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Deregulation: from Theory to Practice

Federico Sturzenegger (Ministry of Deregulation and State Reform/UdeSA)

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Deregulation: from Theory to Practice[1]

Carmen Reinhart Lecture
Latin American and Caribbean Association

Federico Sturzenegger
Minister of Deregulation and State Reform
Full Professor Universidad de San Andrés

Introduction

It is a great honor for me to deliver the inaugural Carmen Reinhart Lecture. Carmen Reinhart is arguably the most cited Latin American economist. A quick look at Google Scholar shows well over one hundred thousand citations to her work. A single paper of hers has more citations than my entire academic production, and probably more than that of many people in this room, which makes it both humbling and fitting to speak under a lecture that bears her name. The topic chosen for today´s lecture also fits with the spirit of Carmen's work. Carmen´s work is mostly empirical, relentlessly focused on understanding the world, unveiling hidden patterns, categorizing behaviour and policies, and providing tools to anticipate the storms ahead. I´ve tried to recreate that spirit in this lecture, by discussing how to take the theory of microeconomics to the messy practice of deregulation.

Only relatively late in my career did I move into the world of microeconomic regulation. Until then, I had mostly worked in topics related to macroeconomics. A few months ago, as we were putting the finishing touches on Argentina's navigation code, a colleague at the Ministry of Security with whom we had patiently worked for months in the rewriting of the regulation told me half-jokingly: "Federico, I´ve discovered that macroeconomics is for lazy people – they only deal with a handful of variables: the exchange rate, interest rates, the money supply, and few more. But here we had to deal with a thousand details: from the height of a life vest, the authorization process to put a boat in the water, or discuss whether we should ask for backup electric equipment." This experience, among many others, convinced me that microeconomics applied to regulation is both challenging and fascinating, each case is a world in itself, that alternative models and principles apply to each one, that

[1] I want to thank Sebastián Galiani and LACEA for the invitation to deliver this lecture, Ernesto Schargrodsky for chairing the session and (luckily) recording it and Pedro Beruto for downloading the recording and producing a very clean initial version of this document. Jeremías Manzano Quiroga helped with graphs, general editing and references. I also want to thank my whole team at the Ministry of Deregulation who have made the journey of deregulation so exciting and fun: Maximiliano Fariña, Alejandro Cacace, Hector Huici, Eugenio Mari, Alejandro Tamer, Cecilia Dominguez and Luciana Torre. Most importantly I need to thank President Javier Milei. First, because his challenge to a rotten status-quo system has enabled all of us the opportunity to implement the changes described in this conference. Second, because of his intellectual curiosity and permanent challenge to conventional thinking. Many of the ideas and policy actions described in this conference are the result of a deep reflection and discussion with the President. Javier always has a way of seeing deeper than most economists and embodies better than anyone the journey from ideas and theory to practice. Third, as a team, we need to thank him for his continuous and public support. Without his support the possibility of reform would have simply not been there. Viva la libertad, carajo!

our knowledge of IO, microtheory, game theory, auctions, etc. all provide useful insights for the resolution of each case. In short, economic theory is a powerful ally to solve regulation and deregulation questions. But I also found out that a misguided use of theory and that our standard way of thinking about regulation leaves a lot of reality out of the picture. In particular, it provides a framework that makes it natural for us to think about the need for government intervention. I will argue that we need to refrain from this temptation.

In this lecture I will do three things. First, I will argue why we should expect modern economies to be over-regulated. Sometimes grossly so. Second, I will show how standard microeconomic ideas – asymmetric information, externalities, public goods, monopoly power – which typically are used to justify regulation must be seen under a different light. In fact we will argue that they can be turned inside out and offer a road map for deregulation. In turn, I will illustrate how they have guided concrete reforms in Argentina during the Milei administration. Third, I will offer a practical "blueprint" for deregulation: if you are in country X and want to deregulate, how would you go about actually doing it?

I. Why Deregulate? The Political Economy of Over-Regulation

Economists are trained to think of regulation as the product of a benevolent social planner correcting market failures. My experience in government suggests almost the opposite: most regulations are not designed by a neutral planner trying to maximize social welfare, but by interest groups and bureaucracies trying to maximize their own welfare. This is essentially Mancur Olson's (1965) *Logic of Collective Action*: concentrated interests and diffuse costs. When a policy brings large, visible benefits to a small group and spreads small costs over millions of citizens, the beneficiaries organize, lobby, and persist, while the losers each pay a tiny tax, see no reason to mobilize, and the regulation survives almost unnoticed.

The same idea, pervades Olson´s (1982) and Acemoglu and Robinson´s (2012) hypothesis of why countries fail: interest groups push for non inclusive economic institutions. In fact regulation or over-regulation is, in their view, the main culprit for economic stagnation. Once innovation and the ability to challenge incumbents is curtailed, one of the main sources of economic growth just shuts down.

A useful image here comes from the original *Jurassic Park* movie. In the movie the velociraptors continuously were testing the electric fence for weaknesses. Lobbies behave in much the same way; they keep "hitting the fence". If one government resists, they try the next. Eventually they find a weak point, obtain their protective regulation, build rents on top of it, and then use those rents to defend the regulation itself through financing politicians, media campaigns, and legal strategies. Over time, the system drifts steadily toward over-regulation, not because anyone planned it that way, but because the political economy process is systematically biased in that direction.

Consider the case of satellite internet. Argentina is a vast, sparsely populated country: if you place it over Europe, it stretches from Portugal to Estonia, but with only about 47 million people. For such a geography, satellite internet is an obvious technology, yet until recently

satellite internet services were forbidden. The reason was simple: a large local internet provider – part of a powerful media conglomerate – found it more profitable to lobby for a ban on satellite internet than to compete with it. The government even created a state-owned firm to lay fiber-optic cable across the country, spending around 7 billion dollars of taxpayers' money on a project that could never realistically cover every remote rural outpost.

Within ten days of taking office, President Javier Milei issued a sweeping deregulation decree (Decree 70/23). Among its many clauses, one simply opened the market for satellite internet. Within weeks several companies – most notably Starlink – began service. Roughly a year and a half later, about one million Argentines, particularly in remote areas, had access to satellite internet. The impact was immediate: mining and energy operations became more efficient, tourism expanded (a lodge owner in Patagonia told me recently he now gets clients who come precisely because they know they can work remotely), and precision agriculture became viable by simply mounting a satellite dish on farm machinery. What had been presented as a technical or safety issue turned out to be, in practice, the defense of a regulatory rent. Figure 1 shows the penetration of satellite internet during recent years 2024 and 2025. In 2023 there was not a single client.

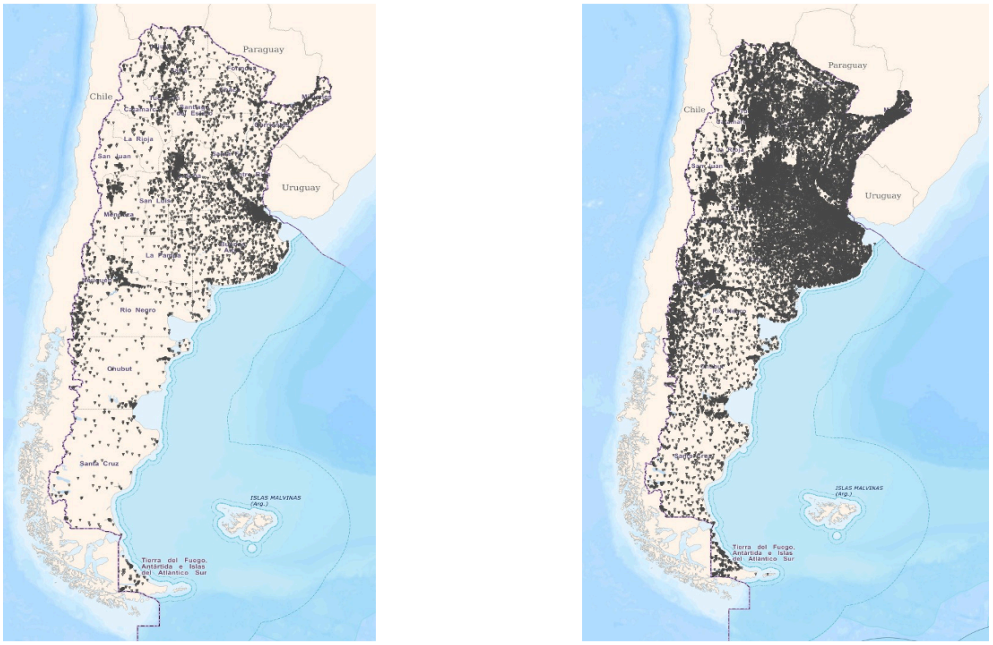

Figure 1: Starlink users in 2024 (left panel) and 2025 (right panel).

A second example concerns the import of used capital equipment, which was broadly prohibited. The stated justification was to protect a small domestic industry of agricultural machinery, but the effect was that, at the cost that no firm in any sector could access cheap machinery, harvesters in Argentina cost two to three times what they cost in Brazil. When we lifted the ban, local manufacturers mobilized furiously, even trying to have Congress overturn the decree. Yet when we spoke to firms in the field, the example of new opportunities just kept pouring in. In the first few months over 1000 firms used the opportunity to import new machinery. One small firm told us that while a new machine cost around 3 million dollars, a

used one of similar productivity could be acquired for 500,000 dollars. With open imports, they could buy two used machines instead of one new one and triple rather than doubling their output. This was not a subtle market failure; it was a textbook case of regulation creating rents at the expense of investment and productivity.

A more creative example of how interested parties defend their rents comes from foot-and-mouth disease vaccines for cattle. Argentina had a regulation mandating that vaccines contain four specific viral strains. But, here is the catch, two of those strains existed only in the laboratory of a single local producer. No neighboring country required those strains, and in fact they had not been observed in the world for roughly sixty years. The effect was that a single firm held a de facto monopoly over the vaccine market, selling doses in Argentina for about 1.40 dollars while that same firm was selling the same vaccine in Uruguay for 40 cents. The extra dollar per dose on about 100 million annual doses meant roughly 100 million dollars a year in regulatory rents; over two decades, in present-value terms, this translated into close to 4 billion of dollars extracted rents (at today´s money) from farmers and consumers. Attempts to change the regulation met with extraordinary resistance, including a case where the text of a resolution was altered before publication: a bureaucrat responsible for uploading the decree was literally handed an alternative version by someone who had previously been sent to "seduce" him, illustrating the impunity with which entrenched interests defend their privileges.

The yerba mate industry, producer of the traditional energizing drink *mate*, offers another striking case. It is naturally highly competitive, with thousands of producers and many brands and distributors, yet the state created an institute that effectively turned this competitive industry into a managed cartel, controlling production, restricting planting, and intervening in price formation. While we spend hours discussing antitrust policies, we seem to look away when the government itself violates all principles of competition policies and sets up through regulation the most scandalous price-rigging mechanism.

President Milei, through the already mentioned Decree 70/23, removed the institute's power to set prices and restrict output, and the result was dramatic: domestic yerba mate prices fell by about 50 percent in real terms (see Figure 2), producers were forced to reorient toward international markets, and both exports and production reached record levels. Before the reform, producers proudly told me they sold mate to 96 percent of Argentine households – more penetration than cell phones – but when I asked how many families in the United States they reached, the answer was "none", despite having Lionel Messi offering free advertising by constantly appearing on television with a mate in his hand. Deregulation forced them to think beyond a captive domestic market and to compete globally.

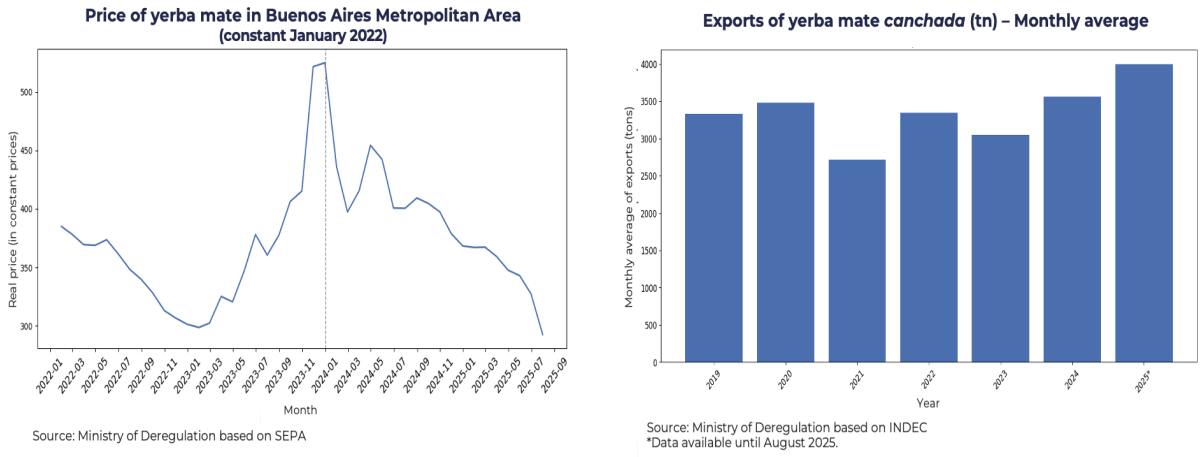

Figure 2: Real yerba mate prices and average monthly exports of yerba mate canchada.

While interests and rent pursuing are the key drivers of regulation, these interest groups find very handy allies in the legislators, the bureaucracy, the media and, sadly to say, also in academic economists. Legislators face an intrinsic bias toward regulating. As a member of parliament, you feel you must "do something", and "doing something" often means proposing a new law, not repealing old ones. The salience of passing legislation is rewarded; the invisible benefits of not regulating are rarely recognized. Figure 3 shows the effect of rent controls (also eliminated by Decree 70/23). Rent controls were an example of legislators "trying to pass their law". The result was disaster.

Bureaucrats also have clear incentives: every regulation is a trade-off between risk and cost, and in conversations with regulators I often heard elaborate stories about catastrophic risks if people were "too free". Their imagination for worst-case scenarios is at the level of Gabriel García Márquez or Borges, but the costs of regulation – lost innovation, higher prices, delayed investments – are barely mentioned. More regulation means more power, more relevance, and often more opportunities for corruption. Thus the bureaucracy always pushes for more regulation.

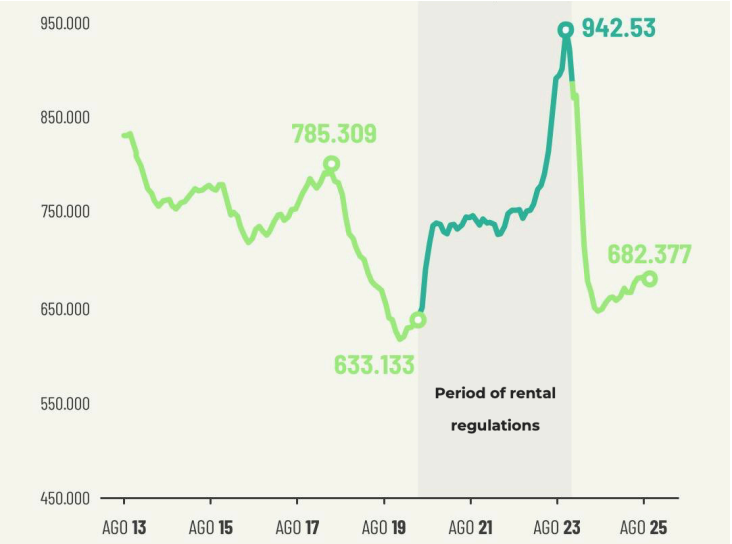

Figure 3: Real rental prices for two-room apartments in the Buenos Aires Metropolitan Area (in August 2025 constant prices). Source: AED based on Zonaprop and INDEC.

A thought provoking contrast is how differently we treat civil liberties in comparison to economic freedom. Consider marriage, arguably the riskiest contract many of us sign: we put all our human and financial capital at stake with limited information about the future behavior of the partner we tie our future to. Yet in Latin America we typically accept that the state has no say in whom we marry: not their sex, not their wealth, not their character. Now imagine we regulated marriage the way we regulate some financial markets. You could only marry if previously you register in a government registry of potential brides and grooms; the state would license "marriage producers" who act as matchmakers (can't leave this decision to people's free will!); and every couple thus formed would be forced into a standardized contract written by bureaucrats specifying who washes the dishes, how often one must take the children to school, how many times a week there should be sex, and so on. It is absurd, and we laugh at the image, yet in many economic domains we do not realize but we do something very similar to this absurdity.

The market for insurance is a good example of this asymmetry. In Argentina you cannot simply buy insurance as an adult by negotiating directly with a company. You must go through an agent registered with the government, and the contract itself has to be authorized by a regulator (this requirement, however, has already been removed by President Milei). We find it natural that the state has more say over your decision to reduce risk – by buying insurance – than over your decision to enter a risky marriage.

Media capture further reinforces the status quo because interest groups have rents and they use this rent to buy out journalists. In Argentina pharmaceutical products cost five times as much in Argentina as in Europe, but you rarely see journalists discussing this openly. The reason? Most prominent media figures receive sponsorship from pharmaceutical companies. Interest groups use their regulatory rents to fund politicians, bureaucrats and journalists who will defend those rents in public debate.

Sadly so, the same happens with economists. Interest groups fund think tanks, channel resources into academic projects, invite them to outings, international trips and conferences. Economists provide arguments, justifications for the persistence of regulation, sometimes of the highest quality. As Hazlitt (2008) argues, "economics is haunted by more fallacies than any other study known to man. This is no accident. The inherent difficulties of the subject would be great enough in any case, but they are multiplied a thousandfold by a factor that is insignificant in, say, physics, mathematics, or medicine -the special pleading of selfish interests" (p. 3).

In some cases the state itself is the executory branch of the defense of special interest. It is common to see in the official bulletin of Argentina the following description. An anonymous call warns the Food and Drug administration that some market players are selling "cheap". Cheap is interpreted in this field not as "a similar product at a lower price", but "as a fraudulent product", oblivious to the fact that consumers are willing to purchase it. What

ensues afterwards is surreal. The government authorities raid this producer that has dared to challenge the market with a cheaper product until they find some irregularity in the paper work (the quality of the product is never assessed and the paperwork impossible to be complete). Then they shut down this irreverent market player. In short the government becomes the police force of status quo rents.

Finally, when all else fails, interests turn to the judicial system. Courts can issue injunctions to stop reforms, often under the banner of protecting "rights" that are in fact long-standing privileges. In several high-stakes cases, when lobbies could not twist the arm of the executive or legislature, they successfully delayed or neutralized reforms through the courts. This is a complex problem in any democracy that respects separation of powers and judicial independence, and I do not claim to have a clear solution to this issue. But it is important to be aware that courts can become the last line of defense of regulatory rents.

From this political economy perspective, it is useful to think of deregulation as having two layers. One is an economic layer, which is about introducing competition, facilitating entry, reducing prices, and expanding access. But there is a second political-economy layer, which is about eroding the rents that interest groups use to finance lobbying, media capture and corruption. Think again of the satellite internet example: economically, opening the market gives people connectivity, lowering costs and raising productivity; politically, it dilutes the rents of the incumbent provider, thereby diminishing its capacity to finance opposition to future reforms. As economists, we are usually trained to focus on the first layer, yet in practice the second is more important for sustaining change.

II. What Standard Microeconomics Really Implies About Regulation

Many of the canonical justifications for regulation – asymmetric information, public goods, externalities, monopoly – are more ambiguous than we usually acknowledge. At a minimum, I would like to propose an alternative view on their implications. Under this alternative light we may find that these concepts may make a case for deregulation rather than for regulation. Or at least suggest that state intervention should be more modest and experimental than is typically the case. In this section I will revisit several of these basket cases of market failures to show that they can be dealt with deregulation and competition, not ever-growing intervention.

Let's start with the classic reference on asymmetric information: George Akerlof's "Market for Lemons" (Akerlof, 1970). Used-car buyers cannot perfectly observe quality, so they lower their willingness to pay, driving high-quality cars out of the market and potentially causing the market to collapse. "Information asymmetry" then becomes a magical password that seems to justify almost any regulation (you can argue asymmetric information in any market!). Yet, the example Akerlof used for his paper – the used-car market – happens not to be heavily regulated in the United States. Instead, markets developed private mechanisms to overcome the asymmetric information problem: warranties, brand reputations, dealer certifications, and a variety of contractual arrangements. The lesson is that market failures do

not automatically imply that government constraints will produce superior outcomes; often voluntary arrangements or private institutions solve or at least mitigate the problem more flexibly, in a more efficient and less costly way.

A second important point is that regulators often hold a monopoly on regulation in their domain, and like any monopolist they tend to abuse their power; they pile on requirements, ask for documents unrelated to the alleged market failure, and impose endless delays. A useful idea is to introduce competition to the regulator itself. One way to do it is to allow a regulated segment and an unregulated segment to coexist on the same market, and let agents choose. If you opt for the unregulated path, your contract or instrument must clearly state that it is unregulated, and then the responsibility for the decision falls on informed parties rather than on a paternalistic regulator.

We tried this approach in Argentina with warrants, a financial instrument backed by inventories such as wine barrels or soybeans in silos. The regulated warrants market was over-designed and underused. In Decree 70/23 we created an explicit unregulated warrants market; the only rule for instruments issued in this unregulated market was that they had to indicate they belonged to the non-regulated segment. The result was a blossoming of the unregulated market. Producers today issue e-warrants directly to counterparties that trust them. Furthermore, fees in the regulated market fell to about one-third of their previous level, because competition forced the regulator and the incumbents to become more reasonable and less bureaucratic. A similar approach is being adopted for wine origin certificates: traditionally, a national institute held the monopoly on certifying the origin of grapes, but we made that certification optional and allowed private entities to also certify, so that producers who value the institute's seal can still use it, while others can avoid the costs. European capital markets provide analogous examples, such as the coexistence of regulated offerings and "unregulated" boards in the Vienna Stock Exchange, which are used for smaller equity and bond issues.

We also need to rethink how and to which goods we apply the concept of public goods. We often treat the classification of a good as "public" (non-rival and non-excludable) as a final verdict: the state must provide it. Milei (2024) cites Ronald Coase's classic paper on lighthouses (Coase, 1974) that challenges that view, showing that historically basically all lighthouses were privately provided and financed by nearby ports that internalized the benefits via port fees. President Milei frequently cites this example to argue that we have over-extended the domain of public goods, and one of our tasks is to ask in each case whether the goods must truly be provided by the state, or whether private or mixed arrangements are possible. State provision also brings into question the size and efficiency of the provision of public goods. Are they offered in a quantity that is cost-efficient? And what is the production function that needs to be used for its provision? The inefficiencies in this regard may be so grotesque that private provision may be preferable. Two examples can be used to illustrate these points.

Take garbage collection as an instructive example. In my city of Martinez in Argentina, I am struck by the fact that garbage collection comes by my home 12 times a week. This contrasts

with my recollection of garbage collection in Cambridge, Massachusetts where I lived while pursuing my graduate studies. There, garbage collection came by my house once a week. That is twelve times less!

Certainly public provision is subject to inefficiencies, corruption or blackmailing by truck drivers leading to costly services. But, additionally, when municipalities provide it as a free public service, the marginal price of generating an extra bag of garbage for each family is zero, even when waste disposal has clear negative externalities. Compare this to a system where private providers charge by volume or weight for garbage collection. This would better align incentives, making it more expensive to generate waste and cheaper for households that generate less. Furthermore, it will allow families to choose among different methodologies and collection mechanisms. Certainly, the market would provide a cheaper and more efficient mechanism!

We faced a similar case in designing the infrastructure in national parks. Access to natural beauty requires trails, shelters and other services, and initially we thought of these as classical public goods to be financed by the state. But then we realized this was not necessarily the case. In practice, we have begun to grant concessions so that private operators build and maintain trails to glaciers and other attractions. The infrastructure, which is privately built, remains accessible to the public (it is a public good), but the financing and management is private. Was this a problem for the provision? Not really, in one case the first operator decided to do minimal infrastructure, and has announced that when newer participants decide to share the paths, they will work out a coordinated mechanism to scale up the infrastructure. In short, the players in the market have the incentives to provide the public goods, and solve the free rider problem by scaling up the infrastructure capacity in incremental steps to keep it privately profitable.

Externalities are another standard justification for regulation. However, notice that once an externality becomes sufficiently valuable, property rights tend to emerge, either spontaneously or by design. Sometimes technology itself solves the problem. Consider the textbook example of externalities: honey and agriculture. An Argentine firm (Beeflow), for example, offers targeted pollination services by conditioning bees to visit only the blossoms of a particular crop; thus, what used to be a diffuse externality between beekeepers and farmers becomes a contractual relationship with clear responsibilities. Of course, many externalities remain unsolved, especially when their value is low or diffuse, and in those cases the question is not whether externalities exist – they always do – but whether further extending the state's regulatory reach actually improves matters compared to defining and enforcing property rights or allowing private arrangements to evolve.

We also have to revisit how we think about monopolies. There are two broad traditions in antitrust practice: the U.S. approach, which focuses on punishing practices that restrict competition, and the EU approach, which also targets the "abuse of dominance" (charging higher than reasonable prices, however defined) by large firms. We believe the second approach to be conceptually problematic. Suppose an airline is the only carrier on a new route, say from Buenos Aires to a small provincial city, and charges a high or exorbitant fare.

Does this automatically signal a competition problem? Not if entry is open. If entry is feasible there can never be a competition problem. In fact, high prices and high profits are precisely the signal that needs to be given to attract competitors. Rather than curtailing profits in competitive markets, these profits should be cherished.

History offers many examples: Nokia once dominated mobile phones; then BlackBerry; until Apple's iPhone displaced them. It would have been a terrible mistake to restrain the growth of these firms simply because they enjoyed high market shares at certain moments. The crucial question is not whether someone currently has a large share, but whether entry is blocked – and often it is the government itself that blocks it with licenses, quotas, exclusive rights, or administrative barriers.

More importantly, when a company grows exponentially in a market it is because it is producing a superior product, or producing with increased technology or profiting from economies of scale. To the extent that competition is feasible none of these cost reducing factors should be curtailed. Milei (2024) also repeatedly makes this point.

So, while we put energy in chasing anticompetitive practices by firms or estimating cost functions to see if prices are abusive, we seem to be indifferent to the many regulations that governments impose that are actual restrictions to competition (we mentioned satellite and yerba mate markets as examples of this above). If we were to rewrite antitrust along these lines, we should acknowledge that the main enemies to competition would be governments that create legal entry barriers, not firms that win temporary dominance by innovating.

Finally, we believe there is a deep connection between insurance markets and the demand for a strong state. People want security, it´s a natural or psychological demand, and when markets cannot provide it, people turn to the state for its provision, regardless of its inefficiency. This suggests a substitution: the more we allow insurance markets to develop and cover a broader range of risks, the less people will feel the need for the state to act as an insurer of last resort. In Argentina we are working to allow the insurance industry to cover virtually any insurable risk, subject to basic prudential rules, and this is not a technicality; we believe it may reshape how citizens think about the role of the state in their lives.

III. How to Deregulate: A Practical Blueprint

Suppose you accept that your economy is over-regulated and want to generate a process of deregulation. How do you actually proceed? In my experience two personal principles have been crucial to provide a roadmap. The first is what I call the Marx principle, named not after Karl or Groucho, but after my friend Daniel Marx, who served as Secretary of Finance when I was Secretary of Economic Policy in 2001. At one point we had a six-hour meeting with the finance minister, Domingo Cavallo, debating whether to implement policy A or policy B. After much struggle, we reached consensus on policy A, yet the next morning the minister signed a decree implementing policy B.

What had happened was simple. The legal secretary walked into the minister´s office with a draft decree that embodied policy B; there was no alternative text for policy A on the table, and the minister signed what was in front of him. The lesson is simple and brutal: the side that wins the debate is the side that shows up with the actual piece of paper to be signed. Arguments, memos and presentations matter much less than who controls the text of the law or decree. If you want reform, you must do the hard work of writing the reform in legal language ahead of time.

The second principle is the David versus Goliath strategy. Reformers are always David: weaker, facing a giant web of entrenched interests – media, business associations, unions, bureaucracies – that form the status quo. David did not fight Goliath in a fair duel; he refused heavy armor, kept his distance, used a sling, and struck with surprise. Similarly, a deregulatory government cannot afford to proceed slowly and predictably. It must move early, hard and with a surprise element, before lobbies can coordinate a defense. Combining the Marx principle and the David strategy leads to a clear implication: when a reformist government takes office, it must already have draft legal texts – laws and decrees – ready to sign; otherwise, vested interests will write those texts for you. And then it has to implement these reforms with swiftness and no delays.

One additional factor points to frontloading the reforms. Reforms undoubtedly favor the general public. They are not politically costly, on the contrary, they are a political bonus. They do bother and hurt entrenched interests, which are vocal and try to create a sense of social cost. But the silent majority is benefited by the price decreases induced by more competition and higher accessibility of products. If you want to build political support, just push the reforms as hard and as quickly as possible.

Bunching of reforms is also important. Doing across the board reforms provides a sense of fairness to the reform process. It is not targeting a specific sector but a broad change of regime. Martinelli and Tommasi (1997) suggest exactly this. The overall reform also provides greater credibility to the effort and more popular support.

With all these ideas in mind: the need to have the legal script ready by inauguration, the need to do a comprehensive reform package that could be implemented swiftly and quickly, two years before President Milei took office, at Universidad de San Andrés we started a project with that goal. Our group consisted of a constitutional law professor, four law students, my teaching assistant from a Principles of Economics course, and myself. Our budget was zero. In spite of our lack of resources our aim was very ambitious: produce, for the next president, two piles of paper to place on the desk on day one. One pile would contain laws and regulations to be repealed outright; the other would contain laws and regulations to be amended, with the new text already written.

Over two years we worked through the legal corpus, identifying provisions that clearly reflected special interests rather than genuine public goals. In many cases, the bias was so grotesque that the needed fix was obvious once you applied basic economic reasoning. When we lacked expertise in a particular area –say environmental law– we sought external

collaborators, and over time we involved roughly a hundred people in that role. But not all collaborators were useful, and here a strict methodology helped. We quickly discovered that big law firms were of little help, because their business model depends on navigating legal complexity, not simplifying it, and whenever we asked them for proposals, they returned drafts twice as complicated as the originals. Sectoral "experts" were often equally unhelpful, as many were deeply embedded in the status quo and could not imagine radical simplification; for instance, when revising the air code, industry insiders insisted on preserving public hearings for new routes simply because "we've always done it that way", even though such hearings mainly served as a tool for incumbent airlines to harass new entrants.

Those who proved truly valuable were what I call the "victims of the state": small entrepreneurs, street-level lawyers, people who had struggled for years with a particular regulation and had a strong desire to change it. They understood both the burdens and the possible alternatives, and they were also willing to think boldly. With all of them we enforced one simple rule. Suppose I approached someone involved in environmental issues; I would say: download the law from the government website, put it into a Word document, and using track changes, rewrite it exactly as you propose it should be. No long papers, no meetings, no conceptual memos were allowed – only redlined legal text. When it became clear that the only product we would take was these edited legal texts, about 70 percent of would-be collaborators vanished. Some understandably did not want to work for free at that level of detail; others had good ideas but could not translate them into concrete legal language. From my perspective, this was invaluable, because it filtered out those who could not help us produce the paper we needed on the president's desk without having to spend time sorting them out with long meetings or reading position papers. If you can do it, just do it. Then we reviewed the product. Those who did send back a clean, concrete revision of a law were then asked to help with other pieces of legislation, and this process allowed a small core team to multiply its impact across many areas.

By the time President Milei took office, we had those two piles of paper. They became the backbone of Decree 70/23, a sweeping deregulation decree issued on the tenth day of the administration, and of the "Bases Law", a large legislative package debated for eight months in Congress, which implemented a second wave of reforms. The successful midterm elections of 2025 (which paid tribute to the strategy) opened the door to a second and new phase of reforms.

Yet, passing a law or decree is only half the battle; implementation is crucial. We created an internal implementation unit to monitor whether agencies actually complied with the spirit and the letter of the reforms. For example, we eliminated a redundant second license for truck drivers – a requirement that forced them to pay a union-linked registry – and the very next day the implementing agency tried to recreate the license through administrative means. In another case, we abolished a registry for truckers only to see some provinces re-establish it. Detecting and correcting these attempts to resurrect abolished regulations is an ongoing

effort, and an area where more work is still needed. It is not enough to deregulate on paper; you must also defend deregulation in practice against bureaucratic inertia and sabotage.

A second channel for reform ideas came from listening. I began openly inviting citizens on television to write to me explaining "how the government is making your life miserable". Given the deluge we were forced to set up a dedicated website at the ministry where we received around 15,000 concrete suggestions. One of them was an email titled: "Federico, can you help me with my watermelons?" It was too cryptic to ignore, so I replied: "What is your problem? Do they taste bad?" The answer came back: "Not at all. They are in fact excellent; I am actually an exporter of watermelons. The problem is not their quality but their packaging." The story is that our National Food and Drug Administration forced him to package watermelons according to a resolution from 1983, issued by a military government, while his foreign client wanted a different format. He asked the authority for an exception, pointing out that we were dealing with watermelons, not enriched uranium. The answer remained: "No, the 1983 resolution must be followed." And this went on for 10 years.

So the exporter devised a surreal workaround. He packaged the watermelons as the government demanded, loaded them on a ship, sailed 100 meters from the port, stopped, paid dozens of workers to board the boat, unpack everything, and repackage according to his client's preferences. This story was so outlandish that it had to be true. It was beyond the power of imagination. When we investigated further, we discovered that this problem was just the tip of an iceberg of similarly absurd rules: harvest authorizations, labeling quirks, arbitrary constraints. The regulations governing fruit exports literally weighed about a kilo and a half of paper. We met with the head of the food authority, who – crucially – shared the government's deregulatory vision. I asked him: "What should the state really do in fruit production?" His answer was succinct: maintain a registry of who produces what and where, in case of a plant disease outbreak, and issue a phytosanitary certificate when a product is exported to assure foreign ports that the shipment is safe. Everything else, he admitted, was unnecessary. We therefore drafted a new, two-page regulation focused on those two functions and discarded the kilo and a half of legacy rules. In literal terms, the regulatory "weight" of the sector went from 1.5 kilos to about 25 grams. The deregulation process was so deep that to get a sense of the relief we compared the paper weight of the regulations.

The story teaches an important lesson. When thinking of deregulation it is much more productive to ask yourself what needs to be done. In fact, if anything needs to be done at all. And this question needs to be asked before trying to simplify an existing regulation. President Milei has been adamant about the need to start from this first principles question. Always.

A simpler diagnostic tool we use in other sectors is price differentials. If a basic Toyota Yaris in Argentina costs roughly the same as a Tesla in the United States, something is wrong. If medicines are five times more expensive than in Spain, there is likely regulatory capture or protectionism at work. Conversely, if the domestic price of a tradable good is broadly in line with international prices, we can be more confident that regulation is not heavily distorting that market and focus our scarce reform energy elsewhere, which is important because political and administrative capital are limited.

Communication has also been a powerful instrument. On my X (Twitter) account, I often share the “deregulation of the day”, because there is a continuous pipeline of small and large reforms. This provides a sense of continuous reform.

But the most important communicator is the President himself. Every time we announce a major deregulation, affected interest groups mobilize. Once the reform becomes public, President Milei frequently endorses it directly on his account, and that public support is crucial: lobbies suddenly find it much harder to pressure other parts of the state against a reform that the head of government has personally defended in front of millions of followers. Without that political backing and clear communication, many reforms simply would not survive the first wave of resistance.

IV. Sustainability, Salience, and Open Questions

Several important questions remain open, and they emerged clearly in discussions after the lecture, so I will use this section to provide a summary of such debate. Economists like interior solutions, and if Argentina was initially in a corner of extreme over-regulation, it is reasonable to worry that an aggressive deregulatory agenda may leap to the opposite corner of under-regulation. The challenge, according to this query, is to identify areas where regulation is genuinely necessary and to design interventions that are as light and transparent as possible. My answer is twofold. First, we need to start from a presumption that regulation is guilty until proven innocent, given the bias towards regulation described earlier. Second, we must remain attentive to empirical evidence and salience: when deregulation clearly endangers life or property, or when accumulated evidence suggests persistent market failures that private arrangements cannot handle, it is legitimate to rebuild some regulatory scaffolding – again, as lightly as possible. But there should be no fear of deregulation. In fact we can see if something does not work, but we cannot as easily see all the damage and destruction done by regulation, for the simple reason that regulation inhibits economic activity and growth. When nothing happens there is nothing to fix except the nothingness itself!

We must also resist the temptation to respond to isolated salient events with sweeping restrictions. As Akerlof (1991) illustrates how individuals tend to overweight vivid, anecdotal information relative to statistical evidence, a form of salience bias that can lead decision-makers to overreact to isolated events. The collapse of a bridge in Baltimore resulting from the strike by a vessel, for instance, was repeatedly invoked in our internal debates over maritime safety rules. It is crucial not to let one dramatic incident dictate a vast regulatory response that ignores costs and probabilities, especially when local conditions differ from those in the example being cited.

Even with shorter, better laws, bureaucratic execution can reintroduce complexity. Agencies may reinterpret vague clauses, add layers of administrative requirements, or resurrect abolished rules under new names. Shorter, clearer laws help constrain this drift, but do not

eliminate it, and systematic implementation monitoring – and, where necessary, legislative clarification – will remain vital if deregulation is to be more than a headline.

As reform progresses and administrative and legislative avenues close, incumbents increasingly turn to courts. One case in point refers to soccer. Social security contributions in professional soccer do not follow standard rules but rather are defined in a complex system by which larger clubs subsidize smaller clubs. Yet the complexity of the system ends up being a cover for paying less contributions than other sectors of the economy. We tried to amend this through a simple administrative resolution – something previous governments had done repeatedly-. However a court blocked the change, effectively freezing the below average contributions.

How to reconcile a genuine commitment to judicial independence with the need to prevent courts from entrenching economic privileges is an unresolved tension, not only in Argentina. Historically, the French Revolution solved a similar problem by abolishing the separate "noble courts" and building a unified republican judiciary. We obviously do not live in revolutionary times -or at least a revolution of that type- and any solution must be compatible with liberal democracy. But the issue is structurally similar.

And then the question of sustainability always lingers in the horizon. How to make the reforms stick? In our view the most important condition for sustainability is to reduce the financial power of those who benefited from the old system. A striking example comes from social policy. For twenty years, social movements known as *piqueteros* received public funds as intermediaries for welfare programs. They organized frequent roadblocks and mass marches, effectively destabilizing governments. Everyone knew this system was perverse but no one dared to confront it. At the start of the Milei administration, the President ordered to simply cut out the intermediaries and pay beneficiaries directly. Overnight, the organizations lost much of their funding, and the frequency of large-scale roadblocks collapsed, while public opinion strongly supported the change. This illustrates a broader principle: you cannot expect reforms to stick if the main veto players remain well-funded, and in some cases it may be more important to weaken the financial base of entrenched interests than to immediately achieve the "perfect" legal reform.

Conclusion

The central message of this lecture is that standard microeconomic concepts, when combined with a realistic view of political economy, point toward a much more skeptical stance on regulation than the one we typically teach. Many regulations are not designed by a benevolent planner correcting well-identified market failures, but by interests extracting rents through the political and administrative process. Asymmetric information, public goods, externalities and monopolies often admit private or competitive solutions; invoking them as automatic triggers for state intervention is intellectually lazy. Deregulation is simultaneously an economic project – to increase competition and efficiency – and a political project – to

dissolve the financial and institutional power of rent-seeking coalitions that have learned to "play" the regulatory state.

In practice, progress requires meticulous preparation – having the right "paper on the table" before you win office – a willingness to strike early and hard, and continuous feedback from those who suffer most from the regulatory state. It also requires political backing, clear communication, and humility in recognizing unresolved challenges. At the end of the road the problem remains on how to align the judiciary with a deregulatory agenda without undermining its independence.

I hope the Argentine experience offers useful lessons – and perhaps a cautionary tale – for other countries grappling with the creeping advance of regulation. The task is to ensure that wherever the state intervenes, it does so only where markets cannot reasonably be expected to work, and even then with a light, transparent, and constantly questioned hand.

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