Introduction

Argentina is currently one of the most significant countries due to the substantial economic reforms implemented under the presidency of Javier Milei. These reforms are aligned with free-market and anarcho-capitalist principles (Milei, 2022). Consequently, many have raised questions regarding the feasibility of such radical ideas.

This paper will analyze the potential success of these reforms by comparing Argentina to its neighboring country, Chile. In the 1970s and 1980s, Chile underwent a similar process when the Chicago Boys implemented a profound transformation of its economic structure, guided by free-market principles from the University of Chicago, which have also significantly influenced Javier Milei.

For the purpose of comparison, this analysis will incorporate the key lesson from Henry Hazlitt's *Economics in One Lesson*. Additionally, it will be complemented by Hans-Hermann Hoppe's explanation of the time-preference rate (Hoppe, 2001), Friedrich Hayek's perspective on the role of institutions in economic development (Hayek, 1988; Hayek, 1973) and Mises' analysis of capital structure and its development (Mises 1949).

Analytical framework

As mentioned in the previous section, the analytical framework is based on a central principle: the key lesson from *Economics in One Lesson*, which states, "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups" (Hazlitt, 1946). Specifically, this analysis will draw on Hazlitt's applications of this lesson to examine the economic contexts of Chile and Argentina prior to the reforms.

Additionally, to enrich and deepen the analysis, the lesson will be expanded and complemented by three key concepts of Austrian economics: the time-preference rate, the role of institutions in economic development, and capital structure and its development. These concepts are interconnected through their focus on the long-term effects of policies.

The concept of time-preference rate refers to the relative value individuals place on present goods compared to future goods. When the time-preference rate is low, individuals tend to value saving and investment, whereas a high time-preference rate leads to a preference for immediate consumption (Hoppe, 2001). Hoppe extends this concept to political systems, arguing that democracy inherently exhibits a high time-preference rate, primarily due to the electoral cycles and the public identities of government leaders. This drives to a process of descivilization, destroying the capital and savings

The concept of the role of institutions in economic development is extensively discussed by Hayek in two key works: *The Fatal Conceit* and *Law, Legislation, and Liberty*. Hayek argues that institutions are the result of a long process of trial and error, where only those that effectively contribute to the preservation of civilization endure. He emphasizes that institutions cannot be deliberately created or imposed; instead, they must emerge organically and undergo a period of adaptation and stability. This process and its preservation is crucial for allowing economic actors to plan and engage in productive economic activity (which lowers the time-preference rate in society and allows civilization to thrive if we connect it to Hoppe's analysis).

The third concept, Mises' analysis of capital, draws heavily from Böhm-Bawerk's work and is primarily articulated in *Human Action*. Mises asserts that as the capital structure evolves and becomes more intricate, the productivity of the corresponding industry increases. Furthermore, this capital must remain entirely free, allowing its owners to utilize and allocate it as they see fit.

The competitive process compels entrepreneurs to innovate, leading to the constant adaptation and restructuring of capital across various industries. Any attempt by the state to interfere and forcefully alter this process would result in calculation errors, as the capital structure is developed by entrepreneurs with the goal of maximizing benefit. Consequently, any posthumous modifications must be carried out by entrepreneurs, guided by the principles of monetary economic calculation. This process must also be accompanied by the incentive of interest rates, which are determined by the society's lower time preference, encouraging saving and investment. Furthermore, it will be utilized the concept of originary interest, that is basically the time-preference rate of society, to complement Hoppe´s analysis

These ideas will be used to analyze both the Chilean and Argentine contexts. Through this comparison, it will be possible to identify the factors that contributed to Chile's success and assess whether Javier Milei can replicate that success.

Comparing both situations

In their work *Historia de Chile*, Simon Collier and William Sater analyze the periods leading up to Augusto Pinochet's military coup, highlighting a context characterized by massive state interventionism. During this period, industrial development was forced through the Corporación de Fomento de la Producción (CORFO), and most industries were either nationalized or maintained close ties with the government. The political situation was marked by instability, and inflation reached uncontrollable levels. Attempts by governments to address this situation through wage increases only exacerbated inflation.

Since the era of the radicals, Chile had adopted the Import Substitution Industrialization (ISI) Plan, aimed at producing domestically what had previously been imported. Various governments were responsible for developing this ambitious plan for the country's development, including Pedro Aguirre Cerda, Juan Antonio Ríos, Gabriel González Videla, Jorge Alessandri, Carlos Ibáñez del Campo, Eduardo Frei, and Salvador Allende.

According to Collier and Sater, "inflation became a deeply ingrained habit in Chile. Between 1939 and 1942, the volume of circulating currency nearly doubled, and the cost of living increased by 83%. These increases were directly caused by the government's request for new loans from the Central Bank. Eighty percent of the funds were used to cover fiscal deficits, and the remainder was employed by entities such as CORFO. This became a pattern: no matter how much income the state received, it always found a way to spend more, with the inevitable inflationary consequences. In response to the rising cost of living, left-wing and centrist parties supported legislation to increase wages by 20%, in an attempt to defend against inflation and stimulate consumption, which, in theory, was supposed to promote industrialization. Unfortunately, the wage increases (30% in 1941 and 36% in 1942) exceeded the actual rise in the cost of living, which accelerated the inflationary spiral. The government practically institutionalized inflation when, in 1941, it created 'mixed wage commissions' that automatically raised wages to keep them in line with the rise in the cost of living. It also authorized some development corporations, particularly CORFO, to issue promissory notes that banks could use as collateral to generate more loans. Between 1939 and 1941, loans to the public increased by 15% annually." (Collier and Sater, p. 345)

This analysis reveals how the policies adopted to control inflation were not only ineffective but contributed to perpetuating a cycle of inflation and unemployment.

The following years did not attempt to reverse this trend. There were attempts by Alessandri and Ibáñez to combat inflation; however, they were insufficient due to the high political cost of adopting liberal measures. Afterward, the ideological stance was openly socialist. Allende’s "Revolution in Freedom" and democratic socialism led to the economic ruin of the country. By the end of Allende's government, Chile had practically become a socialist country.

Economist Víctor Espinoza analyzes Allende’s government and explains that the economic plan was carried out in three main stages: "The stages of expropriation, inflation, and rationing."

Regarding the first point, the most emblematic case of nationalization was that of copper, a project framed within a law approved in 1971. This was also extended to other industries such as nitrate, iron, and coal. At the same time, the Agrarian Reform, which had begun in previous governments, continued during Allende’s administration, expropriating all or the majority of agricultural lands, transferring them to state management. The article notes that “these expropriations resulted in capital losses close to 130% of Chile's GDP in 1973.” Following this, Chile’s banking and financial system were nationalized, and many companies were brought under state control.

These and other expansive monetary reforms, designed to cover excessive expenditures, including costly social policies, led to an inflationary spiral that peaked in the year following Allende’s government, 1974. According to World Bank statistics, inflation in that year averaged 504.7%.

Finally, the rationing phase was accompanied by a decline in productivity and growth, along with Allende’s rigid stance on not changing monetary policies. GDP growth began to decline in 1972, reaching -5% in 1973.

The political decisions of the period were similarly unstable. Videla, for example, swore allegiance to the Communist Party in his early years, only to later proscribe it through the Permanent Defense of Democracy Law in 1948.

Applying our analytical framework to the severe political situation of the time, it is possible to observe that, through Hazlitt's lesson, the leaders did not evaluate the economic policies of their governments from a long-term perspective. The decisions were eminently reactive, driven by the circumstances of the moment, and therefore highly improvised. A clear example of this lack of foresight is the creation of the Corporación de Fomento de la Producción (CORFO), whose initial reforms were implemented in response to an earthquake in 1939, under the justification of rebuilding the country. In this context, the role of the state expanded disproportionately, marking a turning point in state intervention in the economy.

Likewise, the Keynesian ideological framework played a significant role in facilitating this expansion of the state. During this time, there was widespread social acceptance of the idea that the state should play a central role in economic development. In this regard, Hazlitt, in *The Errors of New Economics*, dismantled Keynesian ideas, warning about the risks inherent in inflationary policies. In his book *Economics in One Lesson*, Hazlitt specifically criticized the inflationary measures adopted by governments, showing how these policies only considered the short-term. While monetary expansion generated immediate positive effects by stimulating consumption, it quickly resulted in rising prices and poverty. He also criticized government spending through the broken window fallacy, illustrating how breaking a window might immediately activate the economy but destroy long-term savings.

Instead of addressing the inflation problem structurally, the rulers limited themselves to alleviating its immediate consequences, which ironically only contributed to worsening the problem in the long term. This superficial and short-term approach, characteristic of a politically unvisionary administration, failed to tackle the root causes of inflation and exacerbated its negative effects over time.

If we apply the ideas of Hans-Hermann Hoppe, it is evident that the time preference increased dramatically during this period. Time preference, understood as the tendency of individuals to prefer immediate consumption over saving or long-term investment, increased considerably, largely due to the destabilizing effects of democracy in a crisis context. This phenomenon was triggered by the political and economic earthquake of 1939, which profoundly altered the country's social and economic structure. As time preference increased, economic decisions became more short-term and, in many cases, anti-liberal and anti-civilizational, resulting in a progressive deterioration of economic conditions. In fact, with each passing year, the economic situation worsened, revealing the consequences of the poor economic decisions made in the past.

The inflationary policies rapidly led to a drastic reduction in the savings rate, stimulating a widespread tendency toward immediate consumption. This process, in turn, had a devastating effect on the capital base, as it limited investment and the formation of productive capital. The increasing political uncertainty, a direct consequence of institutional instability, further intensified time preference, leading to a vicious circle that gradually destroyed the Chilean economy.

Integrating Ludwig von Mises' analysis, we can understand how state intervention artificially forced capital formation. This economic distortion process generated clear calculation errors, as the signals sent to entrepreneurs were contrary to the market's natural interest rate. In an environment where industrialization had not progressed freely, it was because consumers' most urgent needs had not yet been adequately met. The imposition of forced industrialization only disconnected producers from the real preferences of consumers. At the same time, the capital structure became increasingly fragile, as it was not based on competition or genuine savings accumulation but on distorted political decisions. When attempts were made to increase competition by eliminating regulations, following the recommendations of the Klein-Saks mission, this attempt was quickly abandoned because the industry was not prepared to withstand the "strong winds of international competition." (p. 351)

Furthermore, by preventing genuine economic calculation, new industries were unable to respond effectively to market demands, which was reflected in the high prices of Chilean products compared to those from other countries. The lack of clear and precise price signals prevented entrepreneurs from making rational investment decisions, further aggravating the economic crisis.

Following Friedrich Hayek's analysis of the impact of institutional changes, we can observe that they profoundly altered the ability of economic actors to plan long-term. The lack of respect for private property and growing institutional instability made economic development impossible. In the copper sector, for example, foreign companies were reluctant to make new investments in Chile unless they had a formal guarantee from the government. Despite their willingness to invest large sums, such as up to 500 million dollars, and build a refinery to produce electrolytic copper, they required the government to freeze taxes for 20 years and commit to respecting the conditions set by the New Deal. This proposal was reasonable in the context of the political uncertainty that prevailed, and as Hayek notes, it is impossible to plan long-term without guarantees of stability and respect for legal and economic conditions. However, "such a scheme seemed too rigid for many Chileans, especially the left, who saw it as a way to deprive the state of the flexibility needed to carry out future economic programs." (p. 355) In other words, institutions were so unstable and government commitments so unreliable that even an agreement on tax stability was seen as too rigid and limiting.

Finally, political instability led, influenced by other reasons we will not discuss in detail, to the military coup of Augusto Pinochet in 1970, which restored, albeit with clear implementation errors, private property and brought stability back to the country. I do not intend to judge the non-economic actions of the regime that are irrelevant to this analysis.

Once the power shift had occurred, the implementation of economic reforms began. The initial years resulted in a profound economic recession. In 1975, a shock treatment was adopted, involving drastic measures to stabilize the economy. Simon Collier and William Sater describe that the significant 25% cut in fiscal spending, the increase in interest rates, and the fall of real wages by up to 60% led to a rise in unemployment and a significant decline in productivity. The authors point out that "And what was predictable happened: a deep recession with an unemployment rate that increased by nearly 20 percent (and real wages fell by up to 60 percent compared to their 1970 level). By the end of 1975, GDP had decreased by around 15 percent; industrial production, by 25 percent" (p. 457). Despite this adverse situation, the reform project continued.

During this process, over 400 companies were privatized, tariffs were drastically reduced, from an average of 105% to a range of 10-35%, depending on the product, and efforts were made to control inflation, which had reached a historic figure of 504.7%, bringing it down to 9.9% by 1982. Additionally, a fixed exchange rate of 39 pesos per dollar was established, and the Minimum Employment Program (PEM) was created to address rising unemployment. These reforms achieved a relative stabilization of the economy, at least temporarily.

However, in 1982, the economic model faced a new crisis, influenced by both internal and external factors. According to Collier and Sater, on the one hand, the second oil crisis led to an increase in prices and a decreased demand for Chilean exports, exacerbated by the overvaluation of the peso due to the exchange rate, which made Chilean products less competitive. This was compounded by the excessive debt of the Cruzzat-Larrain and Via banks, which collapsed and destroyed the banking system, leading to over 800 bankruptcies in the economy. Furthermore, the rise in interest rates in the United Kingdom and the United States contributed to exacerbating the crisis. This combination of factors resulted in an 11% drop in GDP growth, while unemployment surpassed levels recorded during previous crises. This phenomenon notably aligns with the Austrian analysis of the economic cycle, as the fixed exchange rate had promoted cheap credit in dollars, which encouraged excessive indebtedness in the aforementioned banks, financing unviable investment projects. The manipulation of the dollar's price did not alert the market to the real situation of the U.S. economy, resulting in a poor allocation of resources and erroneous investments.

The situation began to change when the Minister of Finance, Carlos Büchi, implemented measures that, according to the authors, were notably pragmatic. The government took control of ten banks and financial institutions, liquidating three of them, while the Central Bank of Chile (BCCH) assumed the debt of the intervened financial institutions. Under Büchi's leadership, the government implemented more rigorous management of both inflation and the exchange rate. Selective measures were also adopted to benefit agriculture and industry, the VAT on domestic production was eliminated, and tariffs on certain imported products were raised. These actions helped restore some economic stability and laid the foundation for long-term recovery.

In parallel, the privatization of the steel and nitrate companies was carried out, while CODELCO and ENAP remained under state control. A key aspect of this phase was the significant change in the pension system, shifting from a pay-as-you-go model to one based on individual contributions, with funds managed by the Pension Fund Administrators (AFPs). This change was accompanied by a debt-to-equity conversion process, which contributed to a significant reduction in external debt. Additionally, foreign investment began to increase from 1988, and a labor reform, known as the Piñera law, was implemented, transforming labor relations in the country.

Clearly, the economic situation improved in a short period, thanks to long-term-oriented policies. The time preference, i.e., the inclination toward immediate consumption over saving and investment, decreased due to the replacement of the traditional democratic system and the government gaining legitimacy after coming to power with the backing of the Congress that requested the coup. Although the first economic crisis was entirely predictable, as Collier and Sater note, the failure to eliminate exchange controls revealed that the reform process was not entirely perfect. This omission contributed to an unforeseen economic crisis, which, once it occurred, should have increased time preference. However, this preference stabilized in the following years as both the constitution and the public opinion climate in the country became more favorable to market-oriented policies.

This environment fostered a renewed process of civilization, which facilitated economic recovery. Privatizations, in particular, played a crucial role by allowing genuine economic calculation and an efficient restructuring of the capital base, enabling a more effective response to consumer preferences. Institutional stability also played a determining role by providing economic agents with the necessary confidence to undertake long-term projects. Together, these factors explain the success of the Chilean economic reform model.