

The Dangers of Javier Milei's Economic Program in Argentina

As economists from around the world who are supportive of broad-based economic development in Argentina, we are especially concerned by the economic program of one of the candidates, which has become a major issue of discussion in the national election. Given Argentina's frequent financial crises and recurring bouts of very high inflation, a deep-seated desire for economic stability is completely understandable. However, while apparently simple solutions may be appealing, they are likely to cause more devastation in the real world in the short run, while severely reducing policy space in the long run.

Javier Milei's economic proposals are presented as a radical departure from traditional economic thinking. However, we believe that these proposals, rooted in laissez-faire economics and involving contentious ideas like dollarization and significant reductions in government spending, are fraught with risks that make them potentially very harmful for the Argentine economy and the Argentine people.

The economic vision underlying these proposals supposedly advocates minimal government intervention in the market, but actually relies heavily on state policies to protect those who are already economically powerful. Reductions in tax rates and public spending push many essential goods and services away from public provision to private commercial providers, which enriches them but reduces the access of ordinary citizens, especially the poor. The proposal for dollarization aims to replace the Argentine peso with the US dollar as domestic currency. Both ideas may seem appealing in their simplicity and promises of a quick fix to control inflation and instability. But they do not recognize major economic realities. The laissez-faire model assumes that markets work perfectly if the government does not intervene. But unregulated markets are not benign—they reinforce unequal power relations that worsen inequality and hinder the application of key developmental policies—including industrial, social, and environmental policies. In Argentina as in most other countries with complex economic structures and challenges of income and asset inequality, inflation, and external debt, the need is for nuanced and multifaceted policies that recognize the needs of different social groups. Markets are also prone to failures, driven by externalities (when all benefits or costs cannot be ascribed to individual agents) and information asymmetry (when some players on a market know more than others). The 2008 global financial crisis showed that inadequate market regulation can have disastrous consequences. The experience of the Covid-19 pandemic provided more evidence of the need for public intervention.

Argentines are all too familiar with the pain of laissez-faire economics that have been imposed by international lenders like the IMF, which have in the past increased poverty and economic insecurity and inhibited the country's development. The program proposed by Milei would create more socio-economic inequality by reducing the role of the state in redistribution and social welfare. A major reduction in government spending would increase already high levels of poverty and inequality, and could result in significantly increased social tensions and conflict. Milei's idea of drastically cutting taxes while reducing public spending would significantly reduce the ability of the state to meet the social and economic rights of citizens. Meanwhile, further reductions in government tax revenues would aggravate the fiscal crisis.

Similarly, dollarization seems to offer a solution to Argentina's chronic inflation problem, and could be tempting when the value of savings and the ability to consume are both decimated by runaway inflation. The current shortage of foreign exchange reserves would make the initial conversion rate of peso to dollar so high that it would generate further inflation. This means a decline in real wages, such that the subsequent reduction of inflation would be achieved by a major fall in the labor share of

national income, putting the burden of adjustment on working people. Dollarization also implies the long-run impossibility of building monetary sovereignty. Here too, Argentina's past experience with proto-dollarization (the currency board arrangement of the 1990s) created a brief illusion of stability, but adversely affected the real economy. It generated unemployment and real income losses for workers—and eventually led to an even bigger crisis in 2001 because of the fiscal and monetary constraints of the peso-dollar peg.

In short, Javier Milei's dollarization and fiscal austerity proposals overlook the complexities of modern economies, ignore lessons from historical crises, and open the door for accentuating already severe inequalities. As Argentina navigates its complex economic landscape, it is crucial to approach policy making with balanced, empirically grounded strategies that are not only appealing in the short run but also sustainable, equitable, and enabling in the long run.

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