JAVIER MILEI'S "CHAINSAW REFORM COURSE" IN ARGENTINA: A FIRST CRITICAL RESEARCH

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1 What the following Scientific Discourse is About

Argentina's politics have been shaped since December 2023 by the newly elected President Javier Milei, who has pursued a neoliberal reform agenda.

This paper analyzes the implementation and the initial impacts of the Argentine president's neoliberal economic policies.

Milei's success in the October and November 2023 presidential elections seems to be a seismic event in the recent history of the Latin American country.
As a self-proclaimed "anarcho-capitalist", he secured victory in the second round of voting on November 19, 2023, with 55.6% of the vote, defeating former Minister of Economics Sergio Massa from the left-wing Unión por la Patria. He was inaugurated as president on December 10, 2023.

1.1 Actuality, Significance, Content and Working Hypotheses

With the election of Milei, a representative of extreme neoliberal political beliefs has been elected: an analysis of the success chances of his libertarian policies is therefore both timely and economically significant.

In three substantive chapters, the following will be outlined:

- Argentina's economic situation at the time of President Javier Milei's election,
- Presenting his economic policy measures implemented to date, and finally
- Analyzing his economic policy measures under the following two theses:

Thesis 1: Neoliberal policies can stimulate quantitative economic parameters in the sense of neoliberal defined growth in the short term;

Thesis 2: Even successful neoliberal growth policies permanently worsen the living conditions of the broad mass of the population and therefore cannot ensure long-term growth.

A fundamental conclusion regarding the classification of Milei's economic policy will conclude this contribution.

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1.2 The Concept of Neoliberalism in the Tension Between Free and Social Market Economy

Since Keynes' General Theory, economics has been shaped by a fundamental dichotomy between consumption-oriented (Keynesian) and investment-oriented (neoclassical, monetarist, and neoliberal) theories and policies.

In the extended digital version of this contribution, available on the attached USB stick, the systemic contrast between demand-driven Keynesian and supply-driven neoliberal economic policies is examined from both a macroeconomic and regulatory perspective.

From the neoliberal perspective, any government intervention in the market is seen as privileging one societal group—typically those with strong lobbying power—at the expense of other groups, usually those with less political influence.

Such interventions are considered ultimately harmful to the integrity of state structures. This view is clearly reflected in the economic policies of Argentine President Javier Milei, whose approach will be presented below within the framework of the aforementioned theories and analyzed in terms of its current implications.

1.3 Starting Point: Argentina's Economic Situation until the Inauguration of President Javier Milei

The extended digital version of this article, accessible via the attached USB stick, provides a structured assessment of Argentina's economic situation leading up to the election of Javier Milei. The analysis is guided by the four core objectives of rational economic policy:

- Economic growth, with additional consideration of the country's public debt,
- Employment, including an examination of real wage developments,
- Price level stability, with particular attention to currency stability, and
- The balance of payments.

2 The Economic Policy of Javier Milei

In his inaugural address on Dec. 10, 2023, President Javier Milei described Argentina's economic situation as the most severe crisis ever inherited by an incoming government. He used this assessment to justify the urgent need for comprehensive structural reforms.

Milei identified hyperinflation as the root cause of Argentina's economic malaise, attributing it to the expansionary monetary and fiscal policies pursued by the Central Bank of Argentina. Over the years, persistent fiscal deficits were financed through excessive money creation, which, according to Milei, resulted in a circulus vitiosus of accelerating inflation and growing macroeconomic instability.

To overcome this entrenched crisis, Milei outlined a far-reaching economic reform programme consisting of three core pillars:

- Rigorous fiscal consolidation aimed at reducing the budget deficit (see Chapter 2.1),
- Restrictive monetary and exchange rate policies designed to curb inflation and halt the ongoing expansion of the money supply (Chapter 2.2),
- External sector liberalisation, particularly in the area of foreign trade (Chapter 2.3).

Milei argued that, given the structural nature of the fiscal imbalances, a swift and comprehensive reform approach in the form of an economic 'shock therapy' is indispensable. While acknowledging the short-term social and economic burdens this strategy entails, he contended that such measures are necessary to restore macro-economic stability, attract investment, and lay the foundations for sustainable long-term growth.

The following points offer a concise summary of the findings discussed in Chapters 2.1 to 2.3 of the full-length analysis, which is included in the complete document available on the attached USB stick.

2.1 Fiscal Policy

For a detailed analysis, see Sections 2.1.1 to 2.1.6 in the full-length text on the attached USB stick.

Reduction in the Number of Civil Servants

According to President Milei, a sustainable reduction in public sector employment only can be achieved through a comprehensive structural reorganization of the national administration.

Official reports from the relevant ministry indicate that 42,000 positions within the central government have been eliminated, leading to projected annual savings of approximately USD 1.653 billion.

Privatization of Public Enterprises

President Milei's agenda seeks, on the one hand, to reduce state involvement as a means of easing the burden on public finances, and, on the other hand, to strengthen market competition through the enhanced efficiency typically associated with private-sector operations.

The initial legal basis for this initiative was established through Emergency Decree No. 70/2023, which repealed special regulations governing federal enterprises and enabled their conversion into joint-stock companies—thus laying the groundwork for future privatization.

Building on this, Law No. 27,742 ("Ley Bases") was enacted to establish a comprehensive legal framework, classifying numerous companies as privatizationeligible, while some key strategic enterprises are to remain under partial state control. A first practical step in implementation of this strategy is the planned sale of the technology company IMPSA, which also serves as a pilot project for the broader privatization of a total of 41 state-owned enterprises.

Tax Reforms

In December 2024, President Javier Milei publicly announced a set of far-reaching tax reforms. In a pointed statement, he proclaimed: "*Now, the deep chainsaw is coming (...) we'll shrink the state even further. (...) We're going to eliminate about 90% of taxes, meaning we'll have no more than six taxes.*" To date, the precise composition of these remaining six taxes has not been officially disclosed.

The reform agenda can be broadly categorized into three primary objectives:

- Simplification of the tax system by reducing bureaucratic complexity.
- Enhancement of market dynamics via a lower overall tax burden, and
- Fiscal consolidation, ensuring the effective and sustainable implementation of reform measures.

This agenda is underpinned by three key political and legal instruments:

- Pacto de Mayo: a symbolic accord between the federal government and the provinces, calling for tax relief and the promotion of trade,
- Ley de Bases: a legislative framework granting the executive branch wide-ranging authority to restructure taxation and privatize state-owned enterprises,
- Paquete Fiscal: a comprehensive fiscal package aimed at short-term budget stabilization and the restoration of public trust in tax policy.

Concrete measures include the reintroduction of income taxation for middle- and high-income earners, the reform of wealth taxes, and a capital amnesty initiative. In addition to its stated objectives, the reform program also aspires to stimulate GDP growth—primarily through greater efficiency in the tax system. The Paquete Fiscal alone is projected to generate additional revenue equivalent to approximately 0.4% to 0.5% of GDP.

Reduction of State Subsidies

In line with a broader market-oriented agenda, the Argentine government enacted sweeping reductions in state subsidies across key sectors. In the energy and public transportation sectors, subsidies were drastically curtailed or entirely abolished, including the dissolution of the Fondo Compensador del Interior—a state compensation fund that had provided financial support for public transportation in regions outside the Buenos Aires metropolitan area. This measure has disproportionately affected lower-income populations.

The education and research sectors were likewise subjected to significant austerity measures. Core institutions such as public universities and research centers experienced substantial budget cuts. Moreover, the government suspended all public infrastructure projects and reduced funding for social programs such as the Comedores Populares (community kitchens), further exacerbating the burden on socioeconomically vulnerable groups.

Continuing this liberalization strategy, the government introduced far-reaching reforms to tenancy law. Deregulation Decree No. 70/2023 marked a paradigmatic shift away from state oversight toward extensive contractual freedom in the rental housing market.

Investment Programs

As part of Argentina's recent economic policy overhaul, the Régimen de Incentivo para Grandes Inversiones (RIGI) (Large Investment Incentive Regime) has been introduced as a key pillar of the Ley Bases legislative package. This framework seeks to dismantle structural barriers to investment—such as fiscal unpredictability, capital controls, and elevated transaction costs—through a targeted set of fiscal and regulatory incentives, with a particular focus on attracting foreign direct investment (FDI) for projects exceeding USD 200 million.

Key provisions of the RIGI include preferential tax treatment, such as a reduced corporate income tax rate of 25% (down from 35%) for single project vehicles, and a lowered dividend tax of 3.5% (instead of 7%) for reinvested profits. The regime also permits accelerated depreciation of movable assets and infrastructure, alongside unlimited loss carryforwards, which may be transferred to third parties after a five-year period.

In addition to these fiscal measures, the RIGI introduces comprehensive trade facilitation mechanisms. Perhaps most notably, it provides a 30-year guarantee of regulatory stability in the domains of taxation, customs, and foreign exchange. This long-term legal certainty is designed to enhance predictability and reduce risk for investors.

For President Milei, the RIGI constitutes a strategic instrument to bolster Argentina's international competitiveness and to position the country as a more attractive destination for large-scale, long-term investment.

Labor Market Reforms

The initial attempt to implement labor law reforms in Argentina through presidential decrees sought to enhance employer prerogatives by extending probationary periods, simplifying dismissal procedures, and reducing severance obligations.

This initiative, however, was blocked by the judiciary, which ruled that far-reaching modifications to labor legislation require congressional approval and are otherwise unconstitutional.

A second reform initiative was introduced through the Ley de Bases y Puntos de Partida para la Libertad de los Argentinos (Law of Fundamentals and Starting Points for the Freedom of Argentinians). This legislation encompasses a comprehensive labor market reform, far exceeding technical adjustments to probation periods and dismissal regulations. It explicitly addresses various aspects such as:

- Unregistered Employment: The reform introduces a voluntary regularization program that offers employers significant incentives to reformalize labor relationships, including partial debt relieve on outstanding social security contributions, the removal prior legal violations, and the suspension of pending tax-related criminal proceedings.

- Extension of Probation Periods: Probationary periods may be extended from three to six months, with the possibility of prolongation up to eight months under certain conditions.
- Flexibilization of Maternity Leave: Adjustment of regulations to give employees greater autonomy over the allocation of paid leave, allowing the period of leave prior to childbirth to be reduced to as few to ten days.
- Alternative Severance Scheme: A new severance framework is proposed, to be funded through monthly employer contributions under collective bargaining agreements, thereby replacing traditional lump-sum payments.
- "Independent Worker" Classification: The legislation introduces a new category that permits self-employed individuals to contract up to three additional independent workers without acquiring employer status in the conventional legal sense.
- Curtailment of the Right to Strike: Implementation of sanctions against employees participating in strikes, blockades, or occupation of workplaces. These actions are now considered sufficient grounds for immediate dismissal without severance pay, with courts being deprived of the possibility to review cases individually.

The implementation of these measures has led to a marked deterioration in social conditions. Rising unemployment, declining real wages, and worsening living standards—particularly among the unemployed and pensioners—have contributed to a significant increase in poverty levels and have provoked widespread social unrest.

2.2 Monetary and Currency Policy

At the beginning of President Milei's term, the macroeconomic situation was characterized by high inflation, a significant divergence between the official and informal exchange rates, and a severely negative trade balance.

As essential measures to address these structural imbalances, Milei has articulated a far-reaching stabilization program built upon three central pillars:

- A restrictive monetary policy to permanently align the growth of the money supply with economic growth,
- Short-term currency interventions such as targeted devaluation of the Peso, and
- In the long term, the complete abolition of the national currency and a formal dollarization.

Supporting these domestic measures, Milei relies on international credit agreements—particularly with the IMF—to bridge short-term liquidity shortages and stabilize market confidence during the transition phase of his reform agenda.

Devaluation of the Argentine Peso and Stabilization of the Exchange Rate against the US dollar

Although his monetarist belief holds that inflation is mainly caused by money supply growth and that a restrictive monetary policy should suffice, President Milei was compelled to take immediate interventionist measures due to a profound loss of confidence. These measures aimed to regain control over monetary and exchange rate stability in the short term.

Among his short-term actions were a drastic devaluation of the peso (from nearly 400 to 800 ARS/USD in December 2023), intended to:

- Correct market imbalances, such as the high spread between the official exchange rate and the unofficial "dólar blue" rate;
- Stabilize exchange rate expectations by introducing a crawling peg system, entailing state-mandated monthly devaluations of the peso—measures that have since been scaled back following the introduction of a more freely floating exchange rate regime.

While these measures are grounded in economic theory, Milei regards them merely as a transitional phase. He envisions full dollarization as the logical next step to permanently end inflation caused by central bank-financed government spending and to structurally eliminate political influence over monetary policy.

The Concept of Dollarisation

More decisive than Carlos Menem's currency board policy from over 30 years earlier, Milei no longer intends to merely peg the peso to the US dollar but to abolish it entirely. This would permanently exclude monetary financing of fiscal deficits.

Argentine President Javier Milei views the path to dollarization as a multi-stage transitional process:

- Introduction of a banking system based on Henry Simons' 100-percent reserve approach ('Banca Simons'), in which deposits must be fully backed by liquid assets.
- Establishment of a free banking regime that operates entirely without central bank intervention, allowing financial institutions to function under market-based principles.
- A legal opening for unrestricted currency competition, permitting private actors to conduct transactions in any currency. Milei assumes that, through this liberalization, the U.S. dollar will naturally emerge as the dominant medium of exchange in worldwide payment.
- Institutional dissolution of the central bank at the final stage, a definitive step that would permanently end national autonomous monetary creation.

Credit Policy

In his book "El Camino del Libertario," Milei states that debts are not only economically risky but also morally reprehensible. Although he does not explicitly oppose the International Monetary Fund (IMF) as an institution, it is part of his strategy to 'discipline' the state and enforce fiscal responsibility, ensuring that it only spends what is currently available. This approach ultimately renders lenders such as the IMF unnecessary.

Despite this stance, the Argentine government under Milei concluded a new agreement with the IMF in April 2025 for a loan package totaling 20 billion US dollars.

2.3 Trade Policy to Strengthen the Current Account

The trade balance, as a key subcomponent of the current account, plays a pivotal role in Milei's strategy for national economic recovery.

In his view, stable trade policy frameworks and a well-calibrated balance between imports and exports are essential prerequisites for the sustainable improvement of the current account and, consequently, the country's long-term development.

The following discussion provides only a summary of the detailed explanations found in the full version of this article on the attached USB stick.

Liberalisation of Trade Policy

Drawing on foundational theories—ranging from Adam Smith's principle of absolute cost advantages and David Ricardo's theory of comparative cost advantages to subsequent developments by Heckscher-Ohlin, Leontief, Lancaster, Rybczynski, and Stolper-Samuelson—free trade has long been conceptualized as a mechanism by which nations and market participants can specialize in sectors where they demonstrate the highest relative efficiency. This view is also upheld by economic liberals such as Ludwig von Mises, a prominent figure of the Austrian School, whose ideas have profoundly shaped the economic outlook of President Javier Milei.

A key element of Milei's economic policy agenda is a profound structural transformation in trade: the complete abolition of export tariffs and import duties, radical liberalization of the foreign exchange market, and targeted incentives to promote foreign direct investment—all aimed at leading Argentina out of its economic stagnation and making it more competitive internationally.

An essential part of Argentina's trade policy realignment under President Javier Milei is the reform of the import regime; accordingly, import tariffs have been reduced by approximately two-thirds. Notably, however, the liberalization of capital controls has yet to be implemented.

Changes in Foreign Direct Investment in Argentina

For President Milei, the promotion of foreign direct investment (FDI) constitutes a central pillar of economic policy. Among the measures intended to stimulate FDI, the sharp devaluation of the peso was expected to serve as a key driver of increased capital inflows. Contrary to these expectations, however, Argentina witnessed a pronounced decline in FDI throughout 2024.

This downturn can likely be attributed, at least in part, to the contractionary effects of Milei's restrictive fiscal policies, which have dampened aggregate demand.

Additionally, the psychological impact of Milei's "Chainsaw Policy" on potential foreign investors is likely to have increased uncertainty and, consequently, worsened profit expectations from FDIs, significantly reducing the attractiveness of new investments.

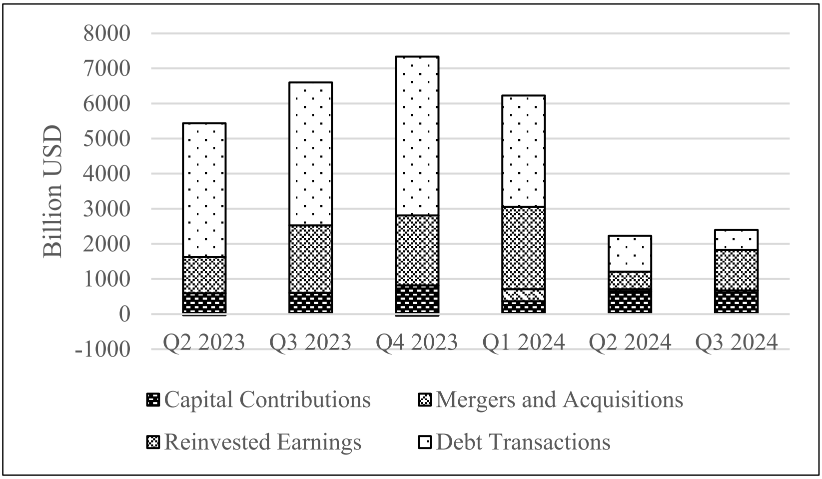

Figure 2.1: Development of Foreign Direct Investment (FDI) in Argentina by Relevant Components from Q2 2023 to Q3 2024 in Billion US Dollar

3 Evaluation of Milei's Economic Policy Measures within the Framework of the Research Hypotheses

The following remarks present a condensed summary of the analyses provided in the full-length version of this article, available on the attached USB stick.

3.1 Assessment of Fiscal Policy

The Argentine government's reform agenda is centered on two primary objectives:

- Revitalizing economic growth, and
- Achieving fiscal consolidation in order to sustainably mitigate the deficit-inflation spiral.

The first objective can be evaluated by examining developments in gross domestic product (GDP). In the initial phase, however, the reforms introduced by President Milei led—as expected—to a significant decline in GDP.

The second objective, fiscal consolidation, can be assessed based on the development of the national budget.

in billion ARS	2023	2024	Nominal change	Real change
Government revenue	43.11	117.83	273.33 %	+ 40.54 %
Government expenditure	51.53	116.06	225.24 %	– 11.56 %
Budget balance	– 8.42	1.77	120.96 %	

Table 3.1: Development of the Argentine state budget in the years 2023 and 2024 – nominal and inflation-adjusted (in billion ARS); real values adjusted for the average annual inflation rate of 237% in 2024

Even considering the average inflation rate of 237% in 2024, government revenues experienced real growth. This outcome reflects a significant process of fiscal consolidation, culminating in a budget surplus equivalent to 0.3% of GDP.

Nonetheless, a conclusive assessment of the sustainability of this development remains premature. As outlined in Chapter 2, the reduction in transfer payments and subsidies understandably resulted in a decline in government expenditure. However, the entirety of these consolidation measures disproportionately impacted lower-income segments of the population, primarily leading to increased costs in essential sectors such as energy and public transportation. This effect was particularly pronounced due to the complete halt of public housing initiatives and the dismantling of tenant protection mechanisms.

3.2 Assessment of Monetary and Currency Policy

Central reform measures—such as the drastic devaluation of the peso and the introduction of the crawling peg system with monthly government-mandated adjustments—initially led to a sharp increase in inflation, reaching up to 290% year-on-year. However, from mid-2024 onwards, a disinflationary trend has been observed and continues to this day (May 2025), indicating the first stabilization effects of monetary and fiscal policies.

Nevertheless, these early achievements in monetary and exchange rate policy are ultimately attributable to the implementation of exceptionally restrictive fiscal measures. It is therefore clear that any reemergence of fiscal deficits would pose an immediate threat to monetary and currency stability.

In this context, the durability of monetary and exchange rate stability remains inextricably linked to continued fiscal discipline.

Milei's concept of dollarization must be viewed critically, particularly in terms of the complete abolition of the national currency and the central bank, resulting in the total loss of monetary policy autonomy.

With the implementation of the new system—similar to the Currency Board arrangement of 1991—Argentina would no longer have influence over its interest rate policy and would be entirely dependent on U.S. economic policy, without any ability to influence it in any way.

Furthermore, the money supply can only increase if additional US dollar flow in, meaning a current account surplus is generated.

It remains uncertain to what extent dollarization is a suitable instrument for restoring monetary stability in Argentina, as it is associated with significant risks. Without profound institutional reforms, strict fiscal discipline, and a viable external economic framework, dollarization risks exacerbating existing vulnerabilities rather than alleviating them.

3.3 Assessment of Trade Policy

The policy measures introduced following President Javier Milei's inauguration in December 2023—particularly fiscal adjustments and planned labor market reforms—have led to a decline in real disposable incomes, a deterioration of domestic demand, and recessionary trends across key sectors of the economy. These developments became apparent within the broader context of macroeconomic adjustment already in early 2024.

Regulatory Interventions in Capital Mobility

The associated deterioration of profit expectations and the subjectively increased operational risks reduced the attractiveness of new investments.

Additionally, a series of regulatory interventions has further intensified uncertainty within the investment environment. Notably, the Central Bank of Argentina's Comunicación A 7917 introduced a tiered foreign exchange access regime, that significantly restricted capital mobility. Simultaneously, the introduction of BOPREAL bonds aimed to reduce existing liabilities, which substantially complicated the acquisition of new credit lines. These measures contributed to a reduction in the stock of external debt but also hindered new buildup, as reflected in the decline of net debt transactions.

The economic policy shift under Milei thus marks a paradigm change with immediate implications for the behavior of international investors. While equity inflows and reinvested earnings are gaining importance, debt transactions as a financing source are experiencing a sharp decline.

In the short term, the investment climate remains shaped by institutional fragility, elevated market volatility, and restricted access to foreign currency. The medium- to long-term trajectory of foreign direct investment will critically depend on political stability, legal predictability, and the reintegration into global financial markets.

Trade Policy Outcomes

Following the sharp devaluation of the peso, there has been a significant decrease in imports and an increase in exports in real terms since Milei's inauguration.

Category	Exports 2023	Exports 2024	Change in Exports (%)	Imports 2023	Imports 2024	Change in Imports (%)
Agriculture	$ 24.98	$ 31.22	+ 24.97 %	$ 6.96	$ 4.57	– 34.30 %
Raw Materials	$ 10.33	$ 12.95	+ 25.36 %	$ 10.68	$ 6.29	– 41.16 %
Manufacturing	$ 29.96	$ 33.74	+ 12.62 %	$ 55.25	$ 49.38	– 10.63 %
Other	$ 1.52	$ 1.81	+ 19.26 %	$ 0.82	$ 0.59	– 28.76 %
Total	**$ 66.79**	**$ 79.72**	**+ 19.36 %**	**$ 73.71**	**$ 60.82**	**– 17.49 %**

Table 3.2: Annual Comparative Analysis of Argentine Exports and Imports in billion by Commodity Group, 2023–2024, in absolute figures and in percent

A pronounced decline in imports across all categories was observed, culminating in an aggregate reduction in total imports of 17.49%. Simultaneously, exports recorded nominal growth of 19.36%, which not only contributed to a significant improvement in the trade balance but also resulted in a positive trade surplus.

A critical assessment is warranted regarding the decline in imports, despite the implementation of extensive deregulation measures.

While a reduction in imports may appear beneficial from a strictly mercantilist viewpoint—where emphasis is placed solely on minimizing foreign currency outflows—such a perspective overlooks the multifaceted role imports play in an economy.

Imports can be essential, or even indispensable, for ensuring the population's access to basic necessities such as food, for supplying industries with critical inputs, and for supporting an export-oriented growth model that relies on imported components. Accordingly, the composition and structure of imports merit a more nuanced analysis, particularly in terms of the long-term implications for supply stability and economic growth.

The continued sharp decline in imports—despite the fundamentally positive effects of dismantling import barriers—may indicate underlying recessionary pressures stemming from fiscal policy, most notably a substantial erosion of purchasing power within Argentina. Therefore, the above-mentioned decline in imports cannot necessarily be regarded as a first successful chapter of Milei's policy.

Foreign Direct Investment in Argentina

A sectoral analysis of foreign direct investment (FDI) in Argentina indicates a marked concentration in capital-intensive industries such as mining and manufacturing—sectors in which the country possesses notable comparative advantages. In principle, FDI in Argentina should therefore be both economically justified and potentially profitable.

Since the inauguration of President Javier Milei, however, the trajectory of FDI has taken a deeply negative turn. The wholesale and retail sectors, in particular, have experienced a precipitous decline, reinforcing the assessment that Milei's policy agenda has triggered a significant contraction in domestic demand.

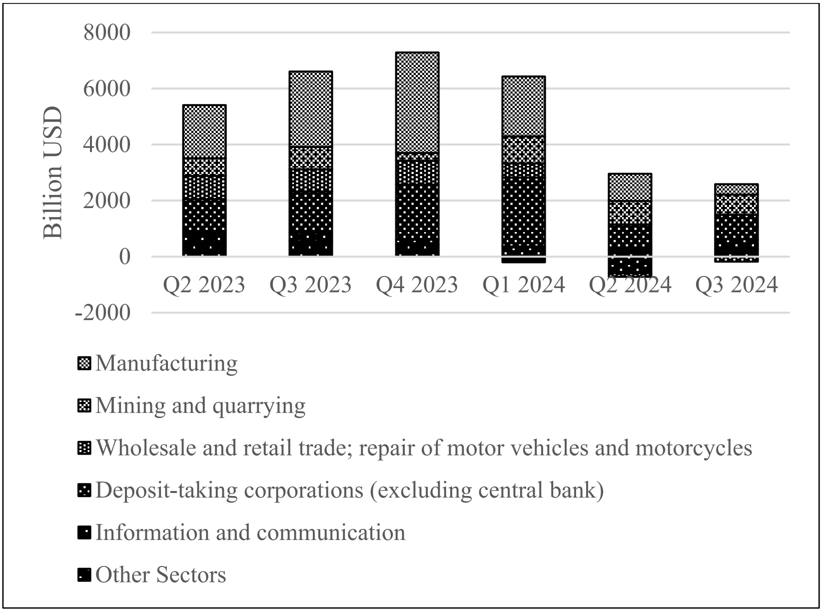

Figure 3.1: Development of Foreign Direct Investment (FDI) in Argentina by Economic Sector, in Billion USD

The future trajectory of foreign direct investment (FDI) in Argentina will largely depend on two critical factors.

- First, the establishment of a more reliable and credible economic policy framework is essential—one that not only stimulates short-term growth but also provides long-term planning certainty and restores investors' confidence in institutional structures.
- Second, the Argentine government must demonstrate its sustained capacity to control inflation and maintain exchange rate stability over the long term. In this context, initiatives such as the RIGI (see Chapter 2.1) may contribute significantly by enhancing transparency and predictability for investors. Conversely, failure to meet these objectives risks exposing FDI to continued volatility, thereby posing a long-term threat to the country's economic recovery.

4 Conclusion and Outlook

The initial theses

Thesis 1: Neoliberal policies can stimulate quantitative economic parameters in the sense of neoliberal defined growth in the short term

Thesis 2: Even successful neoliberal growth policies permanently worsen the living conditions of the broad mass of the population and therefore cannot ensure long-term growth

are confirmed based on the above discussion.

In particular, in the area of public finances, a gradual consolidation has become evident following Milei's policies, driven by expenditure discipline and the reduction of subsidies.

However, the price for this has been a significant recessionary decline in overall economic demand.

Through positive effects on the balance of payments resulting from restrictive monetary policy, currency devaluation, and deregulations in trade policy, the country managed to rebuild its foreign exchange reserves. This strengthening of the external economic position enabled the lifting of the Cepo Cambiario and marked a return to a liberalized, i.e., flexible, foreign exchange market.

Despite initial announcements of complete dollarization, Milei's government so far has pursued an intermediate course aimed at stabilizing within a national currency regime. Measures such as the crawling peg system, loosening of capital controls, and the buildup of foreign exchange reserves suggest a prioritization of macroeconomic consolidation, which can be interpreted

- either as preparation for eventual dollarization
- or as a pragmatic departure from this goal.

If the former were the case, it could directly lead to the latter: If all these conditions are met, then maintaining a national currency would no longer lead to inflation: dollarization would then be essentially unnecessary.

However, experience shows that the pressure to adhere to such a credible fiscal and monetary policy tends to weaken once political authorities regain full control over state-managed fiscal and monetary policies. Therefore, for Argentina, the concept of dollarization could indeed be a viable option.

Nevertheless, President Milei should be aware that under dollarization, the money supply ultimately only avoids potential deflation if the circulating dollar amount is generated

- through sufficiently high current account surpluses on the one hand, and
- on the other hand, not flowing out via capital flight.

This underscores the importance of Milei’s "holistic" approach: his entire concept depends on success across all its components—spending cuts, revenue increases, economic growth, stable price levels, current account surpluses, and—as long as there is still a national currency—exchange rate stability.

The authors ultimately identify two weaknesses or challenges of the current Argentine economic policy under President Milei:

1. The consolidation of the state budget may not predominantly come at the expense of the population if one wishes to avoid risking that a substantial decline in domestic demand—economically speaking—would neutralize or even over-compensate for the achieved fiscal consolidation.

   National income is generated approximately by 90% through consumption expenditures and 10% through investments, according to the expenditure approach in calculating Net National Product. This ratio clearly demonstrates the significant importance of Keynesian economic policy: ideally, a socially oriented, consumption-supporting economic policy should be implemented within a framework of deregulated industry policies—both for large corporations and, in particular, for small and medium-sized enterprises (SMEs) and even small traders, whose importance for employment and economic growth is often severely underestimated.

   This implies that the proposed tax reform should not only benefit investors or the still-existing 'wealth elites'; that is, a growth-promoting tax system should be based on progressive taxation through direct taxes—not primarily through indirect consumption taxes or income-independent social contributions. Subsidies can largely be eliminated if the state exempts a minimum income from taxation and, in particular, refrains from levying property taxes on its economic entities.

2. Historically, Argentina has repeatedly failed due to corruption, overregulation, and the resulting (or contributing to) capital flight. The major issues of tax evasion and corruption are not addressed under Milei's leadership.

   If foreign direct investment also declines, the problems of current account deficits, budget deficits, and the resulting need for expansionary monetary policy—and the resurgence of (hyper-)inflation—return, further exacerbating capital flight until the next state bankruptcy.

   This presents a particular risk during Milei's presidency: his "chainsaw" approach is, to put it mildly, not very confidence-inspiring. As a result, direct investments and investors in general are more likely to be discouraged than encouraged from viewing Argentina as a future economic haven of growth and wealth.

When a nearly limitless neoliberal economic policy is celebrated, as historically exemplified by Margaret Thatcher and Ronald Reagan, or currently by President Milei in Argentina, it inevitably leads to an increase in the Gini coefficient, resulting in a worsening inequality of income and wealth within the population, with values often exceeding 0.4. This, in turn, leads to social and political destabilization of society.

In pure neoliberalism, positive (constructive) state activity is undesirable and is even considered system-destroying:

However, no state has ever failed because it provided its citizens with too many social benefits. States or their societies fail when inequality and economic exclusion—which then also leads to social and political exclusion—destabilize these states.

To put it clearly: It is not the citizen-oriented states of Northern or Western Europe, the Baltics, or Southeast Asia; Japan, Canada, or Australia that fail, but rather states that do not provide their citizens with economic, social, societal, and political security, such as many states in Africa, Latin America, Asia, or even the USA. These are states where powerful minorities dominate the majority and deny them equal participation in the state.

When this situation persists for too long, states fragment into partial interests and succumb to the power of the stronger: either legal or illegal power structures of organized minorities that exclude or even exploit the majority.

Argentina, under Milei, once again stands at a crossroads.