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Look inside the region for the cure to homegrown problems

BY JERRY HAAR
jerry.haar@flsu.edu

The United States does not pay enough attention to Latin America! From the beginning of my graduate studies at Columbia University more than three decades ago through the present time, this is the one refrain I have heard most often when the issue of hemisphere relations comes up. Contrary to popular belief, however, this lament (and admonishment) is dead wrong.



HAAR

For more than four decades, under Democrat and Republican administrations alike, a steady flow of billions of dollars of U.S. assistance (bilateral and multilateral), private investment, NGO resources and philanthropic donations to Latin America and the Caribbean have clearly demonstrated significant attention to the region.

It's time to ditch political correctness and embrace reality: The Western Hemisphere's problems exist not because the United States does not pay enough attention to Latin America and the Caribbean but because the region does not pay enough attention to itself and its own problems, 99 percent of which are homegrown.

If there is one factor that largely explains political and economic success and failure in Latin American and Caribbean nations — not only in recent times but since independence nearly 200 years ago — it is leadership.

And while the United States has a sordid past in influencing elections and backing friendly despots (particularly in Central America), the scoundrels, thieves, thugs and incompetents who have paraded their way into a Latin American Hall of Shame during the past decade were elected to power by their own people — Aristide, Alemán, Fujimori, Menem and Chávez being the most infamous.

Good leadership within the region is more urgent than ever.

The region will continue to exhibit unimpressive growth rates, deterioration of living standards and a continuing decline in competitiveness and investment attraction vis-à-vis Asia and Central Europe if it does not immediately take half a dozen steps to put its economic house in order:

• **Economic liberalization and "second generation" reforms.** Deepen macroeconomic reforms, including public-sector financial management, and accelerate noneconomic measures that address needs and bottlenecks in the areas of education, healthcare, housing, social services and infrastructure.

• **Regulations.** Radically overhaul business regulations. The World Bank's *Doing Business in 2005* benchmarks business regulation in 145 countries. Latin America's performance is very poor, second only to Africa's. Bankruptcy proceedings can take 2 to 10 years, and business incor-

poration is a nightmare, taking five months in Brazil versus less than a month in Russia. Small business, the region's largest employer, suffers most from cumbersome and costly regulations.

• **Taxation and property rights.** Pare back steep value-added taxes that elevate retail costs and depress sales, and cut individual and corporate tax rates (35 percent in the region, 15-20 percent in China) while improving collections. Efforts to title property should be intensified, directly providing collateral and credit to the poor.

• **Administration of justice and public safety.** Expedite the backlog of cases, weed out the "best judges money can buy" and change the incessant rule-bending and unreliable dispute-settlement mechanisms. Mobilize more resources to combat criminal gangs plaguing big cities and Central America.

• **Labor.** Overhaul rules that raise labor costs, create barriers to

entry and introduce rigidities in the employment structure, including those on hiring and firing practices.

• **Financial.** Broaden and accelerate reforms to expand credit, loans and guarantees to retail customers and small business, while creating wider capital-market opportunities for debt and equity issues.

While the United States can support, guide, encourage and applaud reform efforts, it cannot substitute the self-reliance and responsibility that the region's public and private sectors and citizenry in general must embrace and manifest themselves. Our neighbors to the south must first look inward, not northward, if they are to achieve a better life for their citizens.

Jerry Haar is a professor and associate director of the Knight Ridder Center for Excellence in Management in the College of Business Administration at Florida International University.