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# Argentina Political and Economic Challenges

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From February 24 through March 2, I traveled to Argentina to speak with government, business and academic experts regarding the situation in the country, including 27 interactions involving some 300 people. Argentina is at a pivotal moment, as its new libertarian President Javier Milei seeks to turn around the country's unfolding economic collapse through a series of "shock therapy" measures, while struggling to govern with a politically inexperienced minority party and allies with sometimes divergent incentives, against vested interests for whom the Milei project's success is an existential threat to their privilege and political future.

The economic situation that Milei inherited is arguably far graver than those which have brought down previous governments from Fernando de la Rúa (who resigned) to Mauricio Mari (who was voted out of office). Nonetheless, there are reasons to believe that through his policies, the resonance of his message with many Argentines, and the

adequacy of the authorities within Argentina's highly Presidentialist system, he is slightly more likely to succeed, than to spectacularly fail.

The stakes for Argentina and its political future could not be higher. Milei's success would bring not only an influx of new capital and an unprecedented economic turnaround but could also put an end to almost 80 years of the dominant role of Peronism in Argentine politics, and its state-led approach of capturing and allocating the spoils of Argentina's economy among unions and other privileged groups. Alternatively, the failure of Milei's project would likely bring the reinforcing dynamics of hyperinflation, fiscal and financial crises, the further expansion of poverty, with a reinforcing cycle of protests breaking down public order and shutting down the economy, sealing the government's fate by cutting off the revenues it needs to survive.

A significant portion of those with whom I spoke in Buenos Aires shared with me a similar conclusion: For Milei, the next three months will be critical, from the new session of Argentina's bicameral legislature which began March 1.

Beyond Argentina, Milei's strongly pro-U.S., limited government posture makes the outcome of Argentina's crisis significant not only for the country, but also for its neighbors, for the United States, and for the principles of development based on market rather than government leadership, across the region.

President Milei's March 1, 2024, address to the new Argentine Parliament, held at Prime Time, rather than the 11 AM slot traditional for the address, reflected the battle lines he has drawn in his campaign to transform Argentina, with unions, bureaucrats and other entrenched interests clearly signaled as the enemy. The power of Milei's anti-establishment message,

and its resonance with many in the country leverages the deep alienation that Argentines have come to feel toward their entire political system. The long-term risk, however, is that Milei's passionately nihilistic crusade to tear down Argentina's flawed government institutions, relying largely on the power of decrees where his legislative coalition falls short, leverages and accentuates Argentines' faith in him personally, a quality that could encourage excesses, or alternatively, evaporate if the people lose faith in their iconic leader.

The Milei government engages in the present decisive struggle with significant vulnerabilities, including a small bench of trusted leaders, many new to politics, to navigate the country's Legislature, economic, security and other bureaucracies, complimented by the depth of the crisis itself, which works in the favor of those wishing to exploit the economic pain Argentines feel from the crisis to bring down the government. Such vulnerabilities notwithstanding, in my conversations with Argentine senior government officials, businesspeople, and academics, I consistently found encouraging evidence of an ongoing transformation of people's attitudes, combined with a determination and consistency within the Milei team, that gives his administration a realistic possibility to succeed.

The difference, among the people, is a deeply rooted desire for change, coupled with resonance of Milei's message of who is "at fault" for the country's crisis, and why sacrifice now promises to bring a change that is worth the effort. I found evidence of Argentine's openness to Milei's arguments that the longstanding behavior of the unions and other elites affiliated with the Peronist left (the "caste"), encouraging their followers to mobilize in the streets to demand benefits for selective groups and their leaders, only further impoverishes the country rather than producing value. That subtle but critical change in attitudes appears to be limiting the sympathy of the average

person's response to the numerous Peronist-affiliated protests that have occurred in recent weeks, over everything from inflation and poverty, which jumped to 57% in 2024, to the elimination of government organizations and associated jobs, to the redirecting of who receives financing for the nation's soup kitchens, to actions by railroad and airline workers, just to name a few. The beginning of March is a particularly critical period, because it is the month in which families have to pay the first installment payments for their children's private schools, and when increased prices for utilities, public transportation and other items, due to the end of subsidies occur, making families acutely feel the increased difficulty in making ends meet. As one Argentine colleague put it, "the one thing that Milei must avoid is people being hungry."

Argentines' sympathy for the strikers' causes is increasingly overshadowed by their negative impact on their own ability to get to work and earn a living. Anecdotally, Milei's message that such efforts protect privileges of individual groups, rather than producing value that generates opportunities for all, has also gained traction among those with whom I spoke, from academics to working-class friends, hotel workers and taxi drivers.

The style of Milei's rhetoric, including his aggressive tone and sometimes vulgar expressions, has resonated better with some than others. Nonetheless, his perceived sincerity and directness contrasts favorably for many with the polite but self-serving discourse that Argentines have become accustomed in their politicians. Milei's non-compromising stance also bolsters the faith of Argentines in him, with the perception by some that Argentina's last center-right reformer, Mauricio Macri's downfall was related, in part, to his hesitancy to move more aggressively against the entrenched system. Milei as a straight-talking, uncompromising fighter--an "alpha

male,” as one senior colleague put it--inspires some trust and hope in Argentines whose political tastes and national character are colored by a strong, if not always visible, current of romanticism.

Despite the reasons for optimism, those with whom I spoke also emphasized, almost universally, that Milei's timeframe to show results, is limited. The prevailing sentiment was that Milei has until approximately May to stabilize financial accounts and fiscal balances, bring inflation down under 10%, and show enough signs of economic growth to give the people reasonable hope that, although things may be far from good, the country is on a track that is making things better, thus justifying their enduring of ongoing significant hardship. Aided by capable Economy Minister Luis Caputo, Milei's spending cuts already produced an unprecedented budget surplus in January, inflation has slowed from 40% to under 14% monthly, and the country has begun to build up reserves. Moreover, Argentina's 2024 harvest is expected to be much better than the disastrous harvest following record drought in 2023. Foreign currency earnings from that harvest will also be elevated by high international prices, thanks in part to more limited productions in neighboring major agricultural producer Brazil. Thus, the preliminary signs of improvement Milei needs seem doable if he can keep capital flight, paralyzing protests, and defections in Congress under control.

In managing the challenge of protesters seeking to pressure the government by impeding the functioning of the economy, Milei is supported by experienced National Security Minister Patricia Bullrich, who also served in the position during the prior Center-Right government of Mauricio Macri. Milei and Bullrich have sought to distinguish legitimate peaceful expressions of protest, from those designed to extort the government through violence or impairing economic activity. To

do so, the government has required protesters to obtain permits, and has employed executive decrees that criminalize protesters using masks and throwing stones, “camping out” to occupy public spaces, or blocking main transportation routes, as has frequently occurred in the past. While some questioned the government to “repress” protests in this way, and the risks to the government image, if the response to protests turns violent, most consulted for this work assessed that the government indeed has the required capabilities and authorities needed to manage the situation. They further noted that the government’s strong position in the capital district of Buenos Aires, is strengthened by the political alignment of its mayor Jorge Macri, with the governing coalition, disposing local police to work with, and not against, federal authorities in responding to protests.

Thus far the government has been successful in managing the numerous protests without significant incidents, although some consulted for this work worried about the increased risk difficulty in managing largescale protests occurring beyond the Capitol district in the broader “urban cone,” whose political head, leftist Peronist Milei opponent Alex Kicilloff, could be more sympathetic with the agenda of the protesters than the work of security forces in keeping them within established legal boundaries.

Milei’s work is also challenged by the Federal nature of Argentina’s political system, in which none of the governors of Argentina’s 23 provinces are members of his Party, *La Libertad Avanza*, and all have suffered in varying degrees by his sharp cut of central government transfer payments to the provinces. During my visit, the governor of Chubut, Ignacio Torres, was engaged in a bitter spat with Milei over the government’s deduction of funds to repay past loans to the province, from current transfer payments, a legally grounded but politically

provocative move, that led the Governor to threaten to withhold delivery of Chubut's oil, and other governors whose funds are also being cut, to speak out in solidarity. Despite the political drama generated by such threats, experts with whom I consulted generally concurred that Chubut does not have legal authority to withhold its oil, since it has already been contractually committed to the private companies extracting it, although some did note that future rebellions of key provinces such as Cordoba, Santa Fe, or the Province of Buenos Aires in withholding funds in the future could be more problematic. In recognition of the importance of working with the provincial leadership where possible, in Milei's speech to the new Congress, he proposed collaboration with them on a new 10-point "social pact."

Milei's ability to manage the economic, and other, dimension of Argentina's economic challenge, is impacted by his difficulty in passing legislation. His party, *La Libertad Avanza*, has only 7 of 72 seats in Argentina's Senate, and only 40 of 257 in its Chamber of Deputies, forcing it to depend on the support of a diverse group of center-right parties to govern, including those affiliated with former President Mauricio Macri, and current National Security Minister Patricia Bullrich (Milei's principal contender on the center right in the first round of Argentina's Presidential election in October 2023). While allied parties have generally supported Milei, and the fate of the center-right Macri/Bullrich *Juntos para el Cambio* coalition is now tied to the fate of Milei, the impact of Milei's reforms put unique pressures on each, particularly in the Senate, whose members are more politically dependent on their provinces' governor than in the United States, an increasingly relevant problem as Milei has cut federal funds to the provinces.



The small size and political newness of Milei's *La Libertad Avanza* bench in Argentina's Congress, and his reliance on others became a particular liability in his attempt in the February 2024 legislative session, to pass a sweeping "omnibus" package impacting the economy, government authorities, and a range of other matters. The package, which passed on the preliminary vote, collapsed when it was subsequently subjected to a "line by line" review finalize its passage, and in which supporters began to question individual provisions, leading its sponsors to withdraw it entirely from consideration, annulling all of the parts that had previously been accepted. Those consulted for this work argued that the somewhat rushed and sometimes technically inconsistent content of the Omnibus bill, and the ability of the opposition to "ambush" Milei through parliamentary procedures during the secondary review of the legislation, illustrates the types of vulnerabilities that can put Milei's agenda at risk, despite his determination and ability to inspire Argentines, and despite the previously noted significant change in attitudes in the country.

Legislative difficulties notwithstanding, Milei's ability to govern is aided by provisions in Argentina's strongly Presidential system, used regularly by Milei's predecessors, which allows the executive to legislate by decree, on matters which are declared to be of great urgency, in virtually all areas except changes in criminal, electoral, and tax laws. The authority in question is realized through a Presidential "Decree of National Urgency" (DNU), requires support by only one house of Congress to enter into law, but requires the vote of both Houses of Congress to undo, once a Congressional Committee, specially formulated for the purpose, is able to review the law after the fact and vote on it. Milei used the DNU to implement his first sweeping package of legislative changes in December

2023, shortly after assuming office, and is expected to use it for future actions he highlighted in his March 2024 address to the Congress.

Although such management by decree is suboptimal from the perspective of future investment in Argentina, because prospective investors understand that decrees are easier to reverse than legislation, most consulted for this work believed that Milei's use of the DNU could, in the short term, give him adequate authority to cut expenses and take other actions he needed to to govern.

While the overall panorama for Milei's management of Argentina's crisis appears encouragingly positive, my conversations with Argentine colleagues and experts did unearth numerous indicators of potential future problems. Persons consulted for this work regularly noted Milei's focus on economic matters, delegating most other issues to confidants, either from his own small inner circle, or from allied political movements. Milei's cabinet chief Nicholas Possi, was mentioned by many as occupying a particularly important role, including even taking the intelligence brief from Argentina's Federal Intelligence Service (AFI) traditionally given to directly to the President, and traveling abroad to meet with senior foreign security sector leaders in representation of the government.

Many of Milei's small inner circle come from Grupo America of Argentine businessman Eduardo Eurnekian, for whom Milei previously worked. In addition to Cabinet Chief Possi, these include Interior Minister Guillermo Francos, AFI head Silvestre Sivori, and Cabinet National Strategy Secretary Jorge Antelo.

The head of Argentina's Defense Ministry and former Bullrich Vice-Presidential running mate Luis Petri, although respected for his ability and symbolic show of support for Argentina's long marginalized armed forces, is undercut by the same lack of money confronting the rest of the government. A long-promised military pay raise for an institution with not only low pay, but also difficulties buying uniforms and providing adequate food and healthcare coverage for its soldiers, had to be postponed due to the national fiscal crisis. It is not clear whether the budget crisis will also obligate the postponement of needed equipment purchases, including the purchase of F-16s from Denmark, and replacement of Argentina's UH-1 Huey helicopters, approaching the end of their already prolonged service life.

I left Argentina sincerely moved by what I learned of Milei's project, its challenges, and the response of the Argentine people, but also appreciative of the risks facing him. Part of Milei's appeal is that, in Argentina's moment of crisis, Milei has become a transcendental, almost Homeric, figure, departing on a quest against entrenched interests, for individual liberty and limited government as the struggle to empower the common person. There was something refreshingly sincere in Milei's oratory, as well as in his joyful embrace of his Vice-president Victoria Villarruel, captured on camera moments before his address.

Milei's Congressional discourse, as with his speech at Davos, took me back to the sources of political inspiration of my own youth, persons such as Ronald Reagan, Milton Friedman, and Ayn Rand, whose ideas about the empowerment of the individual, over government, can be found in the discourse of Milei...ideas vital for, but that have long lost traction in the labyrinth of Latin American troubles and political intrigue.

For Argentina, Hollywood could not have crafted a better, or more implausible script: Javier Milei, the curly-haired defender of the rights of the common man against a corrupt entrenched system, charging into battle against implausible odds, with a loyal sister and five cloned dogs at his side. Milei will need all of the tailwinds of good fortune in his quest, as well as the principled support of the United States. I wish him and his team well.

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