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Peer Review

Review of: "Argentina at a Crossroads"

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Review and Critical Evaluation of "Argentina at a Crossroads" by Martinez Gonzalez and Nicolini

Summary. The article *"Argentina at a Crossroads"*, authored by Tobias Martinez Gonzalez and Juan Pablo Nicolini and published in the *Quarterly Review* of the Federal Reserve Bank of Minneapolis, argues that Argentina's historical periods of economic growth—particularly those beginning in 1991 and 2004—coincided with moments when the government pursued a zero-fiscal-deficit policy.

This review contends that the article fails to meet basic standards of academic and scientific rigor. It presents a simplistic hypothesis, misrepresents historical facts, and it remains also possible that it applies a theoretical model inappropriately. Given the use of the article to support government policy and its institutional affiliation with a respected university, these methodological issues raise serious ethical concerns.

Comments on the weak assumptions, manipulation of the historic data, and inconsistent reasoning

1. Weak assumptions

The authors begin by examining Argentina's historical growth and fiscal balance data and identify two episodes in which a correlation appears between fiscal discipline and economic expansion. They then state:

"We assume in what follows that, given a future without fiscal deficits, these self-inflicted macroeconomic crises will disappear. Our main hypothesis is that without macroeconomic volatility, Argentina will become a well-governed country."

Relying on this assumption, the authors apply a simplified growth model derived from Robert Lucas's work and conclude that Argentina could achieve sustained annual growth of 4% by adopting the fiscal strategies proposed by President Javier Milei. In essence, they assert that eliminating fiscal deficits would *automatically* result in better governance and long-term sustained growth.

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This assumption is not only tenuous but also deeply flawed. It reflects a classic case of oversimplification, where a complex reality is reduced to a single, unsupported mechanism. Even more problematic is the extrapolation of this weak premise into a far-reaching policy prescription, supported by a misapplied economic model. While the article acknowledges some limitations of its theoretical framework, it nonetheless advances strong conclusions that have been cited in national political discourse to justify sweeping and controversial fiscal reforms in Argentina.

2. Logical Inconsistency and Misuse of Historical Data

A fundamental flaw in the article lies in its reasoning. The authors claim that the elimination of fiscal deficits will lead to macroeconomic stability, which will in turn produce improved governance and sustained economic growth. Yet the very historical evidence they reference undermines this claim.

Specifically, they cite two periods of growth aligned with fiscal discipline: starting in the early 1990s under President Menem. What the article fails to mention is that the Menem administration was followed by the De la Rúa government, which not only maintained but intensified fiscal austerity measures. In 2001, the administration enacted the “Ley de Déficit Cero,” cutting public wages and pensions by 13% in an attempt to maintain fiscal balance. The result was a devastating economic and social collapse—the worst in modern Argentine history—culminating in riots, multiple deaths, and the president’s resignation.

The omission of this well-known crisis constitutes more than an oversight. It represents a manipulation of historical evidence, particularly egregious given that this episode directly contradicts the article’s central hypothesis. While the precise causes of the 2001 crisis can be debated, what is beyond question is that the zero-deficit policy ended in monumental failure. Ignoring this fact allows the authors to present a misleading narrative that shapes the reader’s understanding of the supposed benefits of fiscal austerity.

3. Internal Contradiction in the Authors’ Reasoning

The authors posit that eliminating fiscal deficits would lead to good governance and sustained economic growth. However, the historical period they cite—Argentina from 1991 onward—culminated in the country's most severe economic and social crisis in 2001. Despite rigorous efforts to maintain a zero-deficit policy, including the enactment of the "Ley de Déficit Cero" (Law 25.453) in July 2001, which mandated that public spending not exceed revenue and imposed proportional cuts across all expenditures, the economy collapsed.

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Unemployment rates during this period were alarmingly high: 16.1% in 1999, 17.1% in 2000, and escalating to 19.2% by 2001. The social unrest and economic turmoil that ensued, including widespread protests and the eventual resignation of President De la Rúa, starkly contradict the authors' selection of dates, hiding the conclusion of the cero-deficit period. While the specific causes of the 2001 crisis are multifaceted and may be subject to debate, the unwavering commitment to a zero-deficit policy during this period is an incontrovertible historical fact. Thus, the authors' assumption that fiscal balance inherently leads to good governance and sustained growth is directly contradicted by the very historical evidence.

4. Ethical Concerns and Conflict of Interest

The article was co-authored by Juan Pablo Nicolini, who is both an employee of the Federal Reserve Bank of Minneapolis and an editor of the journal in which the article appears. This dual role raises clear questions about editorial independence and conflicts of interest—questions that are not disclosed or addressed in the publication.

Recent literature has warned about the erosion of ethical boundaries in economics. Notably, Kate M. Conlow, in *"Financial Conflicts of Interest and Academic Economists in Law and Policymaking"* (Arizona State Law Journal, 2024), documents how economists' financial or ideological affiliations often go undisclosed, leading to biased research that directly influences policy. The case under review exemplifies many of the risks Conlow describes.

5. Inappropriate Use of Lucas's Growth Equations?

As a non-economist, I do not attempt to assess the technical robustness of the specific equation used by the authors. However, given the influence of this article on policy, I consider that it is very important to ask whether the theoretical foundation taken from Lucas has been applied appropriately and with sufficient rigor.

I would encourage reviewers who are experts in economics and in Lucas's work to further review this article considering the following:

- Would the authors' conclusions still hold if they tested Milei's policies using other equations from Lucas's broader work—especially those that have been more thoroughly tested?
- Have the authors used the best available economic models to challenge their own hypothesis—or did they choose a simplified version that conveniently supports a predetermined view?

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- How do the authors' conclusions align with the fact that Milei is actively dismantling support for science, which in turn feeds on technology-driven companies and products, and on high-quality university teaching in both public and private universities, an area that Lucas identified as essential for sustained growth?

Declarations

Potential competing interests: No potential competing interests to declare.