CENTRAL AMERICA'S ECONOMIC PAIN

	GDP per Capita on Purchasing Power Parity Basis (International Dollars, 2017)	Ranking "2018 Index of Economic Freedom" (Heritage Foundation)	Ranking The cost of "Doing Business 2018" (World Bank)
Belize	7,582	116	121
Costa Rica	15,373	57	61
El Salvador	8,151	75	73
Guatemala	7,419	73	97
Honduras	5,066	94	115
Mexico	18,129	63	49
Nicaragua	5,327	100	131
Panama	23,092	54	79
Singapore	85,535	2	2
United States	54,198	18	6
		180 countries ranked	190 countries ranked

Sources: IMF, World Bank, Heritage Foundation

Fixing Central America

by Richard W. Rahn

WHY CENTRAL AMERICAN COUNTRIES MUST BE PUSHED TOWARD PROSPERITY

Most Central Americans are poor because many of the people who run their governments are corrupt and/or incompetent. And that basic fact will continue to overwhelm efforts to stop the illegal migration into the U.S.

Most do not fear that their rich, unlike their poor, neighbors are going to break into their homes. The U.S. ought to have the goal of pushing the Central American countries to reach a level of prosperity where their citizens are more content staying home than trying to illegally move to the U.S.

The Spanish-speaking countries of Central America have been independent from Spain for two centuries, so the excuse of colonialism for their poor economic and human rights performance does not fly. With reasonably responsible leadership, change can take place. In the last three decades, Panama embarked on a series of pro-growth policies that have now lifted it into the ranks of the middle-income countries. Costa Rica has been a functioning democracy for decades with a semi-free market economy.

Forty years ago, a number of countries around the globe were as poor as many of the countries in Central America, but now they are middle-income or high-income. Places as diverse as Singapore, Cayman, South Korea and Chile have succeeded not through foreign aid, but through pro-growth policies. If Honduras, El Salvador and Nicaragua had instituted pro-growth policies as did Singapore and Chile, they also would be rich now, and their citizens would not be trying to flee to the United States. The problem is one of a failure to develop proper institutions and policies.

It is not that the people who run these countries are ignorant of the reasons for the successes and failures of other countries — but they have chosen not to make the necessary changes because it takes some effort or they are corrupt themselves and thus prefer the status quo.

The U.S. has a vested interest in demanding change in order to protect its own borders.

The World Bank produces an annual report on the cost of doing business in 190 countries (see ranking in the attached table). It identifies impediments to creating and doing business, and reports on the progress of each country.

One example, in Guatemala it takes more than 26 days to go through the procedures and obtain the permits to start a business, while in New Zealand it takes half of a day. There is no inherent reason it should take more than a few hours to go through the necessary procedures to set up a new business. The only reason it takes considerable time and is costly in some countries is to benefit the bureaucrats and corrupt officials — who have their hands out. For decades, The Heritage Foundation and the Canadian Fraser Institute have each produced an annual index of economic freedom that shows there is a high correlation between economic freedom and per capita income.

Honduras established a procedure to create a series of free-market enclaves in the country — Zones for Employment and Economic Development — (ZEDEs). By the mere passage of the legislation for the ZEDEs, the politicians were implicitly acknowledging they understood that the corruption, over-regulation, lack of property rights, etc. were largely responsible for the dismal economic performance of what should be a rich country. It is doubtful that, without reform of the country as a whole, the ZEDEs will be able to reach their potential and, in fact, if the necessary reforms took place, the ZEDEs would not be needed.

The publications listed as sources in the table contain almost all of the guidance necessary to turn Central America into a high-growth region. The U.S. should provide both carrots and sticks to pressure the countries to make the necessary changes. Financial aid should be given — and conditioned upon — making necessary policy changes. The aid should not be given for development projects that are most often mismanaged or stolen, but for assistance in making the institutional and policy reforms.

Equally important, sticks should also be applied in making life difficult, not for the common people, but for the corrupt (both in government and the private sector) by denying visa (travel) privileges to the U.S. and the other developed democracies and through financial sanctions on identified corrupt individuals by making it very difficult for them to obtain bank accounts anyplace in the world as is now done with known terrorists and major drug dealers. Many of the bad guys are known to U.S. authorities. Individual sanctions on key people can be very strong motivators for economic reforms.

High growth results in rapid job creation, diminishing the incentives to climb over a wall to the U.S. Removing most of the barriers to growth can be done quickly if the leadership in the poor countries is so motivated. The U.S. government has the power to impose the carrots and sticks to foster the necessary motivation.

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https://www.washingtontimes.com/news/2018/jun/25/why-central-american-countries-must-be-pushed-towa/