake in any specific regulation or privilege. As a result, it is difficult for them to organize collectively.

Perhaps the best-known dynamic of this deterioration is the one set out by Anne Krueger and summarized succinctly in her 1993 AER survey (Krueger, 1993). Hers is a story of “vicious cycles”: economic policies (such as import protection) produce economic outcomes (local industrialists earn substantial profits), which in turn alter the political equilibrium (the import-competing sector gains influence at the expense of agricultural exporters), which

ultimately reinforces the initial policies (protection is strengthened). Reliance on planning and controls gives rise to an analogous vicious cycle. A set of controls that sharply distorts a market creates incentives for economic agents to evade them. As agents learn, evasion worsens, which leads the government to enact even more stringent controls, and so on. The aggregate outcome is clear: over time, distortions and inefficiencies rise while national welfare — defined by any reasonable measure — declines.

There is ample literature relating this status quo bias to growth. The body of work by Acemoglu and Robinson (2012) is, in essence, a brainchild of Olson’s approach, and the same argument can be found in many other contributions, such as the work of Aghion and Howitt (1990).

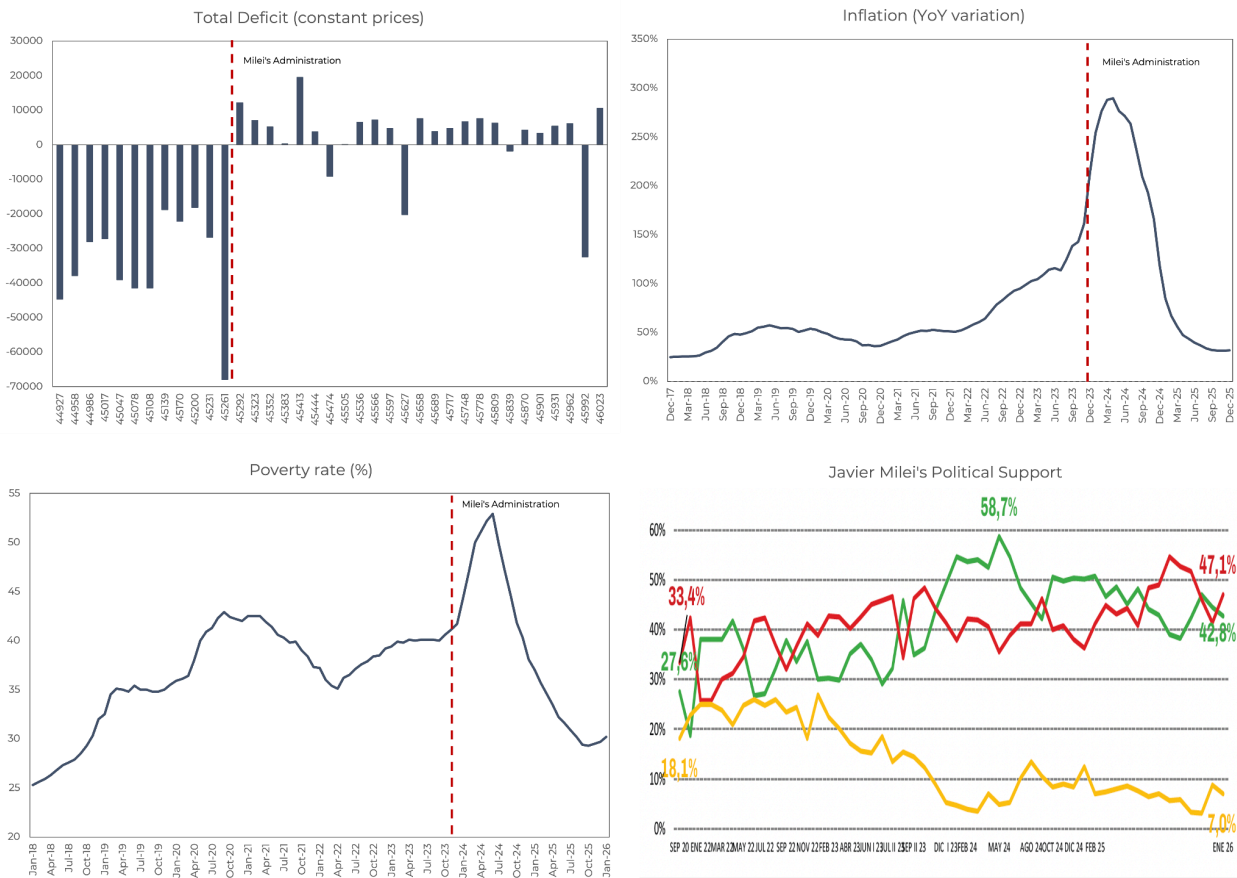
Note that this system produces a bias in favor of concentrated interests. In other words, both government expenditure and the regulatory framework benefit specific interests rather than the population at large.

In our view, reform shifts resources from concentrated interests to the general public. Stabilization and reform should therefore be popular, not costly. This stands in sharp contrast to the founding assumptions of the delayed-stabilization literature, as for example in the canonical paper on delayed stabilization, Alesina and Drazen (1991). Alesina and Drazen build their theory of delayed stabilization on the premise that all agents seek to avoid the costs of reform — that is, that the population would be hurt by stabilization, contrary to what the Olsonian view implies. Alesina and Drazen frame these costs in terms of two competing groups attempting to shift the burden to the other; in their model, the two groups are equivalent in political power. The same conflict over resources as a source of delay is found in Velasco (1999), Mondino et al. (1996), and Hsieh (2000).

How well do the vested-interests and conflict-over-burden hypotheses fare when confronted with the Milei reform program? Let us illustrate the point with three examples — one macroeconomic and two from deregulation.

We have already mentioned the large fiscal adjustment of the early months of the Milei administration, equivalent to about 5 percent of GDP. Conventional wisdom would have called for caution with such a drastic fiscal retrenchment. Moreover, it would have argued that the adjustment would be politically costly, because “someone had to bear the burden.” Yet the

adjustment made possible an immediate reduction, of an equivalent amount (about 5 percent of GDP), in taxes levied on the population. In particular, it entailed a reduction of formal taxes of roughly 2.5 percent of GDP, together with a reduction of the inflation tax that had resulted from money printing and was stopped cold turkey. The abrupt fall in inflation led to a sharp decline in poverty, because the inflation tax, borne mostly by the poor, was virtually wiped out (see Figure 1). The result was continued political support and a landslide victory in the mid-term elections two years later.



Source: Minister of Economy, INDEC, Martín González-Rozada, Giacobbe Opinión Pública

The second example concerns communications deregulation. On his tenth day in office, Milei abolished the prohibition on satellite internet services — an absurdity given the vastness of Argentina and how sparsely populated it is — unleashing a supply expansion that, one year later, was providing internet access to approximately 7 percent of the population (close to three million customers; see Figure 2). The main internet provider prior to the reform, a media conglomerate that had lobbied for the restrictions, attacked the government publicly, yet discussion on social

media was overwhelmingly favorable, which rendered reversal virtually impossible. The speed of the reform and the speed with which its benefits materialized cemented the reform process.



Figure 2. Starlink users in 2023 (left panel), 2024 (middle panel), and 2025 (right panel).

Our third example concerns rent controls. Prior to the reforms, rent controls had dramatically shrunk the supply of rental units, as landlords withdrew properties from the market. In the first days of the Milei administration, rent controls were eliminated and contracts were allowed to be freely negotiated along all relevant dimensions (length, currency, conditions, etc.). Within a few weeks, the supply of rental units increased by approximately 300 percent and rents fell by around 30 percent in real terms. Figure 5 shows the evolution of rents during the price-control period and their subsequent liberalization. The swift decline consolidated the public perception of the benefits of reform and made reversal virtually impossible.



Figure 5. Real rental prices for two-room apartments in the Buenos Aires Metropolitan Area (in August 2025 constant prices). Source: AED, based on Zonaprop and INDEC.

In short, the assumption that stabilization and reform are costly may make sense when the beneficiaries of distortions are those asked to reform. But in a status quo society, it is not the beneficiaries who must reform; rather, it is the interest groups. In that case, there is no political cost of reform for the population at large; on the contrary, we observe short-term political gains.

The third strand of the delayed-stabilization literature emphasizes uncertainty about reform outcomes. Fernández and Rodrik (1991) make this argument in the context of trade liberalization. They use a majority-voting model to explain status quo biases in policy. Reform generates winners and losers. Some winners know from the outset that they will benefit from reform, but many other potential winners are uncertain *ex ante*. The key question is how the median voter perceives the reform. As an illustration, Fernández and Rodrik consider a simple economy with one export sector and two import-competing sectors, with the median voter belonging to the latter. Trade liberalization benefits workers in the export sector. In addition, following liberalization, a fraction of workers in the import-competing sectors are able to switch successfully to the export sector and share in the benefits of reform. It may nonetheless be the case that the typical worker in an import-competing sector expects *ex ante* to lose (and therefore votes against the proposal), even when the reform is socially beneficial, in the sense that more than half the population ends up better off.

Laban and Sturzenegger (1994a, 1994b) investigate delays in inflation stabilization for cases in which inflation accelerates because agents gain access to a financial-adaptation technology that reduces money demand over time. Access to this technology, however, is asymmetric: the rich have better financial alternatives. They show that delayed stabilization can emerge, with the poor giving in only when the cost of inflation becomes unbearable. What is particularly striking about their result is that the poor initially do not accept the conditions for stabilization, even though they know they will stabilize on worse terms in the future. Two conditions must be met for this outcome to arise: first, that the costs of stabilization are perceived to be high, so that stabilization is not undertaken initially; and second, that the status quo deteriorates significantly over time, so that it becomes optimal to stabilize later, even on less favorable terms.

How do these issues play out in the Milei experiment? Consider fiscal consolidation. Because all government spending must be financed by some revenue source, any reduction in spending translates one-for-one into a reduction in taxes. If expenditure is concentrated on interest groups while taxes are paid by the population at large, it is straightforward to see that fiscal adjustment can yield immediate benefits to the general public. Once again, there is a benefit to front-loading the reform and no real political trade-off. The problem with the Fernández–Rodrik approach is that it assumes that the cost is paid by those who may benefit; but in a status quo society this is not the case.

The same logic applies to trade liberalization, turning the Fernández–Rodrik argument on its head. As mentioned, they focus on the labor-market effects of trade-induced displacement. But in economies where services account for most of labor demand, trade has more direct implications: consumers immediately perceive the effects of price declines, which makes liberalization popular. By contrast, the increase in the real exchange rate resulting from trade liberalization is more diffuse and harder to attribute to the policy itself. Labor migration from import-substituting firms to new export activities, triggered by the impact of higher imports on the real exchange rate, also occurs in slow motion and, moreover, affects a very small share of the workforce. By contrast, the benefits to large segments of the population are immediate. Any backlash or criticism against trade liberalization comes from directly affected players, yet the reform is massively popular.

Take, for example, Figure 6, which documents the effects of trade liberalization on the prices of specific items. These price reductions built support for the liberalization attempt.

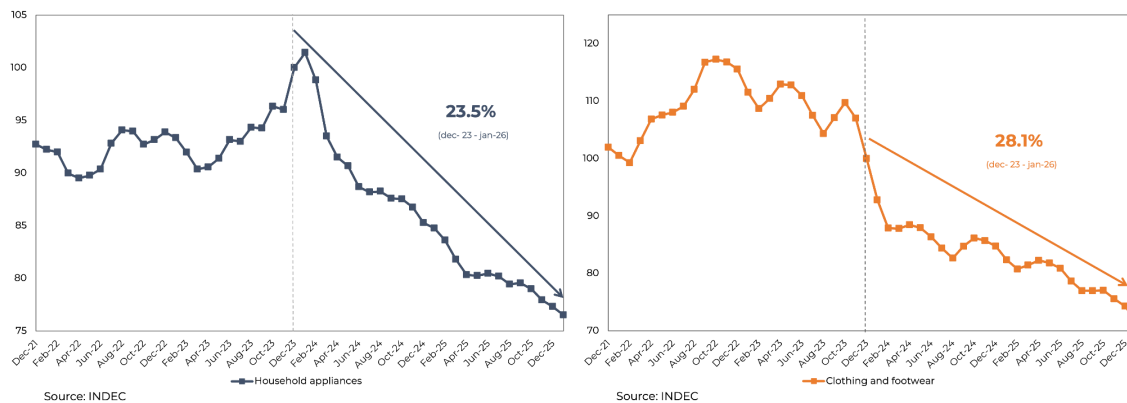


Figure 6. Evolution of the prices of appliances and clothing relative to the CPI.

Finally, the last strand of the reform literature links crises with reforms — an obvious connection, given that the need for change is typically triggered by a crisis. Rodrik (1996) puts it succinctly: “Reform naturally becomes an issue only when policies are perceived to not be working. A crisis is just an extreme case of policy failure. That reform should follow the crisis, then, is no more surprising than smoke following fire.”

In Argentina, the sense of crisis at the end of 2023 produced a rare alignment of political and economic factors. Inflation was accelerating rapidly, fiscal imbalances were unsustainable, and public opinion was receptive to change. Drazen and Grilli (1993) argue that crises may be beneficial insofar as they accelerate the reform tipping point.

The strategy of reform

Let us now turn to the nature of reform. Should it be cold turkey or gradual? The literature of the early 1990s included proponents on both sides of this debate.

Theory would suggest that the benchmark should be that radical or big-bang reform is the first-best strategy. There is no reason to perpetuate distortions or suboptimal government interventions. As Mussa (1984) points out, as long as perceived private costs and benefits correspond to the true social costs and benefits, private economic agents will choose the socially correct pace of adjustment following a full-scale liberalization.

Supporting this view, Tommasi and Velasco (1996) and Rodrik (1996) provide evidence that micro- and macroeconomic reforms have been pursued jointly in many countries, and that trade reforms have tended to be more successful when undertaken on a comprehensive basis. Sachs (1993) makes the same point regarding the big-bang reforms in Eastern Europe in the early 1990s. Today, almost 40 years after those reforms, the stellar performance of Poland, known for its drastic reform program, seems to validate this approach.

Martinelli and Tommasi (1997) argue for implementing all feasible reforms simultaneously. Their point is that, in societies with powerful interest groups and a tangled web of redistributive and distortionary policies, “optimal” unbundled plans will be time-inconsistent: winners of early reforms who expect to be hurt by later reforms have an incentive to halt the gradual path in its later stages. Anticipating that later stages will not succeed, the losers from early reforms have an incentive to oppose the earlier measures. In such an environment, a big bang is the only way of cutting through the Gordian knot of rents created by prior policies.

Another factor that tilts the balance in favor of going “cold turkey” is administrative incompetence. Fine-tuning reform requires significant technical capabilities, and reforming governments seldom possess the required personnel and resources.

Contrast these views with the arguments advanced by the gradualist camp. Wei (1997) argues that gradual sequencing may allow the building of constituencies for reform in the presence of individual-specific uncertainty, as in the framework of Fernández and Rodrik. Wei’s point is illustrated by a simple example that uses the same economy employed to discuss the Fernández–Rodrik result: one with two import-competing sectors (which together comprise the majority of “votes”) and one export sector. After trade liberalization, a fraction of workers in each of the two import-competing sectors is able to move successfully into the export sector, which is the obvious beneficiary of reform. Whereas a proposal to remove trade barriers simultaneously in both import-competing sectors may be defeated by a majority, removing barriers in only one sector enjoys the support of the other two. Once some labor has been reallocated from the adversely affected sector to the export industries, it becomes possible to remove the trade barriers that favored the second import-competing sector. This second step enjoys the support of the (now larger) export sector and of the import-competing sector harmed by the first reform.

Dehejia (1996) uses a model with three groups: capitalists (the mobile factor), who lose from trade liberalization; workers in the expanding sector, who favor rapid reform; and workers in the shrinking sector, who are pivotal in the referendum. Shrinking-sector workers would benefit from higher future wages but must pay retraining costs. If retraining costs are low, they also support shock therapy, and rapid liberalization emerges as the political equilibrium. If retraining costs are high, shock therapy is rejected in favor of the inefficient statu-quo; in that case, a gradual trade-liberalization path can win political support because the pivotal group prefers it to the statu-quo.

Dewatripont and Roland (1995) provide a political-economy case for unbundling. Their basic argument is that, when there is uncertainty about the outcome of economic reforms, unbundling has lower experimentation costs than a big bang. Consider a setting in which two reforms must be implemented and cannot yield full results unless they are complemented by each other. Unbundling can help for two reasons. First, once the first reform has been implemented, a refusal to undertake the second would lead to a reversal of the first — neither reform stands on its own — which entails reversal costs and therefore tilts the balance toward full implementation. Second, if the first reform yields a favorable outcome, it builds support for the entire package: once initial reforms have been successful, people are more willing to accept less popular reforms in order to avoid losing the gains of the first.

Once again, the gradualist literature appears to frame the key problem as one of containing the political costs of reform. But, as argued above, those political costs do not exist: reform delivers quick and significant benefits. The key question, therefore, is how to manage the resistance of veto players. Quick reform relies on the idea that large-scale, simultaneous legal and regulatory change can generate immediate gains that make resistance more difficult. In addition, when interest groups face the simultaneous removal of multiple privileges, they perceive the change as a regime shift rather than an attack on a specific sector (Martinelli & Tommasi, 1997). Speed and surprise also play a key role in making reforms work. This logic is similar to the one that Sachs (1993) described in the context of the “big-bang” reforms in Eastern Europe, where speed and comprehensiveness were themselves strategic tools for overcoming political blockages.

When the opposition comes from veto groups rather than from the population, however, the key feature of successful reform is the ability to dilute the power of the blocking agents. Reliance on the political system may not be sufficient, because veto players control the political system through the purchase of votes in Congress, the bribing of officials, or the sponsoring of the press.

A key factor for successful reform is therefore whether it has the capacity to weaken the economic power of blocking agents. It is here that macroeconomic stabilization and deregulation complement each other. Competition policies and trade openness have merit on their own, but more importantly, they reduce regulatory rents and dilute the ability of veto players — previously protected by barriers to entry — to push back against the reform agenda. This last point is critical, and we label it the *impoverishing-veto-players effect*. To the extent that the status quo is sustained by legal and regulatory rents, undoing the financing of blocking agents is critical to containing resistance to reform. This highlights an important issue in the political economy of reform: what matters most is draining the financial resources of those who would prefer to stall the process. This is the reason that deregulation becomes a key ingredient of a successful reform program.

An example from the first months of the Milei administration illustrates the *impoverishing-veto-players effect* well. Before Milei, transfers to the poor were intermediated by “social organizations.” In practice, these organizations appropriated a significant share of the resources and forced people to protest against the government in order to demand ever-larger fiscal allocations. In effect, social protest was financed by the government, which, by increasing resources in response to social protest, had created the incentive mechanism for additional protests. For more than two decades, Argentina was convulsed by this dynamic. Although everyone understood what was happening, no one dared touch the system for fear of triggering social unrest. In his first week in office, Milei decided to transfer resources directly to the beneficiaries, bypassing these intermediary “social organizations” altogether. This led to their financial debasement, eliminating both their economic and their extortion power. As a result, social protests vanished as if by magic. The example illustrates that the financial leverage of blocking agents should be the first target of economic reform — it is no coincidence that the French Revolution expropriated the land of the Church and of landowners.

Finally, there are two additional and obvious reasons for front-loading reforms. The first is that the beginning of a government's term finds a government when political capital is at its highest, the opposition is disorganized, and expectations are most malleable. This "honeymoon effect" has been documented in various reform episodes (Williamson, 1994) and provides an additional rationale for acting fast and forcefully. Again, the Milei administration offers a good example: it pushed radical reform both through executive decrees and through the Bases Law submitted to Congress, cornering the opposition at the right moment. Because the population punishes a political establishment that operates against the popular will, the Milei administration was able to pass significant pieces of legislation even while holding only 14 percent of the Chamber of Deputies and 10 percent of the Senate. The second reason is the surprise factor. Immediate and swift reform leaves the status quo little time to react and organize a counter-offensive. A clear illustration is Executive Decree 70/23, issued on Milei's tenth day in government, which eliminated broad swaths of regulation, opening up competition and diluting rents.

In sum, the Milei experience suggests that there are important benefits to front-loading reforms. Large-scale, simultaneous reforms that leverage initial political capital can shift equilibria and expectations; they provide immediate benefits to the population, thereby rallying popular support; and they weaken the financial power of blocking agents by catching the status quo by surprise. This combination is the most effective way of overcoming status quo resistance.

4. Implementing a Front-Loaded Reform

The success of any radical reform strategy depends not only on its theoretical and political foundations and on timing, but also on the precision and professionalism of its implementation. Even if there is clarity about the timing and scope of reform, it must be executed through a very large number of changes to laws, decrees, and executive orders that require significant capacity for drafting and enforcement. Accordingly, in this section we discuss four issues associated with the implementation of a front-loaded reform: preparation, the choice of legal instruments, the design of fiscal cuts, and the role of communication. We take each in turn.

4.1 Preparatory Work: Building the "Two Piles"

Preparation takes time and, if one is to act swiftly at the outset, it must begin before the reform effort itself. In the case of the Milei presidency, the preparatory phase started in early 2022, two years before the electoral victory. It was clear that Argentina's legal architecture had to be rewritten if the status quo model was to be dismantled. The key challenge was to design a strategy capable of overturning thousands of regulations and laws in a quick, coherent, and legally robust manner. The starting point was deceptively simple: if the problem lay in the legal architecture, then we had to read the laws.

To do so, with a small group of collaborators — including four advanced law students, a constitutional law professor, and my teaching assistant from Principles of Economics — I began the preparatory work at the Universidad de San Andrés, where I was teaching. We systematically reviewed the corpus of approximately 4,200 laws that governed Argentina's economic life. We classified each law into one of three categories: (1) to be repealed, (2) to be amended, or (3) to be retained without changes. The classification criteria were guided by the theoretical principles of removing restrictions to competition, eliminating privileges and exemptions, abolishing unnecessary barriers to entry, introducing contestability where regulatory monopolies existed, and, where possible, placing regulators in competition with unregulated versions of their own markets.

We designed the program as if the so-called “political constraints” did not exist, because those “political constraints” reflect the interests of concentrated actors, not those of the population. As argued above, the population at large benefits from reform. In short, such “political constraints” were completely dismissed.

It is useful to think of the reforms as touching two different dimensions or layers. The first is what I call the “economist layer”: changes that are justified on the basis of simple economic principles — competition and economic freedom. This layer was guided by a few clear principles. Where regulation was to be retained, it had to be justified by a clear application of economic theory. Our default was to eliminate regulation, so preservation required a compelling argument. In addition, we never framed the exercise as one of “simplifying or modernizing” laws. We always asked first whether a law made sense at all. The most useless task is to simplify what should not exist. The reform was therefore suffused with the idea of a free-market economy with as little government intervention as possible.

The second dimension relates to how reforms weaken the economic rents of the status quo. This “political-economy layer” is, in our view, even more important than the “economist layer”. In redesigning the legal architecture, we pursued a weakening of the economic power of the beneficiaries of the existing system. There was a genuinely revolutionary spirit in the attempt, and the revolution was aimed at the economic resources of those beneficiaries, as illustrated by the example of the “social organizations” discussed in the previous section.

Our first finding was that most laws had been deliberately designed to grant privileges to specific actors (exclusive licenses, tax exemptions, or barriers to entry). Consequently, the task of cleaning up the economic privileges of the status quo turned out to be relatively straightforward in logic, even if demanding due to the sheer size of the undertaking. We have already mentioned the prohibition of satellite internet services, but virtually all sectors had their own self-made privileges: fisheries, oil and gas, software, the automobile industry, small firms, and so on. The system was, in some ways, absurd: privileges were so abundant that, in the end, no one was really ahead, as if the economy were trapped in an economy-wide prisoner’s dilemma with immense costs to both the economy and the population at large. Jorge Bustamante (2022) referred to this setup as “La República Corporativa” (the corporate republic, or the crony republic).

The methodology we used to get the job done nonetheless obeyed a key rule. During the process, we did not hold meetings or read a single diagnostic paper. We did not even allow executive briefs on the main issues; these were strictly forbidden. The only acceptable output in our workflow — and in that of the many collaborators who helped along the way — was track-changed versions of the relevant legal texts, so that a new decree or bill could be drafted quickly. Working on the editing of specific laws served the purpose of advancing the final product needed for implementation, and it also delivered another advantage: it allowed us to identify useful collaborators at virtually no cost. We reached out to many potential collaborators (and many others approached us). Screening them became easy once we enforced the rule that the only acceptable input was a modified version of the law itself. Most were willing to help but unwilling, or unable, to propose specific changes to legislation. The requested output thus allowed us to discard candidates without spending time. Potential collaborators were each handed a bundle of laws to edit; most never called back, and were gone without us spending a

single minute. Those who did return, and whose output we found useful, were entrusted with further laws.

Slowly but steadily, we built what I call the “two piles”: one pile of laws to be repealed outright, and another of laws to be amended, with precise wording already prepared. By the time Milei took office, both piles were ready for immediate use.

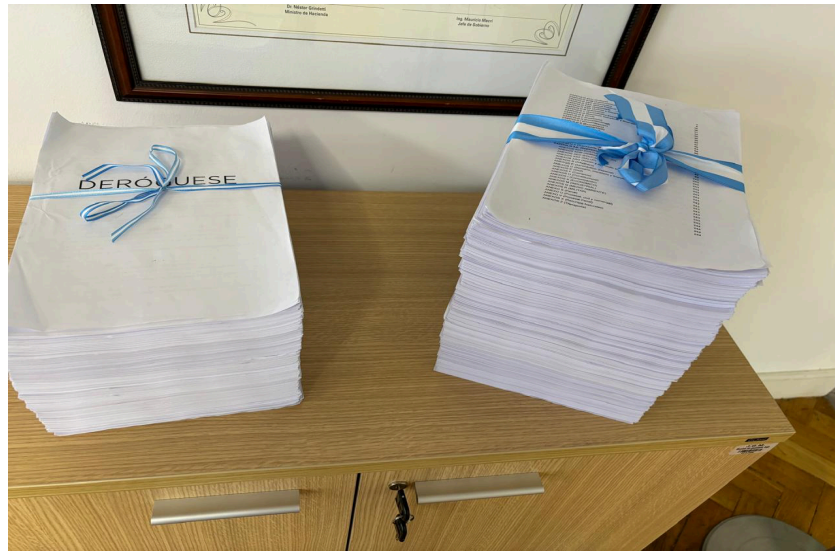


Figure 3. The two piles of bureaucratic deregulations.

Because the scope of the task was so large and the range of topics so vast, the small core team had to recruit collaborators along the way. Which collaborators proved most useful? We quickly found out that big law firms were of little help: they returned draft projects that were even more intricate and opaque than the originals we had sent them. This is predictable: their value added lies in navigating the intricacies of existing legal systems, so it is unsurprising that they would not champion an agenda of massive deregulation, which would leave them with less to do. A second natural candidate was sector “specialists” — independent professionals well versed in specific topics. But we encountered the same problem: specialists were wedded to particular frameworks, or made their living from them, and thus were insufficiently radical. In the end, the most useful contributors were independent professionals whom we called “the victims of the system.” These were the collaborators who delivered the output we needed: radical change and a deep upheaval of the existing framework.

4.2 Legal Instruments: Decree 70/23 and the “Bases Law”

Once the legal changes to be implemented are prepared — itself no small feat — the next step is to design a legal strategy for their enactment. The appropriate strategy will differ across countries, depending on their legal and institutional frameworks.

Under Argentina’s constitution, the president can issue *Decretos de Necesidad y Urgencia* (DNU) — emergency decrees with the force of law — under exceptional circumstances, subject to congressional and judicial review. Historically, DNUs had been used extensively for all kinds of legislation, but they had never been used for major economic reforms. DNUs are constitutionally permissible when rapid action is required (Negretto, 2004; Pereira, Power, & Rennó, 2005). Given the gravity of the macroeconomic situation in December 2023 — monthly inflation of 25 percent and looming hyperinflation — the government argued that the conditions for issuing a DNU were clearly met.

Thus, on the tenth day of Milei’s term, the administration issued Decree 70/23, a sweeping deregulation package that repealed or amended dozens of laws across multiple sectors, including the Civil Code, the Aeronautical Code, the Customs Code, financial regulations, and restrictions on commerce, communications, and even sports. The decree drew heavily on the preparatory work carried out during 2022–2023. It constituted the first “chainsaw cut”: a broad, simultaneous removal of distortions aimed at shifting the regulatory baseline quickly.

Ten days later, the government submitted a comprehensive legislative package — the Bases Law — to Congress. This bill consolidated further legal changes. The congressional debate lasted seven months — a long period by Argentine standards — culminating in the law’s approval on July 8, 2024. The Bases Law complemented Decree 70/23 by providing legislative backing for many of the changes introduced by decree, amending additional statutes, and delegating temporary legislative powers to the Executive in specific areas of reform.

This dual-track strategy — emergency decrees for speed, legislation for consolidation — was central to the implementation plan. DNUs enabled us to act rapidly, while congressional approval of the Bases Law provided greater legal stability and political legitimacy. By sequencing these instruments carefully, we were able to implement radical change without violating constitutional constraints.

After these initial changes, reform moved down one level in the legal hierarchy and required amending executive decrees, resolutions, and administrative dispositions. The number of such instruments grows exponentially as one moves downward.

While the preparatory phase had allowed us to prune the laws — and that pruning served as a guiding rod for changes in lower-level instruments — how could we know and find everything that needed to be changed? To address this, we adopted a transparent and participatory approach: we invited citizens and businesses to email us directly with examples of regulations that hindered their activities. The response was so overwhelming that we had to set up a formal channel on the Ministry of Deregulation website. Entrepreneurs, lawyers, and ordinary citizens sent thousands of detailed accounts of bureaucratic absurdities. These inputs proved invaluable for identifying priority areas and for building a narrative of deregulation as a collective national effort rather than a technocratic imposition. Two years later we had removed about 15,000 legal constraints on economic activity.

4.3 Fiscal Adjustment: Speed and Scope

In parallel with the legal overhaul, the government implemented a fiscal adjustment of unprecedented magnitude. In January 2024, public expenditure was reduced 30%, equivalent to approximately 5 percent of GDP, eliminating the fiscal deficit in a single month. The adjustment targeted discretionary transfers to provinces, public works, public-sector employment, and a range of subsidy programs. Entitlements that adjusted to inflation with a significant lag fell in real value as inflation accelerated during the presidential transition; a change in the indexation mechanism allowed the reduction to be consolidated as inflation subsequently abated. Crucially, essential public services were not affected; rather, the government eliminated expenditures that had little economic or social justification but had become politically entrenched.

Historically, fiscal consolidations of this size have occurred only at the end of major wars (Alesina & Ardagna, 2010; Giavazzi & Pagano, 1990). In peacetime, adjustments of such magnitude are virtually unprecedented. Table 1 lists the cases for countries outside of Africa. There are few cases.

Country	Year(s)	Population (2024)
Antigua and Barbuda	2010	0.09 MM
Brunei Darussalam	1986	0.46 MM
Ecuador	1999, 2000	18.14 MM
Haiti	2023	11.77 MM
Lebanon	2020, 2021	5.81 MM
Mongolia	1992, 1994	3.52 MM
San Marino	2022	0.03 MM
Suriname	1999, 2020	0.63 MM
Uzbekistan	1994	36.36 MM
Venezuela	2019, 2020	28.41 MM

Source: Compiled from the World Economic Outlook and the Uppsala Conflict Data Program.

Table 1. Major peacetime fiscal consolidations (non-Africa).

Yet, far from triggering a recession, the fiscal consolidation induced a significant output recovery. The Argentine experience thus offers an important case for the literature on expansionary fiscal contractions (Alesina, Favero, & Giavazzi, 2019). By acting rapidly, we avoided the expectations trap in which gradual fiscal adjustments fail to convince economic agents of the government's commitment, thereby keeping interest rates and inflation expectations high. The immediate fiscal surplus allowed the Central Bank to reduce monetary financing, which in turn triggered a rapid decline in inflation.

The fall in expenditure led to an equivalent reduction in financing needs and in poverty, as explained above, and the tax cut generated a substantial crowding-in effect. As a result, two years later the government won its midterm elections by a landslide. In short, our experience suggests that there are few things more popular than cutting government expenditure.

4.4 Communication

Another key element of the process was the strategic use of communication at large, and of presidential communication in particular.

Communication was frontal and, at times, blunt. Society was squarely divided between the good — “the hardworking common citizen” — and the evil — “the caste,” “the establishment,” “the status quo.” The government portrayed itself as the representative of the common people against the authoritarian arm of the status quo: the state. In the government’s narrative, the state represented a vehicle of domination, a means by which the status quo had appropriated resources from the rest of society. The objective was the demise of the state. The president described himself as a mole inside the state, bent on its destruction. An interview in *The Economist* produced a cover featuring President Milei posing as Alex DeLarge from *A Clockwork Orange*, under the headline “I despise the State.”

The clarity of the message was accompanied by direct attacks on the political class and on specific journalists. The press reacted to these overtones as if it were an attack on institutions and on the freedom of the press; in fact, they signaled the opposite.

The institutions of democracy — the checks and balances of our institutional system — were operating stronger than ever. This could hardly have been otherwise, given that the Executive had minimal parliamentary representation. The division of power between the executive and Congress became as real as ever. As a result, Congress proposed laws of its own, the government vetoed some of them, Congress overrode or tried to override those vetoes, and so on. Never had our democratic institutions worked so true to their original spirit of checks and balances. This produced a cacophony of voices that shocked society.

A similar effect emerged regarding the relationship with the press. On the one hand, the president confronted individual journalists and replied, at times forcefully, through social media. On the other hand, the government suspended all subsidies to individual journalists, dismantling a mechanism long used by many governments: the buying-out of the press through financial contributions. These “transfers” had been more damaging to press freedom than an open, public debate. Once deprived of government money, commentators were free to speak their minds. Again, the vibrancy and openness of the resulting debate took society by surprise.

We nonetheless believe that this active and aggressive communication style helped to cement the perception of a government focused on its objectives and unwilling to compromise. This, in turn, consolidated public support and kept the status quo at bay.

In the area of deregulation, the president's communication strategy was key. Whenever a deregulation measure was announced — which happened virtually every day — President Milei immediately endorsed it on social media (X/Twitter), providing political support. This public endorsement served to preempt lobbying and bureaucratic obstruction: once the president had publicly committed, it became much harder for agencies or interest groups to block implementation. The strategy served several additional purposes. First, it signaled unity within the government: bureaucrats and legislators understood that the reforms were not isolated technical measures but part of a coherent political program backed at the highest level. Second, it mobilized public support, which was crucial in countering opposition narratives. Third, it raised the political cost of backtracking: once a reform had been publicly endorsed by the president, reversing it would have required the government to admit failure in full public view. In a fragmented political environment such as Argentina's, this kind of presidential commitment was indispensable. Additionally, citizens also helped us monitor whether reforms were effectively implemented, reporting deviations through social media.

Building trust is also a key aspect of communication. Sturzenegger (2013) quotes the Australian reformer Paul Keating on how they managed to build trust in their reform program in the late 80s. Keating said: *“They believed us. Because we were honest and well-intentioned people. We had built a story and I knew that the results would eventually be there, because as the Australian economy integrated into the developing Asian market, it would achieve high and solid growth.”*

Thus, the social perception of the reformers' intentions is also a central element of communication and support.

Finally, one must recognize that communication today operates through non-conventional channels. For example, the president, having previously played in a rock band, used rock music and public performances where he performed live singing rock songs as a communication device. Most memorably, during the mid-term election campaign, a large rock concert helped portray him as energized and ready for the fight. Politics today requires a complex web of communication strategies.

5. Political Economy Challenges and Sustainability

No matter how compelling a reform's theoretical rationale, how impressive its initial economic results, or how much it benefits the population, radical reforms challenge entrenched interests and alter existing coalitional structures, which are likely to fight back. In this section, I examine the key political-economy challenges we faced in implementing and sustaining the chainsaw strategy in Argentina, and reflect on the mechanisms that allowed us to overcome some of them. The first three subsections identify the main sources of resistance to reform: vested interests, the bureaucracy, and the judiciary. I then offer some reflections on how these three groups can be neutralized.

5.1 Vested Interests and Status Quo Coalitions

As already explained, status quo coalitions in mature societies are powerful precisely because they are concentrated and organized, while the beneficiaries of reform are typically diffuse and unorganized. The legal architecture we dismantled embodied decades of privileges granted to unions, provincial governments, regulated monopolies, and sectoral associations. Each of these actors had a clear material interest in preserving the status quo, as well as institutional footholds — through legal instruments, regulatory agencies, informal networks, corruption, and even the judiciary — that enabled them to resist change.

For example, professional associations in regulated sectors such as transportation, telecommunications, and finance had long used licensing regimes and administrative boards to limit entry and protect incumbents. Labor unions, historically embedded in Argentina's corporatist structures, opposed the liberalization of labor markets because they benefited from significant fees collected through the collective-bargaining process. Each of these groups commanded both resources and organizational capacity to resist reform.

What made resistance more difficult in 2024 was the simultaneous and broad nature of the reforms. The reforms delivered quick wins, making reversal more difficult. The surprise factor was key, depriving blocking agents of time to react and mount a defense of their privileges. The reforms were specifically aimed at weakening the rents that these actors had used to preserve their power. The combination of precision, swiftness, and breadth made possible significant progress on the reform agenda.

5.2 Bureaucratic Resistance and Administrative Inertia

Beyond organized interests, bureaucratic resistance is often a critical obstacle to reform. Regulatory agencies and ministries develop their own interests, cultures, and networks. In Argentina, decades of regulatory accumulation created bureaucracies whose primary function was to administer distortions rather than to foster competition or efficiency. Many civil servants had adapted to this environment; some benefited from it through informal rents, while others simply internalized its logic.

When the reforms began, parts of the bureaucracy reacted defensively. Some agencies attempted to reinterpret decrees restrictively in order to preserve their influence. Others slowed the issuance of implementing regulations or sought to maintain their organizational structures even after their legal mandates had been repealed. This kind of administrative inertia is well documented in the literature on reform implementation (Grindle & Thomas, 1991; Levy & Spiller, 1994).

Two main mechanisms underlie bureaucratic resistance. The first is salience (Sunstein, 2005; Akerlof, 2002). Policymakers believe they will be held responsible for any negative event, however small. They therefore regulate in order to avoid public backlash, not because any analysis suggests that regulation is warranted. In Olson's terminology, the costs of not regulating are fully concentrated on the regulators, who regulate in order to avoid them.

The second mechanism is a biased view of the risks and costs of not regulating: risks are overstated, costs are invisible. The bias is therefore systematically toward regulation. This bias may arise from a desire to reduce risks for the bureaucrat, to preserve bureaucratic power, from ideology, or from a combination of all of them.

While there is no straightforward solution to the problem of bureaucratic resistance, we adopted a two-pronged strategy. First, we made legal changes as self-executing as possible. Wherever feasible, decrees repealed or amended legal provisions directly, leaving little room for discretionary interpretation. Second, we used public communication and transparency to limit bureaucratic obstruction. Publicly announcing deregulation measures — with the president immediately endorsing them — made it politically costly for agencies to deviate from the new legal framework. Bureaucrats who might have resisted quietly found themselves operating under intense public scrutiny and under the threat of dismissal.

5.3 Legal Resistance

A major vehicle for resistance by the status quo is the judicial system. The judiciary is designed to withstand shifts in policy. Whereas the president changes every four years, the Chamber of Deputies renews by half and the Senate by thirds, the judicial branch does not move at all. It is designed as a slow-moving institution, resistant to change. The system is built this way to preclude authoritarian overreach by any given government. But when a society starts from a status quo bias, the judicial system becomes a highly effective instrument for resisting change. One such example is the labor-reform component of Executive Decree 70/23, which introduced a sweeping reform of labor markets, including the elimination of mandatory fees that non-unionized workers had to pay to the unions. The unions petitioned the labor courts and obtained an injunction in short order, stalling that portion of the reform. Part of it was subsequently incorporated into the Bases Law, and the remainder was approved two years later, following Milei's strong electoral victory in the mid-term elections.

As the reform process has advanced, there have been increasing attempts to halt reform through the judicial system. To date, however, only a small fraction of the reforms have been judicially challenged. Nevertheless, the judiciary remains a powerful bastion of the status quo.

5.4 Concluding Thoughts: Institutions vs. Economic Power

Finally, the fundamental question for any reformer is how to secure the irreversibility of reforms. We have argued that radical reforms are most likely to succeed when implemented quickly at the beginning of a government's term, because front-loading both fiscal adjustment and deregulation makes benefits visible quickly, which in turn makes reforms more difficult to reverse. This is why we emphasized speed in the design and execution of the program.

As the reader may have noticed, the reform program did not initially rely on any institutional change (balanced-budget rules, central-bank independence, and the like). It simply delivered reform. The reason is that, given Argentina's history of legal instability, no legal change by itself would have delivered credibility, nor would any set of promises. Fiscal stability and deregulation generated more credibility than revamping the institutions that were supposed to make those outcomes more likely. In Argentina, people need to see before they believe.

However, the main challenge to reform is not the absence of public support — the public will support any change that delivers immediate benefits, and reforms do — but the action of

blocking agents. Irreversibility therefore hinges on the political and economic weakening of these agents. As already argued, reforms must be understood as having two layers. One layer concerns the direct economic effect of reforms (for example, more competition improves allocative efficiency). The other concerns the economic power of blocking agents (competition reduces the rents, and therefore the capacity for action, of the blocking agents).

In short, irreversibility is not tied to institutional reform at the legal level but to the effect of reforms on the distribution of economic power in the economy.

Changing institutions without changing the matrix of economic power will lead, sooner or later, to the demise of the reform program. It is economic power that shapes institutions, not the other way around.

A good illustration of this is the example of direct transfers to social beneficiaries, discussed earlier. Another is the labor law approved in early 2026, which undermined the economic and political power of the unions.

Debasing blocking agents of their power — particularly their economic power — is, in fact, what revolutions do. This fundamental lever, however, must be complemented by strong communication and by the building of trust with the population at large. Preparation, speed, the targeting of the economic resources of blocking agents, strong communication, and the honesty of the government team are the key ingredients of success.

Sturzenegger (2013) quotes Paul Keating on the recipe for success: “*You need three things: a strategy and a story, honest people to implement it, and, obviously, results. Yes, you need those three things.*”

No wonder reforms are difficult to execute.

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