

# Milei's Quest to Stabilize Argentina's Economy by Re-Establishing Trust and Dollarizing

Caroline Bleichmar

Horace Mann School, USA

## ABSTRACT

In Argentina, high inflation and poor economic decisions cause the value of the Argentine Peso to be very volatile and lose value. This instability not only limits the use of the Peso but also strains the relationship between the Argentine citizens and their government. Although the government understands the country's economic issues, prior administrations have been unable to solve the problem but rather forced the citizens into further economic stress. Nevertheless, Javier Milei, Argentina's new "radical" president, seems to understand how to stabilize the Argentine economy.

## **The Deficits of Argentina's Economic Policy**

In this paper, I will be addressing this economic crisis in Argentina and Milei's response. I will further demonstrate the connection between Argentina's 2001 economic failure and the current financial crisis. I will be exploring how the relationship between the Argentine government and citizens has affected economic policy and how these tensions will need to be resolved to fix Argentina's current crisis. I will illustrate how Argentine citizens have reacted to their government's economic decisions and the effects of those decisions on daily life. These patterns ultimately demonstrate that Argentina's biggest problem is the lack of trust between the citizens and the government because citizens can create functioning, illegal economies, without the government's interference. This indicates that Argentina's core issue is not necessarily their policy, but rather the division between the citizens and the state; the administration cannot help the citizens with insufficient funds and without accurate information. This signifies that government involvement would likely force the country into a lengthier economic crisis because the government is unable to maintain neither stability nor fair or equal distribution of income. This realization led Argentine citizens to vote Javier Milei into office because his novel ideas may be the country's economic saving grace. While Milei seems to be a crazy fanatic, no one has been able to solve the country's existential economic crisis so why not let Milei try?

My plan for the paper is as follows. First, I will provide a history of Argentina's 2001 crisis and explain how this has not only directly influenced the current crisis but also built up and formed it. Then I will describe previous approaches to stabilizing the economy and demonstrate their shortcomings which eventually led those ideas to failure. Lastly, I will propose ways forward and describe my course of action if I were the Argentine president. I will analyze Milei's success and use the economy's current progress to predict the country's future economic stability.

## Argentina's History of Repeated Economic Crises and Background for the Current Crisis

In 2001, Argentina experienced its worst-ever economic and political crisis. While the convertibility plan, established in 1999, created a one-dollar-to-one-Peso exchange rate, this model demonstrated inaccurate economic information (BA Times). The collapse of this idealistic system, created by President Fernando de la Rúa, led to the resignation and fall of de la Rúa's government which ultimately left a bitter legacy of mistrust in the nation's politicians (BA Times). Moreover, the citizens also did not trust their banks, which lost \$1.8 billion in deposits and continuously accumulated large piles of debt. At this point, the country was in turmoil. The power-hungry politicians ignored the needs of the people and took bribes to maintain authority over the country. The government was unable to create helpful legislation to aid the country's current economic struggles which sparked citizens' protest. However nothing could be done, the money was lost and the government was unable to rebuild the economy so they kept digging a hole which as it deepened, absorbed the people's assets. Finally, the IMF intervened and offered Argentina \$39 billion to pay debt maturities while also creating policies that tried to preserve any remaining wealth (BA Times). Despite the spending cuts and prevention of large withdrawals from U.S. dollar-denominated accounts, the IMF eventually concluded that the country's economic program was "neither sustainable nor viable" (BA Times). The IMF did not release any more funds which caused looting (BA Times). This looting represented the disagreements between citizens and the state. The citizens were unable to support themselves because of the government's poor judgment and were therefore forced to adapt. The country was unstable because no administrator was able to re-regulate the economy which transformed the government into a continuously spinning revolving door. This volatility in government caused unpredictability in the nation which resulted in decades of mistrust.

The legacy of the 2001 crisis prevented reliance on banks and the government because these institutions proved themselves to be unreliable. Therefore instead, citizens bought U.S. dollars not only to remain financially stable but also to ensure their money maintained its value (Stewart, Vox). This financial decision indicates that Argentine citizens trusted the U.S. government because they thought the U.S. was not only more financially responsible than their government but also more economically stable. In fact, even now it is considered unwise for Argentines to keep their money in Pesos for too long because of the currency's unreliability. While the Argentine government limits how many U.S. dollars citizens can buy at the official exchange rate, citizens buy blue dollars instead (Stewart, Vox). The blue dollar rate is double the official rate and its existence represents the Argentine's desperation for U.S. dollars because they would spend twice as much money in exchange for economic stability. The Peso is so unstable that in Argentina, store managers often must reprice merchandise multiple times a month because citizens are unable to track the Peso's value (Vice News). This affects laborers the most because they are constantly searching for higher wages to keep up with high prices caused by inflation (Stewart, Vox). While the Argentine elite can manage this crisis by purchasing dollars to store their assets, the lower class needs a government to lead them out of the crisis because they can neither afford to use dollars as their primary currency nor hoard common merchandise to maintain the value of their assets. However, after centuries of economic mismanagement, the Argentine citizens do not trust the government (Alcoba, 2023). This tension between the government and citizens prevents Milei from making meaningful changes.

## The Causes of Argentina's Economic Crisis

While the last section illustrates the history of the tension between the Argentine government and citizens, this section will discuss the reasons for Argentina's current suboptimal economy. The previous government's economic mismanagement in which they overspent, had large deficits, international debt, and had an overreliance

on printing more money set up an unstable economy in Argentina (Nicas, 2023). Therefore, Argentina's presidential election was pivotal for the Argentine economy because Milei would have had to strengthen the Argentine Peso while simultaneously fixing Argentine debt (Campos, 2023). While past governments have printed more money as a "quick fix," this solution simply lowers the value of the Peso because of the inflation that it causes (IMF). Other presidents have tried to fix the country's inflation by imposing price controls, capital controls, more protectionism, and heavy regulations; however, these methods were all ineffective because of the lack of trust between the citizens and the government.

Argentina has started to dollarize the economy. Milei originally ran for president on the platform of dollarization, marketing this process as the fix to Argentina's economic struggles (Ziady). He felt that a change in currency would solve the nation's economic disaster; however, this would require reestablishing the citizens' trust. Moreover, the Peso's true value is unknown because the exchange rate differs between the normal market rate and the black market (blue dollar); therefore, the best that Milei can do is minimize the damage (O'Grady). The government is also bankrupt and therefore cannot pay for the country to dollarize (O'Grady). Despite Argentine citizens' purchase of dollars indicating that dollars are indeed circulating throughout Argentina, citizens are reluctant to fund either the government or the bank. Ideally, investors would donate dollars to the government and eventually create a large enough fund to switch the country's currency, but given the nation's economic history, Argentine citizens would be more inclined to buy more dollars with their own money than wait for the government's aid.

Dollarization is also not a perfect solution because even though it takes control of the currency, it does not prevent the Argentine government from spending frivolously, a factor that created this economic disaster. Since Argentina is about to default, Argentina's central bank would likely disappear with the Peso (Author A, Economist). Moreover, even if citizens were unable to purchase U.S. dollars, they would still likely rely on keeping physical merchandise instead of selling these items for cash since the value of the currency changes too rapidly. Therefore, Milei cannot dollarize until he stabilizes the economy enough to purchase dollars (Ziady, 2023). This would not be an easy process and so the Argentine government also must motivate citizens to suffer to solve their economic crisis, but citizens are reluctant to follow the government's economic advice. While Milei's strategy could be effective, it relies on the Argentine citizens trusting their government, which after years of economic struggle will not come easily. Milei must adopt a new currency while simultaneously increasing the value of the Peso and must also rebuild citizens' trust in the government so that they are more inclined to work with the government rather than independently.

Nevertheless, dollarization may be the solution especially since the value of the Peso has decreased over the past five years and would give control of monetary policy to the U.S. Federal Reserve, negating the authority of Argentina's central bank from printing money (Ziady). This would be beneficial to the Argentine citizens because it would decrease inflation and would allow them to trust their government more since the U.S. Federal Reserve would create its economic policies. Moreover, Argentines already use dollars to hold their assets and would therefore be simply extending more trust to the Federal Reserve rather than trusting a new administration.

After holding office for one hundred days, Milei cut down inflation by 13% in February (Author B, Economist). While this number may seem minuscule or insignificant, given the exponential growth of inflation in Argentina in the past year, it demonstrates the economic mess that Milei was forced to deal with. Before Milei took office, inflation was at 276%, the highest in the world at that point, and the country was in billions of dollars of debt to both foreign creditors and the IMF (Author B, Economist). While Milei has not solved all the country's issues, his recent economic success in decreasing inflation indicates the possibility of future economic stability. This may be a difficult project but Milei is currently obsessed with the government taxing more than it spends which indicates his dedication and trustworthiness as an economist. Despite Milei's controversial political beliefs, his radical economic ideologies seem to be just what the country needs to end the crisis. The government also devalued the Peso by over 50%, which makes the value of the Peso more accurate since it

accounts for the distinction between the black-market rate and the official exchange rate (Author B, Economist). Although this increased inflation and devaluation of the Peso was a step in the right direction because it allowed for the Peso to be stable enough that the citizens might even use their official currency, given the magnitude of the crisis, it cannot be fixed in a single swoop but rather requires multiple changes to economic policy and the economy in general.

## **The Argentine Economy's Optimistic Future**

Regarding economic policy, the most important thing the Argentine government must do is to reestablish trust. The citizens would be more willing to implement economic strategies and even donate dollars to the government if they trust the work that is being done. Instead of printing more money, the government could take money out of the economy because it would increase the value of the Argentine Peso and lower the prices of common merchandise (Cowen, 2023). Given that many Argentine citizens, especially wealthy ones, do not use the Peso but rather use the dollar, the government could take their Pesos through tax. Although most citizens would likely not be willing to give the government money especially due to the lack of trust; imposing taxes would ensure that the government regulates economic flow. The government could also cut regulations to allow the economy to grow because there are heavy government policies that do not make sense (Coy). Therefore, the government would have to transition the Peso to the dollar by using the dollar holdings of wealthy Argentines and use those dollars to support the Pesos. In other words, the Argentine government must borrow money to stabilize the Peso through tax hikes and spending cuts which would allow dollarization to succeed. The government must also choose the correct rate of conversion from Pesos to dollars. Anything too high or too low could cause problems for the Argentine economy like further inflation or a further decrease in the value of the Peso (Cowen). The economy is in recession, causing high inflation and interest rates. Even the black-market Peso, which has benefited the economy in the past and has even been stronger than the normal economy, has lost over 60% of its value. But dollarization would not fix Argentina's main economic issue, which is mainly a fiscal problem. The government would need to cut spending to save the economy.

Without trust between the citizens and the government, the economy will not be able to function properly. Because the economy is a cycle, it relies on investments (spending money) and salaries, which provide money that can eventually be put back into the economy. In other words, the economy is dependent on civilian participation. Argentina will face another economic crisis unless the citizens keep Pesos as their primary asset instead of dollars. If Argentine citizens do not spend Pesos, the government might be tempted to repeat past mistakes and print more paper money to keep money flowing through the economy. However, this would be a rookie mistake because printing money does nothing except increase inflation. While it may be a good way to prevent an economic recession in a different country, in the past, the Argentine government has used this method as a fail-safe which simply worsened their economic difficulties. Because of the Argentine economy's unstable history, any future economic distress must be handled methodically since the government is notoriously impulsive. Therefore, given the Argentine economy will only survive as long as trust exists between the citizens and the state. Given Milei's recent success, it demonstrates that the Argentine economy is not in eternal peril but simply requires government regulations and control. The economy will become stable as long as money begins to consistently flow because this would signify citizens' trust in the government and the economy. Lastly, the longer that the economy remains stable, the easier it is to maintain because the government will likely become more accustomed to its patterns and will learn to nurture it correctly to prevent economic distress and impulsive decisions that cause crises.

## Acknowledgments

I would like to thank my advisor for the valuable insight provided to me on this topic.

## References

- Alcoba, Natalie. "In Argentina, Inflation Passes 100% (and the Restaurants Are Packed)." *The New York Times*, 19 June 2023, [www.nytimes.com/2023/06/19/world/americas/argentina-inflation-Peso-restaurants.html](https://www.nytimes.com/2023/06/19/world/americas/argentina-inflation-Peso-restaurants.html). Accessed 4 Jan. 2024.
- Buenos Aires Times Authors. "Argentines recall nation's worst ever crisis, 20 years on." *Buenos Aires Times*, 18 Dec. 2021, <https://www.batimes.com.ar/news/argentina/argentines-recall-nations-worst-ever-crisis-20-years-on.phtml>. Accessed 27 Feb. 2024.
- Campos, Rodrigo. "Dollarization, devaluation, debt: potential traps for Argentina investors." *Reuters*, 20 Oct. 2023, [www.reuters.com/world/americas/dollarization-devaluation-debt-potential-traps-argentina-investors-2023-10-20/](https://www.reuters.com/world/americas/dollarization-devaluation-debt-potential-traps-argentina-investors-2023-10-20/). Accessed 4 Jan. 2024.
- Cowen, Tyler. "How Argentina Could Still Convert to the Dollar." *Bloomberg*, 28 Nov. 2023, [www.bloomberg.com/opinion/articles/2023-11-28/there-s-only-one-way-for-argentina-to-dollarize-messily](https://www.bloomberg.com/opinion/articles/2023-11-28/there-s-only-one-way-for-argentina-to-dollarize-messily). Accessed 27 Feb. 2024.
- Coy, Peter. "In Argentina, the U.S. Dollar Could Soon Become King." *The New York Times*, Oct. 6. 2023, [www.nytimes.com/2023/10/06/opinion/argentina-us-dollar.html](https://www.nytimes.com/2023/10/06/opinion/argentina-us-dollar.html). Accessed 27 Feb. 2024.
- Economist Authors A. "After 100 brutal days, Javier Milei has markets believing: Argentines have not given up on him either." *The Economist*, 19 Mar. 2024, <https://www.economist.com/the-americas/2024/03/19/after-100-brutal-days-javier-milei-has-markets-believing>
- Economist Authors B. "Can Javier Milei's radical libertarianism save Argentina?" *The Economist*. [www.economist.com/leaders/2023/09/07/can-javier-mileis-radical-libertarianism-save-argentina](https://www.economist.com/leaders/2023/09/07/can-javier-mileis-radical-libertarianism-save-argentina). Accessed 4 Jan. 2024.
- IMF Author. "The Role of the IMF in Argentina, 1991-200." *International Monetary Fund*, July 2003, [www.imf.org/external/np/ieo/2003/arg/index.htm](https://www.imf.org/external/np/ieo/2003/arg/index.htm). Accessed 27 Feb. 2024.
- Nicas, Jack. "In Country Where Houses Are Bought in \$100 Bills, Plans for Sweeping Change." *The New York Times*, 24 Nov. 2023, [www.nytimes.com/2023/11/24/world/americas/argentina-economy-Peso-dollar-javier-milei.html](https://www.nytimes.com/2023/11/24/world/americas/argentina-economy-Peso-dollar-javier-milei.html). Accessed 4 Jan. 2024.
- O'Grady, Mary Anastasia. "Argentina's Big Dollarization Risk." *Wall Street Journal*, 26 Nov. 2023, [www.wsj.com/articles/argentinas-big-dollarization-risk-central-banking-policy-milei-287d02b5](https://www.wsj.com/articles/argentinas-big-dollarization-risk-central-banking-policy-milei-287d02b5). Accessed 4 Jan. 2024.
- Stewart, Emily. "What it looks like when a country doesn't trust its banks." *Vox*, 23 Mar. 2023, <https://www.vox.com/money/2023/3/23/23649926/argentina-economy-explained-dollar-blue-inflation>. Accessed 27 Feb. 2024.
- Vice News, Author. "Living With Nearly 100% Inflation." *Vice*, 14 Jan. 2023, <https://www.youtube.com/watch?v=Q3FGZTN9rwk>. Accessed 30 Apr. 2024.
- Ziady, Hanna. "Can Argentina Really Move from the Peso to the Dollar?" *CNN*, 20 Nov. 2023, [www.cnn.com/2023/11/20/economy/argentina-Peso-dollar/index.html#:~:text=Dollarization%20means%20Argentina%20would%20give,to%20the%20US%20Federal%20Reserve](https://www.cnn.com/2023/11/20/economy/argentina-Peso-dollar/index.html#:~:text=Dollarization%20means%20Argentina%20would%20give,to%20the%20US%20Federal%20Reserve). Accessed 4 Jan. 2024.