10-13-25

WSJ Print Edition

Milei needs U.S. help, but his country really needs dollarization.

Argentina: Right Country, Wrong Rescue

REVIEW & OUTLOOK

The U.S. Treasury intervened in financial markets late last week to stabilize the Argentine peso, and helping the free-market President Javier Milei is strategically important. But this bailout is likely to throw good dollars after bad pesos without monetary reform in Buenos Aires.

Treasury Secretary Scott Bessent said on X.com Thursday that "Argentina faces a moment of acute illiquidity." That's econ-speak for a run on the peso. The U.S. stepped in to buy Argentine pesos to stop the run, and Treasury created a $20 billion "currency swap framework" with Argentina's central bank.

"The U.S. Treasury is prepared, immediately," Mr. Bessent wrote, "to take whatever exceptional measures are warranted to provide stability to markets." The swap line is presumably backed by Treasury's Exchange Stabilization Fund. The peso-dollar rate stabilized on Friday, and the $20 billion in Treasury currency support is intended to show speculators that Argentina has plenty of ammunition to stop another run.

But for how long? The "acute illiquidity" problem is really a lack of confidence in Argentine monetary management. Mr. Milei's brave reforms have done much good on stabilizing the federal budget, ending the Peronist war on business, and welcoming investment.

But no one is sure how long this reform era will last. Inflation remains a problem at more than 30%, and investors are worried that opposition parties will win big in this month's legislative elections. Mr. Milei's term doesn't end until 2027, but the fear is that he'll be neutered before then.

Argentina has a history of debasing its currency, which is why its people keep billions of dollars in coffee cans, home safes and mattresses. No one wants to hold pesos that will eventually be debased again.

In his statement on X.com, Mr. Bessent argued that "the success of Argentina's reform agenda is of systemic importance, and a strong, stable Argentina which helps anchor a prosperous Western Hemisphere is in the strategic interest of the United States. Their success should be a bipartisan priority." He's right on that score. If Mr. Milei can make his free-market reforms an economic and political success, the lesson will spread to the rest of Latin America and beyond. It would be a rebuke to the tide of leftwing populism that has caused trouble from Brazil through Colombia, Venezuela and Central America.

But for those reforms to succeed requires confidence in Argentine money. That won't happen with the peso, which is why dollarization is the correct and now essential policy alternative. Ecuador managed a successful transition to a dollarized monetary system in 2000 that defeated inflation and still holds today.

Mr. Milei's opposition to dollarization is hard to understand since he campaigned on eliminating the central bank. We hear Economic Minister Luis Caputo is opposed, and so are some hedge funds that profit from a currency carrytrade that goes away with dollarization. The International Monetary Fund is also playing in the country's rescue, and its default remedy is always devaluation.

But that doesn't explain Mr. Bessent. Treasury didn't respond to our request for comment on dollarization. The only explanation that makes any sense is that such a large monetary change could be disruptive before the Oct. 26 elections. But the instability of the peso without dollarization is one reason the opposition may win.

After the elections, Mr. Bessent will be wasting dollar assets on this bailout if he doesn't press Mr. Milei to restore sound money with dollarization.

