

ECONOMIC FREEDOM AND PROSPERITY

Country	Economic freedom rank	Per capita income rank (USD)	Population (in millions)
Singapore	2	85,253	5.5
South Korea	23	36,511	50.6
Panama	54	21,765	4.0
Honduras	100	4,869	8.4

Source: 2017 Index of Economic Freedom, Heritage Foundation
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How Can Honduras Prosper?

by Richard W. Rahn

ANY POOR NATION CAN BECOME WEALTHY WITH FREE MARKETS AND LIMITED GOVERNMENT

On Nov. 26, Honduras held a presidential election, and current President Juan Orlando Hernandez has just been certified a winner after three weeks of street protests, led by the opposition who challenged the election results and made assertions of some voter fraud.

Honduras remains the second-poorest county in Central America, and has yet to experience an economic reformation and a sustained period of economic growth that has characterized a number of other previously poor countries. The good news is that there is no inherent reason why Honduras has lagged, and a turnaround is possible.

The broader question is this: Why are some countries wealthy and others poor? In the accompanying table, note there are four countries that were all poor 60 years ago. Now the average citizen of Singapore has a per capita income about one-third higher than the average citizen of the United States. How did this happen, given that Singapore has no natural resources, like oil? South Korea was arguably the poorest of the listed countries 60 years ago. What did it do right to become the high-income country that it is today? Panama was a typical, slow-growth Latin American

country until two decades ago when it began to grow rapidly, and is now a middle-income country. In contrast, Honduras has remained a poor country despite having many more natural resources than some of the others.

The lesson of the past half-century is that any country can become wealthy with the right set of policies and institutions. It does not depend on natural resources or climate. In fact, some of the most successful countries, like Switzerland, have little in the way of natural resources. Venezuela has the world's largest oil reserves, yet its socialist government is managing to destroy the wealth of the country. Finland and Russia are neighbors, and both "enjoy" a cold climate. Yet Finland, with few of Russia's natural resources, is twice as rich as Russia on a per capita income basis.

Singapore, South Korea and Panama have at times been imperfect democracies (from an American and Western European point of view) but have done enough right to make lives better for their citizens. Singapore is a most improbable success — being a tiny, flat, tropical island — but under its late leader Lee Kuan Yew, the country instituted the rule of law, with strong protections for private property, and a non-corrupt civil service, with competent and honest judges. Singapore also became a bastion of free trade and free markets with extensive financial and monetary freedom. It adopted a small-government model with strict limits on spending and very low tax rates.

Honduras ought to be and can quickly (in a few decades) become a rich country. What is needed is leadership. After the current political dispute is settled, the country's ruling elite needs to come to at least a tacit agreement for radical change — which would be in its own long-run self-interest. There is the bizarre situation where the wealthy live in heavily guarded compounds, while the poor and the criminals run around freely outside. This is not comfortable or sustainable for either the rich or the poor — nor does it foster foreign investment and tourism.

What should Honduras do? Fortunately, there are now many good examples from around the world about what

needs to be done and how to do it. Step One is to clean up the courts and get rid of the corrupt and incompetent government officials, which will take strong and determined leadership, and may even involve bringing in highly respected foreign judges for a period of time. The Estonian model of moving to e-government to greatly reduce the direct physical interaction of government bureaucrats with the populace, as well as increasing transparency, has proved to greatly reduce corruption.

Removing many regulations that only serve to protect special interests, particularly labor leaders and government employees, would be of enormous benefit. Establishing a currency board with a fix to the U.S. dollar would add to stability and make foreign investment much more attractive.

The government needs to establish a goal, such as an economy that grows 10 percent per year (which it should be able to do, given its state of development). This would double income every seven years, and then set forth a comprehensive plan with the necessary changes to bring it about. The leader who does this will have an enduring global reputation like President Lee of Singapore or Mart Laar of Estonia. No one remembers failed or inconsequential leaders of any country after a few decades (who served immediately before and after Churchill, Thatcher or Lincoln?)

Honduras has made some limited attempts at reform, such as legislation to allow the creation of special economic zones, but they are likely to have only very limited success without broader and more substantial economic reform.

The question is not whether Honduras can succeed in becoming a rich country, but rather whether it will have the leadership to make the necessary changes so in a few decades it looks more like Singapore than Haiti.

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