

Federico Sturzenegger

Chainsaw and Deregulation: the First Year of Javier Milei's Presidency

On Thursday, January 23, Federico Sturzenegger joined Markus' Academy. He is the Minister of Deregulation and State Transformation of the Argentine Republic, he teaches at the University of San Andrés in Buenos Aires (UdeSA) and at the Kennedy School of Government at Harvard University, USA. He is also Professor Honoris Causa at HEC Paris.

A few highlights from the discussion.¹

- **A summary in four bullets**
 - Over the first year of Milei's presidency the country achieved its first fiscal surplus in years. A 30% cut in government spending was largely driven by cuts to public investments, transfers to provinces, and public sector employment
 - With the Argentinian economy set to grow 2-3% of GDP this year, the transformation showed that government spending cuts can be expansionary
 - Beyond the budgetary chainsaw the government has deregulated large parts of the economy. A rule of thumb: wherever you deregulate prices fall by 30%
 - The lesson for other countries is that we should revisit the limits of what can be done. Make an effort to ask yourself the deeper question of whether a certain government activity should be there or not
- **[00:00] Markus' introduction**
 - Milei's calls himself an anarcho-capitalist following M.N. Rothbard, but his actions seem more in line with Hayek's classical liberalism
 - As Mancur Olson argued excessive regulations may arise to protect specific, large, and concentrated interests, as the losers are small dispersed
 - Most regulations lack sunset provisions, becoming outdated as technology and environments evolve, leading to their accumulation over time
 - Two approaches to regulatory reform. (1) Pruning shears, based on Hayek's gardener metaphor, where regulation is kept constant but also continuously adjusted, or (2) Chainsaws are needed in a world when a system dominated by accumulated special interests grows over time unhindered.
 - The Chainsaw approach may be best for dysfunctional economies, while the pruning approach may be best for the US/EU
- **[08:16] Argentina in 2024**
 - Last december marked the end of the first year since Milei's inauguration
 - Inflation, which initially spiked, has fallen sharply, with wholesale inflation at just 0.6% in December, compared to ~25% a year prior

¹ Summary produced by Pablo Balsinde (PhD student, Stockholm School of Economics)

- Despite an initial deepening of the inherited recession, the economy began recovering in April, with Argentina projected to achieve a 2-3% GDP growth over the year
 - Real wages have also recovered, and poverty, after spiking, has declined significantly to below the pre-Milei levels
 - Real government expenditure was cut by approximately 30%, enabling the government to achieve a fiscal surplus within the first month of Milei's presidency. Continuing to the end of 2024, this marked the country's first fiscal surplus in years
 - The 30% reduction in government spending was driven by: cuts to transfers to provinces and public works (which had rampant corruption), reductions in public sector employment and wages, and pensions. Social expenditures (ignoring pension payments) were the sole category of government spending that grew
 - Public sector employees declined from 210k to 175k (and will continue doing so), while real public sector wages declined by 20% largely because of inflation but were kept at this lower level even as inflation declined
 - The approach was strongly progressive: with Argentina cut off from debt markets, fiscal excesses were being financed through traditional and inflationary taxes, which disproportionately burdened the poor
 - This transformation showed that reductions in government spending can be expansionary, as Alesina et al. ([2019](#)) already argued
 - We tend to forget that the Keynesian multiplier operates in partial equilibrium, disregarding gen. equilibrium effects of the spending needing to be financed how it crowds out the private sector
 - Beyond the budgetary chainsaw the government has deregulated large parts of the economy, emphasizing that deregulation is not just pro-business but also pro-SME and pro-entrepreneurship, as excessive regulation imposes fixed costs that harm small firms and fosters corruption
 - In the cabinet they have begun discussions on "Chainsaw 2.0", studying how to further reduce the size of the government beyond cutting agencies and public employment. Should the government continue performing all of the tasks it currently does?
 - An example is the CONAMI micro-lending program. 99.85% of the funding was lost to bad loans, corruption or mismanagement. Given the local nature of micro-lending this is the kind of activity that is best done by the market
 - As side note: market failures do not necessarily entail government intervention. Akerlof's ([1970](#)) used car market is unregulated
- **[\[27:03\]](#) Two key deregulatory reforms**
 - They began with a diagnosis that Argentina exemplifies a society with non-inclusive economic institutions, as described by Acemoglu and Robinson ([2012](#))
 - The status quo was maintained by entrenched elites: union leaders, business leaders, and political representatives remaining in power for decades. Peronism is a conservative force aligned with vested interests

- Breaking the system required legal reform, as privileges are deeply embedded in the law. For example, unions used to collect 3% of the total wage bill, including contributions from non-union members
 - Sturzenegger started working on this agenda in May 2022 for candidate Patricia Bullrich (*MA note: now Minister of Security*). They reviewed the entire legal system, categorizing laws as acceptable, to-be-repealed, or requiring changes with drafted alternatives.
 - Their approach was unconventional: they avoided meetings, papers, and bullet points. Instead, they worked with reform-minded experts, asking them to directly propose specific articles and precise wording for legal changes.
 - As an one example, they redrafted environmental regulations to clearly define protected glaciers, addressing the original law's vagueness that led to unnecessary protection of swaths of provincial areas
 - This approach not only allowed the government to reach the people who would be willing to do the job without wasting time, it also followed the "[Daniel Marx](#) principle: "In politics the person who wins the debate is the person who puts the paper on the table"
 - There were major reforms. First, the Executive Decree 70/23, issued within 10 days of taking office, used emergency constitutional powers to repeal or modify dozens of laws (quickly before lobbyists could react)
 - Second was the Basis Law passed in July. Aside from many reforms, it granted the government the ability to change or eliminate unnecessary laws for one year if it deemed them unnecessary
 - To manage lower level legislation they continuously gather input from civil society, for example building a website where citizens can point to problematic regulations or make suggestions for legislative changes (an AI categorizes them for processing)
 - Another good way to find market distortions is to look at price differences with other countries. If a Toyota Yaris costs in Argentina what a Tesla costs in the US, you know you have a problem
- **[\[42:32\]](#) Regulation resistance and dynamics**
 - The bureaucracy itself, especially at the lower levels, has been the largest obstacle to deregulation. It provides them with power, employment, and opportunities for corruption
 - Sectoral interests have not been a big hindrance due to strong presidential backing (especially over X). Milei has a governing style of supporting his ministers
 - Some advice for regulators in other countries: make an effort to ask yourself the deeper question of whether something should be there or not
 - A few examples of successful deregulations: (1) removing length and indexation requirements in the rental market led to a doubling of rental agreements, (2) removing non-tariff barriers and deregulating the iron industry led to drastic price declines
 - A rule of thumb: wherever you deregulate prices fall by 30%
 - It is possible that it will take some time for you to see the effects of deregulations. For a long time they saw no effects of deregulating the airline industry to promote small-scale intercity travel

- Follow-up antitrust actions may be needed. For example, they deregulated pharmacies to allow for online sales, but incumbents (even beyond their lobbying) tried to obstruct new market entrants
- In terms of labor reforms they changed many regulations. Regarding severance payments the change was to allow each sector to devise their own regime. In Milei's own words, any labor reforms must be "Pareto optimal", and neither benefit business nor labor. Yet so far nothing has happened.
- A side note: Sturzenegger has witnessed Milei mention Kakutani's fixed point theory at rallies with thousands of people
- **[58:05] Conclusion and Q&A**
 - Economists in Argentina did not understand the full impact of having a fiscal surplus. They rejected the possibility that it could be achieved in a short period of time
 - The lesson for other countries is that we should revisit the limits of what can be done
 - The fundamental idea has been to restore the power of the individuals by reducing state interference. As Amartya Sen argued freedom has fundamental value in itself
 - A regulation that aims to eliminate all risks can make innovation prohibitively expensive. Striking a balance between safeguards and what they unintentionally hinder is crucial
 - Indeed, a significant challenge they have faced as deregulators has been to convince the bureaucracy to accept taking on more risks.
 - But as Ricardo Hausmann once said: "if you've never missed a plane you spend too much time at airports." It's not about minimizing risks but about finding and addressing problems quickly
 - The government recently implemented a mechanism perhaps similar to sunset provisioning. They asked regulatory agencies which laws were under their supervision by October 1st: every unclaimed will be repealed.
 - They are also moving towards government auditing ex-post rather than ex-ante. At the heart this is about trusting people: most transactions are not done with ill-intent
 - The most crucial aspect over the last year has been communication—tweeting about one deregulation each day
 - The prior government's authoritarian response to COVID (rejecting vaccines and an unparalleled lockdown) together with the long-term economic stagnation and emigration, led many in society to realize that they may age our children by zoom and therefore that change was necessary.

Timestamps:

[00:00] Markus' introduction

[08:16] Argentina in 2024

[27:03] Two key deregulatory reforms

[42:32] Regulation resistance and dynamics

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