

# IN DEFENSE OF MILEI\*

PHILIPP BAGUS  
BERNARDO FERRERO

While the majority of libertarians have looked with favor at Milei's entry into politics and his measures as president, this view has not been embraced by all. Oscar Grau, for example, has written some critical articles analyzing Milei's domestic and foreign policies. With regards to the former, Grau has argued that Milei's approach is interventionist, squeezing the private sector under the banner of a rhetorical adherence to freedom and free markets. As for the second, Grau concludes that the Argentinian president is just another neocon, establishment politician. Considering the above Grau concludes that Milei is a "fraud", "statist", "neocon", and accuses his followers of being opportunistic sell-outs.

## **The importance of conjectural history and verstehen**

While in agreement with Grau on some of his insights, his critique fails to take into account a number of essential issues. Thus his conclusion, that libertarians should disassociate both intellectually and personally from Milei, is unwarranted. Four questions must be kept in mind: what was the situation before Milei came to power? what was the alternative in Argentina? What has he accomplished so far? where is his program aiming at?

Contextualization is essential to understand the setting within which Milei was constrained to operate. Constraints just as much as opportunities are context-laden, setting the boundaries within which, at any moment in time, the actor forms his expectations and judgments regarding the marginal benefits and costs of alternative courses of action. Moreover, one cannot avoid what Montesquieu

---

\* Publicado originalmente en <https://mises.org/power-market/defense-milei> con fecha 9/10/2024.

called “conjectural history” and thereby apply interpretative understanding (what Weber called *Verstehen*) when considering the relevance of the “Milei phenomenon” and the extent to which he is stirring his country in the right direction.

### **The disasters of *el kirchnerismo***

The first thing Grau underappreciates is the situation and difficulties Milei encountered once he got into power. Except for some comments on the inflationary trend of the peso, Grau devotes little attention to the disastrous policies that have been pursued in Argentina since the end of convertibility (1992-2001), starting with Nestor Kirchner (2003-2007) and then continuing under Cristina Fernández de Kirchner (2007-2015), Mauricio Macri (2015-2019) and especially Alberto Fernández (2019-2023). The disaster of this Argentinian-style 21st century socialism was reflected in the fiscal and monetary imbalances with which Milei was faced when he entered *la Casa Rosada*. With a public debt amounting to more than \$400 billion and an almost 60 billion dollars’ worth of commercial debts coming due, the Argentinian state was on the brink of default, its 10th default since independence (1816). At this time Argentina’s central bank recorded negative dollar reserves in its balance sheet.

The responsibility for these imbalances lay at the hands of the incumbent political class. Regarding the dollar shortage, it was the decision to lock in the peso at an overvalued rate in relation to foreign exchange and commodities that created the typical effects of all price-controls. As people rushed to dump their pesos, what followed was a run on the dollar, a shortage of foreign exchange and a balance of payment deficit that drained domestic production. Instead of curing the problem by allowing the exchange rate to adjust to market-clearing levels, restraining public spending and reining in on the printing press, the kirchneristas counteracted these movements with further monetary interventions in the form of capital and exchange controls (*cepo* and *control de cambios*). Forced to part with their dollar earning at below market rates, exporters were expropriated. At the same time, privileged importers were subsidized and the country’s access to international

commodity and financial markets was restricted. When Milei took office there were 18 different dollar rates. This scenario invited political favoritism, exacerbated exchange rate risk and spread calculational chaos.

The fundamental cause of these imbalances was the unsustainable level of government spending. Moved by Evita Peron's motto—"where there is a need a right is born"—social programs were multiplied and the scope of the public sector drastically increased. Oppressive levels of taxation, burdensome labor legislation and labyrinthic commercial restrictions soon followed. Wealth began literally to be privatized, accruing only to a small group of elects unintegrated in the social division of labor and specialized in surreptitiously spending other people's resources without repair. The flipside of the privatization of affluence was the socialization of misery. By November 2023 the poverty rate climbed to 55%, while the level of indigents reached 17.5%.

### **The Monetary and Fiscal Crisis**

Unable both to squeeze the private sector through further levies without losing revenues and to place its obligations in international credit markets, the central bank monetized fiscal deficits. Since 2002, Argentina's politicians used inflation as a means of financing public consumption and profligacy in excess of legislated taxes, externalizing costs onto (money) savers, creditors, fixed-income recipients and low wage-earners. On top of this, the statist elites emitted further pesos to finance the so-called quasi-fiscal deficit, corresponding to monthly and daily interests paid to commercial banks for "parking" part of the excess pesos with the central bank. As the effective annualized rate of interest rose in line with the geometric trend of price inflation, reaching 253% by November 2023, these payments constituted an endogenous source of money creation equal to 10% of GDP. What began as a measure of restraining the money supply turned into one of the most problematic sources of runaway inflation.

Between 2011 and 2023 the larger monetary base, which includes both unremunerated (monetary base) and remunerated liabilities

of the central bank (*Leligs* and *Pases*), increased by a multiple of 116, with the most significant increase occurring during the last presidency. In four years, under Alberto Fernandez, the central bank expanded the quantity of base money by the equivalent of 32% of GDP, with 13% being emitted only in the last year.

When Milei entered the government, Argentina was in a state of economic, monetary and fiscal crisis. The pernicious consequences of a more than decade long policy of monetary and fiscal laxism came all at once: an inflation rate that was running at 1% per day, which when annualized reads 3700%, a twin fiscal deficit of 15% of GDP (5% in the Treasury and 10% in the central bank) and a 12 year long period of stagnation. Given that Argentina had lived in a state institutional anomie for the past two decades, Milei found many non-viable roads in front of him.

### **The dual strategy of the libertarian politician**

As president of Argentina, Milei understood that irrespective of his academic credentials he had become by then a politician. And a politician, also a libertarian one, must take into account the specific circumstances of time and place if he wants to succeed in maintaining and expanding voter support. The libertarian politician sometimes must make compromises without never steering into the wrong direction. According to Jesús Huerta de Soto, the libertarian politician should use a dual strategy. He should study the theoretical principles of libertarianism and educate the general public about these principles and its implications, engaging in a work of divulgation of libertarian ideas. To this effect no compromises shall be accepted.

Being aware of his long-term objectives, the libertarian politician shall also look for possible transition plans toward the ideal which do not violate libertarian principles. If it is impossible to evade a short-term compromise, he may concede such a compromise as long as they move in the right direction. In no case, a set of measures shall move away from a more libertarian society. The restrictions that politicians and the bureaucratic apparatus (or the deep state) bring about are unknown to the general public. The

libertarian politician must make use of his specific knowledge of time and space assessing the effective restrictions that real political life offers and realize in any historical moment the maximum of the ideal that the circumstances allow.

Only by using this dual strategy can one avoid those two extremes that Murray Rothbard considered detrimental for the advancement of freedom: “right-wing opportunism” and “left-wing sectarianism”. If the former is a “politics without principle”, unable to give a non-arbitrary foundation to political action, the latter is a “principle without politics”, which inhibits the concrete pursuit of the best possible good.

### **Milei as libertarian politician**

Milei has been following the description of a libertarian politician. Even though Grau depicts him as a plain neoclassical, Milei has studied libertarian and Austrian ideas in depth. Aside from being “converted” to Austrianism in 2014 after reading chapter 10 of Rothbard’s *Man, Economy and State*, Milei read *Human Action* three times and familiarized himself with the works of Hayek, Hazlitt, Kirzner and many others. While Milei still has some monetarist residuals, calling him a mathematical and neoclassical economist is at best imprecise. No monetarist ever argued, as Milei continuously does, in favor of the elimination of the central bank, the denationalization of money and price deflation. Moreover, he has written books criticizing the neoclassical/Chicago views on monopoly, market failures and antitrust.

Furthermore, he popularizes these ideas whenever he can. It was not only by appealing to the “people vs elite” rhetoric but also by enlightening the public regarding the moral, economic and even aesthetic superiority of a market based social order that Milei was able to coalesce next to 56% of voter support. Just to give an example among many, in 2021, shortly after his victory in the September primary elections, Milei began a series of six open-air lectures on Austrian economics in the squares of Buenos Aires, at the end of which drew copies of “*Economics in one Lesson*” by Henry Hazlitt. His well-known public interventions in Davos (*World*

*Economic Forum*), Rome (*Quarta Repubblica- Mediaset*), Washington (CPAC), Madrid (*Vox- Viva24*) are a demonstration that he continued popularizing these ideas after taking office.

### **Inflation, deficits and the quality of money**

Regarding the second part of the dual strategy a similar reasoning applies. During the campaign, Milei ran on an austerity platform, promising cuts in public sector expenditure and a general lowering of taxes and regulations. His priority, however, was putting an end to inflation, a theme which he developed in detail in one of his latest books that carries precisely that title ("*El fin de la Inflacion*"). The dollarization plan he envisioned more than a call for Argentina to join a FED dominated financial system was moved by the desire to get the printing press away from the sight of the Argentinian caste and allow the productive classes to freely exchange, save, plan and calculate with the monetary unit that, in light of its stability and independence, they demonstrably preferred. This happened to be the US dollar.

In order to accomplish these results, Milei thought out a transition plan with different phases, adhering by and large to his promises. Knowing that he did not have the parliamentary majority in order to promote structural reforms, avoiding a hyperinflationary crisis and another default became Milei's major preoccupations. Looking with the eyes of today, Milei tackled these issues pretty successfully. When Milei took over in December wholesale prices increased at a rate of 25.5% per month, whereas the last inflation measures report a monthly rate of 4% in July of this year. According to Grau the lowering of inflation was accomplished by a mixture of statist maneuverings devoted to inhibit people to rush to the dollar, bidding up its price. Now, price and exchange controls are certainly undefendable. Nevertheless, they were already in place when Milei took office, thus they cannot be a significant causal factor. What Grau ignores is that price inflation was tamed as a result of two, interlocking phenomena: the slow but steady decrease in the avenues of monetary emission and the increase in the quality of the monetary regime.

Changes in the quality of a monetary regime change, *ceteris paribus*, the quality of money, the demand for money and, thereby, money's purchasing power. Indeed, Milei has improved the monetary regime of Argentina substantially by achieving a fiscal surplus within the first month of government and declaring that the elimination of the fiscal deficit is unnegotiable. In this way he established a firm monetary anchor. As the need to finance never-ending fiscal deficits by printing money disappeared, inflationary expectations were brought down. Recently, the government declared that the monetary base will not be allowed to grow anymore ("*emisión cero*") improving the quality of the monetary regime even further. As Rothbard cogently noted, an important determinant of the demand for money in a fiat standard is public confidence in the "viability of the issuing authorities". Since a fiat money is indirectly issued by government, state solvency becomes an important factor behind money's price. Considering that state solvency is appraised by discounting future primary fiscal surpluses to the present, Milei's austerity measures not only anchored the future money supply but swiftly boosted money demand. Likewise, the quality of the monetary regime was improved by restructuring the balance sheet of the central bank. Remunerated liabilities were eliminated and a greater part of the monetary base was backed with foreign exchange reserves which went from negative \$10.545 billion to 27.439 billion dollars. While completely absent from Grau's observations, these measures were responsible for bringing both price inflation and interest rates down.

### **A lower fiscal burden**

It might be argued, correctly, that a libertarian should look with optimism at the idea of government default. From Thomas Jefferson to Murray Rothbard, the orthodox libertarian position on public finance has been, for both normative and positive reasons, unequivocal: repudiate the public debt. This being said, however, one needs also to consider the political costs of doing so, which might well be critical, especially in a country like Argentina that defaulted so often without ever really resurrecting.

Pondering these political costs, Milei decided to go forward with the plan of eliminating deficit spending and accumulate budget surpluses. Following Rothbard, there are three ways a government can accomplish a reordering of its accounts: increasing taxes, lowering government spending and privatizing state owned assets. Or a mixture of the above. Whereas the first way is both detrimental and illegitimate, the second and third are healthy and entirely legitimate avenues. In this regard then, while a libertarian can rightly criticize the increase in certain taxes (*impuesto pais*, fuel, and salaries) done by Milei's government, the greater chunk of the budget surpluses came through cuts in government spending, which has decreased by almost 35% in real terms. Milei's government has set a new record in Argentina, having dismissed the highest number of civil servants in the first seven months of his mandate. According to the last report on public staff published by *Instituto Argentino de Análisis Fiscal* 30.936 state employees were fired by Milei during his first semester.

Another important area where Milei made important advances from the beginning is deregulation. Starting with his *Decreto de Necesidad y Urgencia*, Milei repealed more than three hundred regulations that have been stifling business since the days of dictator Onganía (1966-70), from rent control to legal tender laws. Omitted by Grau, the most crucial part of this deregulation decree was the modification of article 958 of the Civil and Commercial Code, whereby the government relegated legal norms to a lower plan than the will of the parties expressed in contracts. Since inflation and regulations are a tax, for they both enable the government to achieve substantial control over the use of resources in society, the overall fiscal burden was slashed by Milei.

### **Tax Cuts and Liberalization on the horizon**

Now, with his reform plan (*Ley Bases*) finally accepted in both chambers, some privatization will be in the horizon. This will increase the portion of the budget surplus attributable to both legitimate and economizing ways of implementing austerity. In a next step, moreover, further deregulations accompanied by growing tax

cuts are envisioned. In some sense, this process has already started. At the beginning of August 2024, the government enacted *decreto 697/2024*, eliminating taxes on all cow-related beef cuts and withholdings on the export of swine meat. Along with this, the decree provided for a 25% reduction of withholdings on all animal proteins and a permanent elimination of export duties on dairy products, returning overall an estimated 130 million dollars to the pockets of producers.

In the meanwhile, Milei's government has eliminated withholdings on VAT and profits on business sales. Furthermore, Milei lowered the tax on imports (*impuesto pais*) to 7.5% and announced that by December 2024 it will be abolished, significantly alleviating commerce and business. Now, one can argue that the liberalization is not fast enough, yet one cannot deny that it moves in the right direction. And yes, Milei had to make compromises, especially as he does not hold a majority in parliament. *La Libertad Avanza* has just 15% of the seats in the House of Representatives and 10% in the Senate. Most of his party members, furthermore, are mere political allies with no real knowledge of Austrian economics and libertarianism. Milei's objectives, however, are clear and were confirmed in July with the signing of the *Pacto de Mayo* between the president and the governors. Among the ten foundational principles of this pact were "the inviolability of private property", "the reduction of public spending to 25% of GDP" and the implementation of a reform that "reduces the tax burden and that simplifies the lives of Argentines and promotes trade".

### **Milei is not a neocon**

While Grau devotes great attention to foreign policy, not so much importance should realistically be given to Milei's positioning in "international politics", since Argentina practically does not influence anything on that level. The support and change of bloc executed by Milei implies no moving away from the ideal with respect to the previous situation. His foreign policy stance is, for practical purposes, purely testimonial. In addition in many South American countries the real alternative, and this is how the citizenry perceives

the matter, is to be either with the US and its allies (Israel and EU countries) or with the socialists and their “friends” (Russia, Iran, China). Recent events surrounding the fraudulent re-election of the socialist dictator of Venezuela, Nicolás Maduro, which was approved by Putin, Xi Jinping and the Ayatollahs, confirms this. Moreover, after almost two decades of constant flirting on the part of the *Kirchneristas* with this “eastern” bloc and with evident cases of corruption and mismanagement (think, for example, of *Operación Moscú* wanted by A. Fernandez during Covid which allowed for the privileged, mass distribution of the *Sputnik V* vaccine in Argentina) it is understandable that Milei, as part of his reaction, might look to the other side of the spectrum.

Whatever one might think of Argentina’s collocation in international affairs, Milei is not a neocon in the traditional sense of the term. No neocon has explicitly stated (nor continues to state at every opportunity he has and public appearance he makes) as Milei does that the state (including Israel’s and Ukraine’s) is a bunch of crooks and that he deeply “hates” the state. No neocon does so. Moreover, neocons defend foreign interventionism as part of a general support for the welfare-warfare state. William Buckley was not only an anti-Soviet militarist but a supporter of the civil rights movement of the 1960’s. Irving Kristol advocated for a “conservative welfare state” that would instill self-sacrifice and virtuous behavior among the citizenry. Milei instead is an ardent critic of state intervention, anti-discrimination policies, paternalism and the welfare state. He belongs to a different league. Like traditional classical liberals and libertarians, from Montesquieu to Bastiat, from Cobden to Mises, Milei sees in the free market the vehicle for more peaceful international relations and in its abandonment the premise for war.

Milei engages in the popularization of Austro-libertarian ideas that are diametrically opposed to statism and neoconservatism. For instance he continually quotes and encourages reading libertarian authors, from “Murray Rothbard” to the “great Hans-Hermann Hoppe”. It is ironic in this sense that Grau denounces Milei as a neocon and at the same time criticizes him for supporting and being an ally of Trump, when in foreign policy the latter has been the least interventionist of all US presidents in the past two decades. Finally,

if one is keen, just for his geo-political sympathies and pro-NATO stance, to declare Milei a neocon, what would one have to say of Mises who looking at post-war Europe argued for the establishment of a “permanent and lasting union” among western democracies and for “vesting all power in a new supernational authority” in order to avoid subjugation to totalitarianism once and for all? One might say that Mises’s observations were made at a particular moment in history and were meant to apply only in those circumstances. This sounds reasonable. But then why should Milei’s position and statements be treated all that differently?

### Conclusion

Libertarianism calls for a realistic strategy. The idea that one should disassociate intellectually and personally from a person because he might not implement the full libertarian ideal, is not only at odds with commonsense but rejected as a sensible policy by Murray Rothbard himself, who in 1990 assimilated this attitude to “the disastrous and crackpot path of orthodox Randianism”. While one might expect, desire and invite Milei to do more and to do it faster, while one may criticize him for this or that compromise, one cannot fail to see that he has moved Argentina in the right direction and that his entry into politics has implied a paradigm shift for the spread and implementation of libertarian ideas. As Jesús Huerta de Soto has noted, thanks to Milei and his political successes it is common to see in Buenos Aires and in other Argentine and Latin American cities people walking around with *Human Action* under their arms. One of the most recent surveys done by *DC Consultores* shows that some 70% of Argentinians believe that Peronism died with Alberto Fernández and that with Milei a new era has begun. Milei’s paradigm shift, then, is not rhetoric but a historical reality that should give us hope for the future. Ideas move the world, not the other way around. *Viva la Libertad carajo!*