



An Interview with Prof. Steve H. Hanke

By Peter Tase.

Steve Hanke is a Professor of Applied Economics at the Johns Hopkins University, the world's expert on measuring and stopping hyperinflations, former member of Ronald Reagan's Council of Economic Advisers where he was in charge of President Reagan's privatization programs, and an adviser to Presidents in Europe, Asia, and Latin America, including Carlos Menem in Argentina and Raphael Caldera in Venezuela. Prof. Hanke is ranked 5th on Focus Economics' list of the world's *Top Economic Influencers to Follow*.

SCIENTIFIC VIEW ON PARAGUAY

1. What is your response to the recent prison break in Paraguay?

Hanke: The recent prison break is just an example of the current and ongoing state of corruption plaguing Paraguay. These instances of corruption can be explained by the World Bank's Worldwide Governance Indicators. In all six dimensions of governance (Control of Corruption, Rule of Law, Government Effectiveness,

Regulatory Quality, Political Stability and Absence of Violence/Terrorism, Voice and Accountability), Paraguay's rankings are relatively low. The most striking of these are:

- Control of Corruption: Paraguay is 166th out of 209 countries.
- Rule of Law: Paraguay is 142nd out of 209 countries.
- Government Effectiveness: Paraguay is 138th out of 209 countries.

2. How would you describe the current state of Paraguay?

Hanke: Weak rule of law and governance sabotage the quality of Paraguay's economy and economic performance. Due to widespread corruption, Paraguay finds it difficult to maintain stable institutions and sustainable economic development. Paraguay is fighting an ongoing war with powerful drug cartels in the region, since Paraguay is a transshipment country for cocaine headed for Brazil, other Southern Cone markets, and Europe. Moreover, Paraguay suffers the most from judicial corruption. Paraguay performed the worst in the legal system and property rights category under the Cato Institute's Human Freedom Index. Paraguay's judicial independence scored a terrible 1.8 out of 10. Additionally,

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according to Transparency International's 2018 Corruptions Perceptions Index,
Paraguay ranks 132nd out of 180 countries, with a pitiful score of 29 out of 100.

3. What is the current state of the economy in Paraguay?

Hanke: In the sphere of economics, misery tends to flow from high inflation, steep borrowing costs, and unemployment. The best way to mitigate that misery is economic growth. Venezuela and Argentina topped the list of my Hanke 2018 Misery index, ranked the first and second most miserable countries in the world, respectively. Not far behind is Paraguay, the 20th most miserable country in the world. That poor ranking should be put in context, however. Paraguay has grown steadily over the last 15 years, at an average rate of 4.5%. Paraguay's Tax Responsibility law that prevents the fiscal deficit from exceeding 1.5% of GDP is an important contributor to that positive performance. But, despite this, Paraguay suffers from many endemic problems. Although Paraguay's economy has put in a decent performance over the past few years, it's heavily dependent on agriculture, which causes volatility due to weather conditions and commodity prices. The unemployment rate may seem mediocre at 5.45%, but underemployment is a disappointing 19%. Paraguay has a growing middle class

and decreasing poverty rate, but at a 28.8% poverty rate, Paraguay is still one of the poorest countries in Latin America. All that said, the overwhelming drag on Paraguay's economy is centered on its legal system and protection of property rights. The Fraser Institute's 2019 Economic Freedom of the World report gives Paraguay a terrible score of 3.87 out of 10 in that category.

4. To what extent do the regional and transnational drug cartels contribute to the ongoing corruption crisis in Paraguay?

Hanke: Illegal groups in Paraguay exert political influence through political parties and economic elites. Drug and arms traffickers, smugglers, and the black market are included in these groups. Paraguay's prison system is prone to corruption. In much of the country, cartel leaders run prisons which have become hubs for drug trafficking groups. Wherever you have weak institutions and a weak judicial system, you invite with open arms drug cartels and illegal activities. This corrupts and weakens the institutions even further ultimately leading a country into a death spiral.

5. How could Paraguay transform itself from one of the most poorly ranked Latin America countries to a top economic performer?

Paraguay should do what Singapore's leader, Lee Kuan Yew, did in 1965 when Singapore became independent. At that time, Singapore was very poor and unstable. Singapore's per-capita income in 1965, adjusted for inflation, was roughly equivalent to that of poor countries like Paraguay, today. But now, Singapore is one of the richest countries in the world. Just what was Lee Kuan Yew's economic strategy?

It is a strategy I have dubbed the "Singapore Strategy." This strategy contained the following elements:

The first element was stable money. Singapore started with a currency board system. Currency boards operate on autopilot, with automatic adjustments keeping the system in balance. For Singapore, the currency board provided stable prices and free convertibility of the Singaporean dollar, which was fully backed by foreign reserves and gold, at a fixed exchange rate. This established confidence and attracted foreign investment.

The second element was that Lee Kuan Yew ruled out passing the begging bowl. Singapore refused to accept foreign aid of any kind. This is a far cry from many developing countries, where, when you pick up the paper, all you see are politicians and bureaucrats trying to secure foreign aid from someone, be it an NGO, a foreign government, or an international financial institution, like the World Bank.

The third element was that Singapore strived to have first-world, competitive private enterprises. This was accomplished via light taxation and light regulation, coupled with completely open and free trade.

The fourth element in the Singapore Strategy was an emphasis on personal security, public order, and the protection of private property.

The fifth, and final, element in the Singapore Strategy was a “small,” transparent government — a minimalist government that avoided complexity and “red tape”.

To execute the strategy with precision, Singapore appoints only first-class civil servants and pays them first-class wages. Today, for example, the Singaporean Finance Minister's annual salary is 1.3 million dollars (USD). In exchange for these high salaries, the Singapore Strategy demands that the government runs a tight ship, with no waste or corruption.

By embracing Lee Kuan Yew's Singapore Strategy of stable money, no foreign aid, first-world competition, law and order, and a government that is free of waste and corruption, Singapore has transformed itself from a poor, barren speck to a global financial center.

If Paraguay wants to turn itself around, it should do what Lee Kuan Yew did in Singapore.

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