

Chapter 3 Institutions and Economic, Political, and Civil Liberty in Latin America

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Introduction

The economic, political, and civil institutions of a country are interrelated and they work as a combination to influence the operation of an economy. To a large degree, we know the bundle of economic institutions and policies that lead to economic growth and prosperity. But economic institutions are an outgrowth of political institutions and the choices that emanate from the political process. Similarly, civil liberties influence the public discourse and thereby have an impact on both economic and political decision-making. Because of these interrelationships, it is important to consider institutional quality in all of these areas. This chapter takes a closer look at the economic, political, and civil institutions of 22 Latin American countries. This analysis will enhance our knowledge of the interaction among institutional factors, and the strengths and weaknesses of each of these economies.¹

In addition to the summary index of *Economic Freedom of the World* (EFW index), two other measures of the quality of economic institutions are considered. These two measures are the World Bank's *Doing Business* report and the *Global Competitiveness Report* of the World Economic Forum. *Doing Business* compares the regulatory cost imposed on business activity across countries and over time. The index is based on the time and money cost of regulatory compliance accompanying ten generic business activities. The ten areas covered by the index are: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. Countries imposing regulations that increase the cost of engaging in normal business activities or substitute government mandates for agreements among parties are given lower ratings. The *Global*

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1 Note that Caribbean countries are generally considered a subregion of Latin America. Thus, Latin America covers Mexico, the Caribbean countries, and all of Central and South America. Countries such as the Bahamas, Barbados, and Belize with populations less than half a million are not included in this analysis.

Competitiveness Report (GCR) uses a combination of objective and survey data to rate the “competitiveness” of various countries. While this measure considers some institutional variables, it also incorporates factors such as educational and skill levels of the labor force, size of the domestic market, the environment for innovation, access to advanced technology, and the development of the country’s physical infrastructure (roads, telecommunications, and transportation networks).

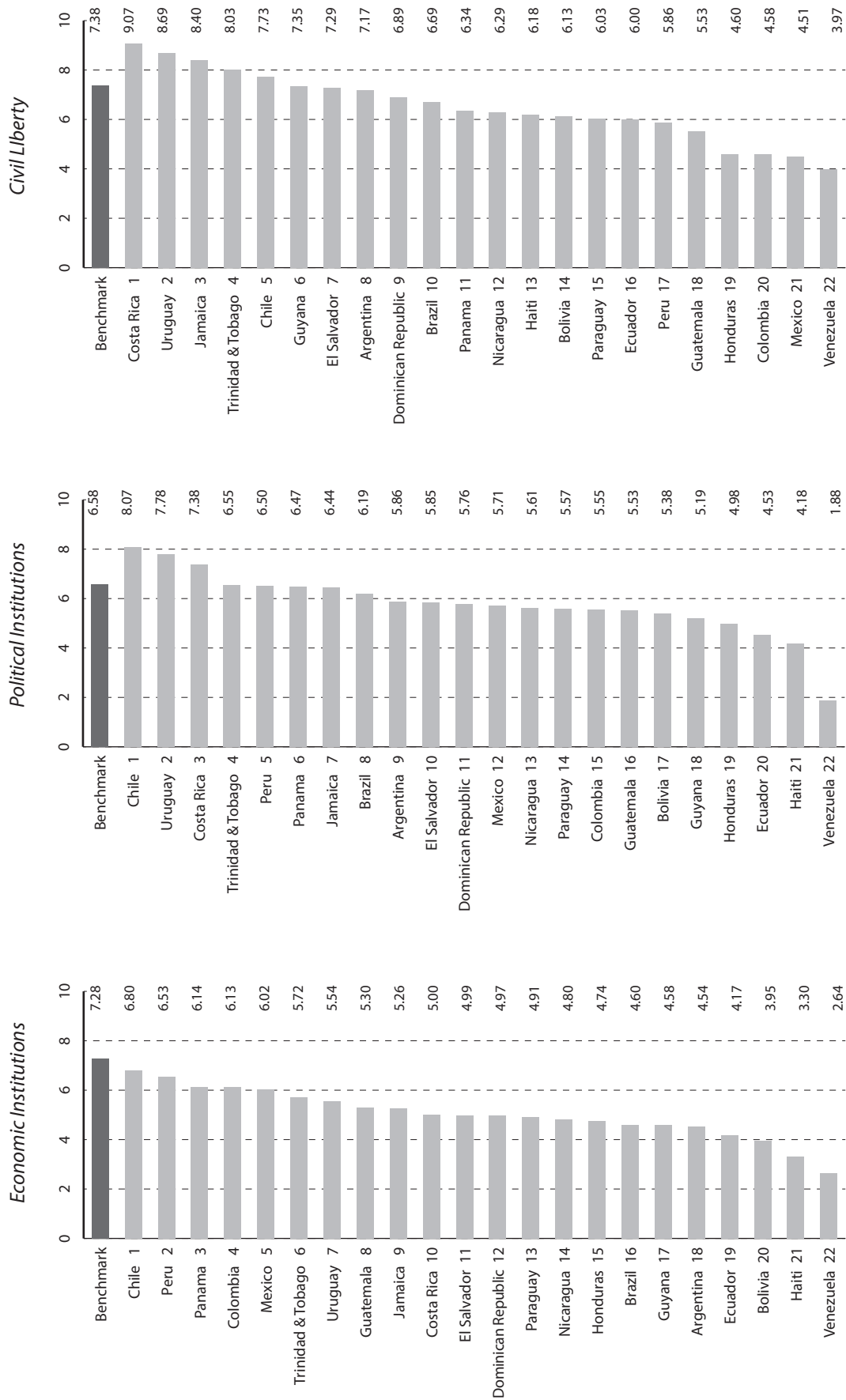
These three reports measure different dimensions of a country’s economic environment. The index in *Economic Freedom of the World* uses several components from both the *Doing Business* report and the *Global Competitiveness Report* in some of its area components. To some extent, a country’s performance in one of these indexes will tend to be correlated with the others. The original ratings of the three indicators were converted to a zero-to-10 scale and averaged to derive a measure of the economic institutional quality of Latin American countries. These ratings are presented in Exhibit 3.1.

Five measures were used to rate countries in the area of political institutions: (1) the rating for Legal System and Property Rights from the EFW index, (2) Political Rights rating from Freedom House’s *Freedom in the World*, (3) the Polity IV rating on the authoritarian-democratic scale, (4) the Polity IV rating for constraints on the executive, and (5) the *Corruption Perceptions Index* from Transparency International. These five measures were placed on a zero-to-10 scale and used to derive a combination measure of the political institutions of the Latin American countries (Exhibit 3.1). Clearly, this measure incorporates a broad range of political factors, including a legal system that protects property rights and enforces contracts in an even-handed manner, democratic decision-making, constraints on the executive, openness of the political process, and absence of corruption.

Three measures were used to examine differences in civil liberties among the countries: (1) the Civil Liberties rating from Freedom House, (2) the press freedom measure from *Freedom of the Press* of Freedom House, and (3) the *Press Freedom Index* from Reporters Without Borders. The civil liberties component from Freedom House provides a measure of the degree to which freedom of speech, religion, association, and other civil liberties of individuals are protected both legally and in practice. Freedom House’s *Freedom of the Press* considers legal, political, and economic factors that might interfere with the free flow of news or exert an impact on its content. The *Press Freedom Index* from Reporters without Borders measures violations of press freedom and government efforts to ensure freedom of the press, and indicates the degree of freedom available to journalists and news organizations. The latter measure gives considerable attention to violence against journalists, censorship of the news media, searches and harassment, self-censorship, and financial pressures that affect the freedom of the press. As in the case of the economic and political institutional measures, the three indicators of civil liberty were placed on a zero-to-10 scale in order to derive a country average (Exhibit 3.1). Taken together, they provide a broad indicator of the extent to which a country protects civil liberties and provides a free and competitive environment for the news media.

In order to provide some international perspective on the ratings of Latin American countries, the three measures of economic institutions, political institutions, and civil liberty were also derived for the top 20 countries in the index of *Economic Freedom of the World*. This benchmark will provide perspective on the strengths and weaknesses of Latin American countries by comparing them with the world’s best performers.

Exhibit 3.1: Economic, Political, and Civil Liberties of Latin American Countries for 2010



The Institutional Ratings of Latin American Countries

Economic institutions The top five Latin American countries are Chile, Peru, Panama, Colombia, and Mexico. However, all of these countries fall well below the top-20 benchmark. Chile has the highest rating, 6.80, compared to the benchmark, 7.28. At the other end of the spectrum, the five countries with the lowest rating for economic institutions are Venezuela, Haiti, Bolivia, Ecuador, and Argentina. In all except Argentina, the rating of these countries is three points or more below the top-20 benchmark.

Political institutions The ratings of three Latin American countries—Chile, Uruguay, and Costa Rica—exceed the top-20 benchmark. All other countries are below the benchmark. The bottom five Latin American countries in the political-institutions category are Venezuela, Haiti, Ecuador, Honduras, and Guyana.

Civil liberties The five highest-rated countries are Costa Rica, Uruguay, Jamaica, Trinidad & Tobago, and Chile. These top five countries in Latin America exceed the top-20 benchmark. The bottom five countries in this category are Venezuela, Mexico, Colombia, Honduras, and Guatemala.

There is a close relationship between the quality of economic and political institutions. Countries that have institutions of high quality in one tend to rank highly in the other. For example, five countries—Chile, Peru, Panama, Trinidad & Tobago, and Uruguay—rank in the top eight in both economic and political institutional quality. Similarly, six countries—Venezuela, Ecuador, Haiti, Bolivia, Guyana, and Honduras—rank in the bottom eight in both the economic and political categories.

The governments of Latin America might be placed into three broad categories. First, there is a group characterized by modest restrictions on economic freedom, a legal system that generally protects property rights and enforces contracts, and a political system based primarily on democratic principles, constraints on the executive, and rule of law. Countries in this group would include Chile, Peru, Panama, Uruguay, Costa Rica, and Trinidad & Tobago. These countries have flaws. With the exception of Chile, none rank in the top 20 worldwide in economic freedom. Nonetheless, the combination of their economic and political institutions is generally the best in Latin America.

Second, at the other end of the spectrum, there is another group characterized by extensive restrictions on economic freedom, a politicized and arbitrary legal system, extensive regulation, and a political system that is authoritarian with few effective constraints on the power of the executive. Countries in this group include Venezuela, Haiti, Bolivia, Ecuador, Honduras, and Guyana. Both the economic and political institutions of these countries undermine personal freedom and economic progress.

Finally, there is an intermediate group. These countries have substantial restrictions on economic freedom and their legal systems are often poor. But, they are more democratic and less authoritarian than the second group. Countries in this category would include Nicaragua, Paraguay, Mexico, Colombia, Jamaica, El Salvador, and the Dominican Republic.

Argentina, Brazil, and Guatemala do not fit precisely into any of the three groups. Brazil and Argentina rank relatively high, 8th and 9th respectively, in political

measures, but low in the economic measures, Brazil (16th) and Argentina (17th). On the other hand, Guatemala's economic rating is relatively high, 8th, but its political ranking is low, 16th, among Latin American countries.

Compared to countries worldwide, most Latin American countries have governments of small size but politicized legal systems, often favoring some relative to others. In the EFW index, 13 of the 22 Latin American countries rank among the top 50 worldwide in Area 1, Size of Government but only Chile places among the top 50 in Area 2, Legal System and Property Rights.² In contrast, 15 of the 22 Latin American countries place among the bottom 50 worldwide in Area 2. This indicates that, while the tax and spending levels of most Latin American governments are low, these countries generally perform the basic protective functions of government poorly. Moreover, they rely extensively on regulatory mandates. Only two—Peru and Trinidad & Tobago—rank among the top 50 worldwide in Area 5, Regulation, while nine countries in the region place among the bottom 50.

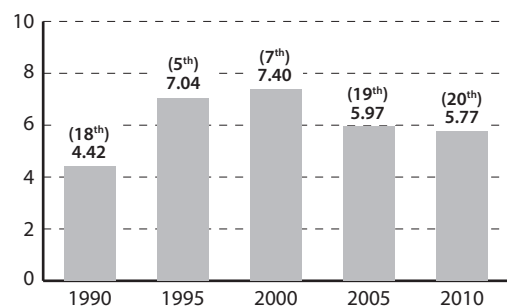
The data from *Economic Freedom of the World* indicates that the region has become more economically free during the past two decades. The mean EFW chain-linked summary rating of the 22 Latin American countries included in this chapter rose from 5.32 in 1990 to 6.33 in 1995 and 6.83 in 2000. In 2010, the mean regional EFW rating was 6.73, an increase of 1.41 units compared to 1990. But the changes were highly uneven. The EFW rating of four countries—Nicaragua, Peru, El Salvador, and Dominican Republic—rose by more than two units between 1990 and 2010. In contrast, during the same period, the EFW rating of Venezuela declined by 1.5 units and the ratings of Mexico and Ecuador increased by less than four tenths of a point. Since 1995, the EFW ratings of five countries—Argentina, Venezuela, Ecuador, Bolivia, and Trinidad & Tobago—have declined.

We now turn to a more detailed analysis of the institutional environment of each of the countries in the region.

2 The five Areas of the EFW Index are: [1] Size of Government; [2] Legal System and Property Rights; [3] Sound Money; [4] Freedom to Trade Internationally; [5] Regulation. For a complete list of the Areas, Components, and Sub-components, see Exhibit 1.1, page 5, in this volume.

Argentina

Changes across Time: Chain-linked Summary Rating (Ranking)



Income and growth

In 2010, Argentina's income per capita was \$16,011, placing it 2nd among 22 Latin American countries. From 2000 to 2010, real GDP per capita grew at an annual rate of 4.08%, the 8th most rapid in Latin America.

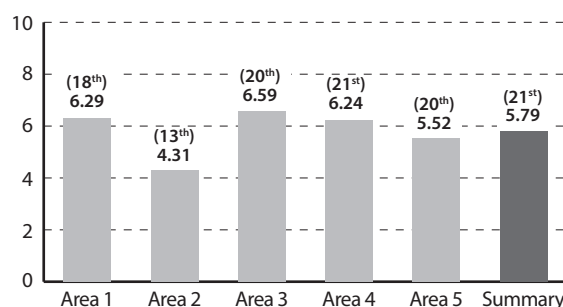
Economic institutions and analysis

During the 1990s, there were signs that Argentina was turning away from its statist history and moving toward a freer economy, but this expectation proved to be premature. By 2010, Argentina's EFW rating had fallen to 5.77, down from 7.40 in 2000. Among the 22 Latin American countries, only Venezuela had a lower summary rating in 2010. Argentina was rated marginally better in the *Doing Business* report and *Global Competitiveness Report*: its regional ranking was 13th in the former and 11th in the latter.

Argentina lags well behind most countries in the region in all five areas of the EFW index. Its regional ranking is 18th in Area 1: Size of Government. The top marginal personal income-tax rate is 35% (49% including payroll taxes). Furthermore, government consumption as a share of the total is high compared to Latin American standards, 20%.

In Area 3, Sound Money, Argentina ranks 20th in the region. Its high inflation rate, 26.6%, is a major contributing factor to this low rating. The government claims that the inflation rate is lower but most independent sources place it in the 20% range. *The Economist* recently challenged the government's data and announced that it would no longer publish Argentina's official statistics because "[w]e are tired of being an unwilling party to what appears to be a deliberate attempt to deceive voters and swindle investors" (*The Economist*, 2012, February 25). Moreover, the monetary situation is likely to get worse. A 1991 monetary rule requiring that base money be backed with international reserves and placed beyond the control of the executive has recently been eliminated. So has the mandate that the central

EFW Area Ratings (Rankings) in 2010



bank pursue the singular goal of price stability. Instead, the central bank is now instructed to pursue wider goals, including growth with social fairness and financial stability. Given the country's inflationary past, these are ominous signs.

Argentina ranks 13th in the region in Area 2 and 20th in Area 5. Several of its component ratings in these two areas placed in the bottom four in the region. These included Impartial courts (2B), Protection of property rights (2C), and Hiring and firing regulations (5Bii). Since 2003, the Argentine government has confiscated bank deposits and retirement savings, abrogated contracts, imposed export taxes, and expanded price controls. The controlling interest of the largest Argentinean oil producer, YPF, a subsidiary of the Spanish company Repsol, has been nationalized.

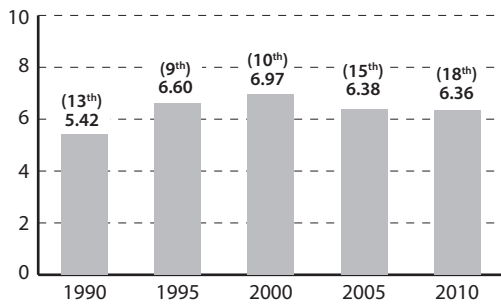
Political institutions and civil liberty

While Argentina is a political democracy with a diverse number of political parties, it has a history of arbitrary exercise of political power, crony capitalism, government favoritism, and corruption. Argentina ranked 5th among Latin American countries in the Freedom House political rights measure. In both the Polity IV measures of democracy and constraints on the executive, it ranked 9th. Argentina ranked 11th in the region in Transparency International's *Corruption Perceptions Index*. However, it ranked 105th among the 178 countries worldwide.

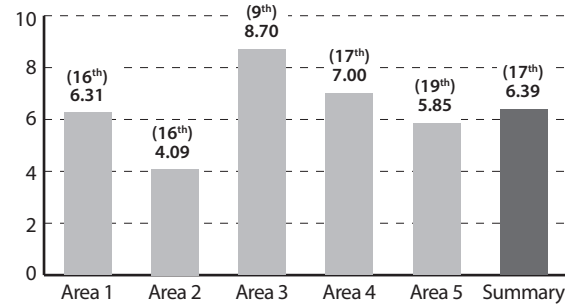
Though Argentina ranked 5th in the Reporters without Borders *Press Freedom Index*, this mainly demonstrates that journalists are free from violent attacks or threats. While freedom of the press is constitutionally protected, extensive government purchases of advertising provides political leaders with a powerful tool with which to exert control over the press. Of the 22 countries in the region, Argentina ranks 15th in Freedom House's *Freedom of the Press*, indicating substantial government involvement in actions that undermine the independence of the press.

Bolivia

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

Bolivia is one of the poorest countries in Latin America. Its income per capita in 2010 was \$4,849, 17th among the 22 Latin American countries. From 2000 to 2010, real GDP per capita grew at an annual rate of 3.7%, 11th most rapid in Latin America.

Economic institutions and analysis

The economic institutions of Bolivia are among the weakest in Latin America. In 2010, Bolivia ranked 17th among the 22 Latin American countries in the EFW index. Its ranking was even lower (20th in the region) in the *Doing Business* report, indicating that Bolivia is a highly regulated and bureaucratic economy. Its ranking in the *Global Competitiveness Report* (GCR) was slightly higher, 14th. Bolivia's summary EFW rating has fluctuated substantially in recent decades. It made modest moves toward economic freedom during the 1990s and its ranking climbed to 10th in the region by 2000. The situation has reversed dramatically during the last decade. By 2005 its ranking had plunged to 15th and, by 2010, it had fallen to 18th.

Bolivia ranks in the bottom half among Latin American countries in Areas 1, 2, 4, and 5 in the EFW index. The Bolivian economy is characterized by widespread government enterprises, excessive regulation, and a politicized legal system. Government enterprises account for 57% of investment in Bolivia, resulting in a zero rating for this component of Area 1, Size of Government. Excessive regulation is an obvious weakness of the Bolivian economy. Its rating for Area 5, Regulation places it 19th in the region. In Bolivia, the cost of starting a

business is 90.4% of GDP per capita compared to 5.1% in Chile, and 11.9% in Peru, two of its closest neighbors. Furthermore, it takes 1,080 hours to prepare and pay taxes in Bolivia, nearly 3 times the 316 hours in Chile, and 309 hours in Peru. Given Bolivia's regulatory environment, the weakness in the Area 2, Legal System and Property Rights is an expected result. Indeed, this is the case.

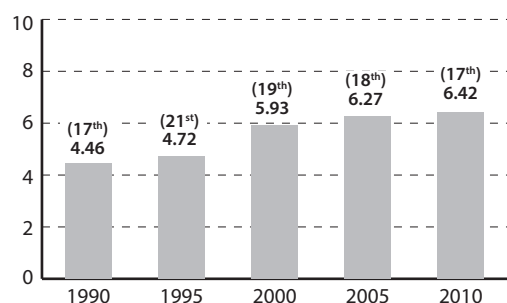
Political institutions and civil liberty

While Bolivia is an electoral democracy, its legal and political institutions are both weak and fragile. It ranks 16th among the 22 Latin American countries in the Area 2, Legal System and Property Rights, of the EFW Index and the Polity IV measure of democracy. Its ranking was a little better for other political measures. It ranked 13th in Freedom House's *Freedom in the World* Political Rights component, and Transparency International's *Corruption Perceptions Index*. In summary, Bolivia's legal and political institutions are weak and this deficiency is a major deterrent to growth and achievement of high levels of income per capita.

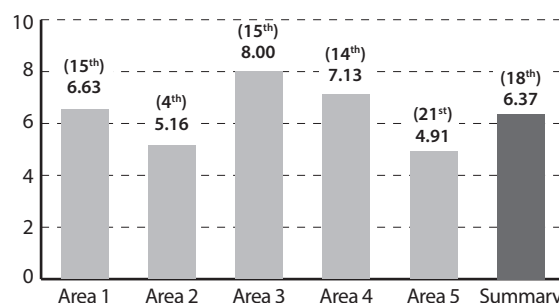
In the area of civil liberties, Bolivia's overall 14th ranking places it in the lower half among Latin American countries. It ranked 9th in the Freedom House's 2012 civil liberties measure, 12th in *Freedom of the Press*, and 16th in the Reporters Without Borders' *Press Freedom Index*. While freedom of expression, religion, and assembly are constitutionally guaranteed, enforcement is often questionable and protests have been known to turn violent and impede day-to-day life.

Brazil

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Brazil's per capita income was \$11,210, placing it 9th among 22 Latin American countries. From 2000 to 2010, real GDP grew at an annual rate of 3.67%, 12th most rapid in Latin America.

Economic institutions and analysis

Brazil ranked 18th in the region in the EFW index and 17th in the *Doing Business* report. In contrast, Brazil's *Global Competitiveness* ranking is strikingly high, 3rd in the region. To a large degree, the GCR rating reflects the skill level of the workforce, development of financial markets, and availability of technology in Brazil. Brazil's EFW summary rating rose from 4.46 in 1990 to 5.93 in 2000 and to 6.42 in 2010. However, its ranking in the region has been relatively constant, remaining at 17th in both 1990 and 2010.

The only area in the EFW index where Brazil ranks in the top ten in the region is Area 2, Legal System and Property Rights, where it places 4th. However, judged by worldwide standards, Brazil's legal structure is weak. Among the 144 countries in the EFW index, Brazil ranks 85th for Area 2. Its ranking among the Latin American countries is 15th in Areas 1 and 3, and 14th in Area 4.

The Brazilian economy is plagued with excessive regulation. In Area 5, Regulation, it ranks next to last among Latin American economies and 140th among 144 countries worldwide. Consider the following. According to the *Doing Business*

indicators, it takes 2,600 hours for a Brazilian business to prepare and pay taxes, 1,500 hours more than the average for the other countries included in the EFW index. It takes 469 days to obtain a construction permit in Brazil, far greater than the 46 days in Colombia, 155 days in Chile, and 188 days in Peru. Similarly, it takes 119 days to start a business in Brazil, compared to 7 days in Chile, Jamaica, and Uruguay and 8 days in Panama.

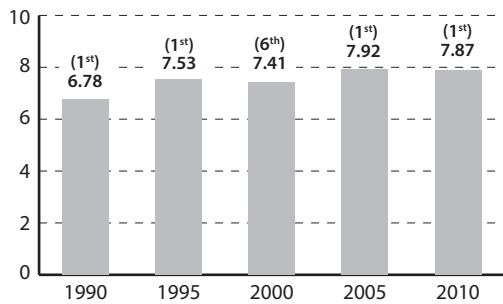
Political institutions and civil liberty

Brazil's political system is relatively open and highly competitive. A diverse set of political parties is present and most observers believe that recent elections have been relatively fair. Various measures of the quality of political institutions rank Brazil in the upper middle among Latin American countries. Its ranking is 4th in Area 2 of the EFW index, 5th in Freedom House's Political Rights index, and 9th in the Polity IV measures of both democracy and constraints on the executive. It places 4th among the Latin American countries in Transparency International's *Corruption Perceptions Index*.

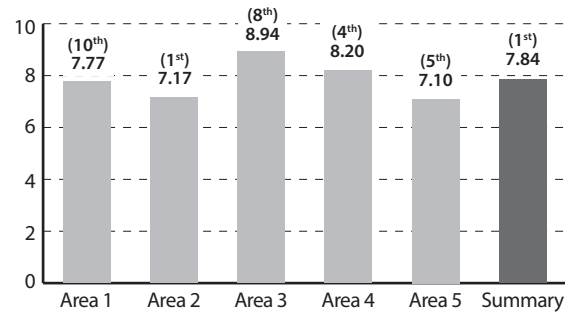
While civil liberties are generally protected, there are some problems in the freedom of the press area. Brazil ranks 4th among Latin countries in Freedom House's *Freedom in the World* Civil Liberties component, but only 12th in its *Freedom of the Press* ranking. This press freedom ranking is also consistent with Brazil's 14th place ranking in the Reporters Without Borders' *Press Freedom Index*.

Chile

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Chile's per capita income was \$15,779, 3rd highest in Latin America. This high income level was coupled with a 3.8% annual growth rate of per-capita real GDP from 2000 to 2010.

Economic institutions and analysis

The economic institutions of Chile provide a standard for other Latin American countries to emulate. Among Latin American countries, Chile ranks 1st in the EFW index, the *Global Competitiveness Report*, and the World Bank's *Doing Business* report. This was not always the case. Chile ranked 71st among the 72 countries included in the EFW Index in 1975, but has registered steady improvement through the years. By 1990, its ranking on the EFW index had risen to 27th among the 113 countries rated worldwide. Since 2005, Chile has continually ranked 1st in Latin America and 11th or higher worldwide.

Among Latin American countries, Chile ranks 1st in Area 2, Legal System and Property Rights, and 4th in Area 4, Freedom to Trade Internationally, for which its worldwide ranking is also high, 10th. Chile's tariff rate is low, 6%, and uniform. The uniform tariff rate is particularly important because it substantially reduces the incentive for businesses to engage in rent-seeking activities. Weak legal structures are a deficiency throughout Latin America. Thus, even though Chile ranks

number one among Latin American countries in the Area 2, its 27th place worldwide is less impressive.

While Chile's rating in Area 5, Regulation places it 5th in Latin America, its worldwide ranking is 64th. A closer look at the business regulation components illustrates why. Though Chile's 316 hours required for a business to prepare and pay taxes is low by Latin American standards, it is less impressive when compared to higher-income countries such as Australia (109 hours), Sweden (122 hours), and Canada (131 hours).

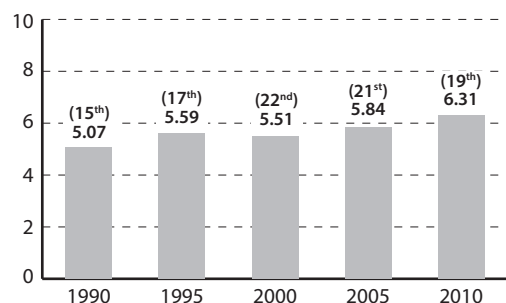
Political institutions and civil liberty

The political institutions of Chile are now the strongest in Latin America. It ranks first in the region in each of the five political measures of this analysis. This is quite an achievement for a country that moved from an authoritarian political regime to democratic decision-making only two decades ago. The combination of economic freedom, democracy, constraint on the executive, and clean government has served Chile well. Since 1990, Chile's average annual growth rate of per-capita GDP, 3.74%, has been one of the highest in the world.

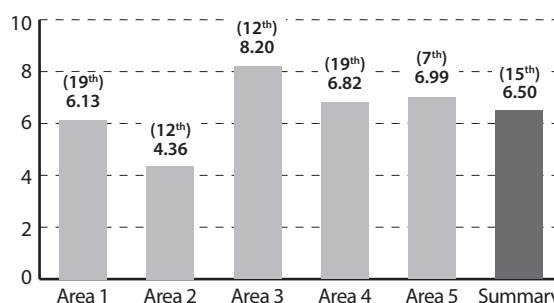
While Chile ranks first among Latin American countries in the Freedom House's *Freedom in the World* Civil Liberties component, it ranks only 5th in Freedom House's *Freedom of the Press* and 10th in the Reporters Without Borders' *Press Freedom Index*. One political party heavily dominates the print media. Violence against journalists, though limited, still occurs.

Colombia

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Colombia's income per capita was \$9,452, placing it 11th among the 22 Latin American countries. From 2000 to 2010, real GDP grew at an annual rate of 4.13%, 7th most rapid in Latin America.

Economic institutions and analysis

While the EFW summary rating, *Doing Business* report, and *Global Competitiveness Report* (GCR) measure different aspects of an economy, they are generally closely related. However, this is not the case for Colombia. The 2010 EFW summary rating places Colombia 15th among the 22 Latin American countries, but it ranks 3rd in the *Doing Business* index and 8th in the GCR. Colombia has shown steady improvement over the past two decades. Colombia's chain-linked summary rating rose from 5.07 in 1990 to 5.59 in 1995 and to 6.31 in 2010.

Colombia placed in the top ten in the region in only one area of the EFW index, Area 5, Regulation. Its weakest areas are in Area 1, Size of Government, and Area 4, Freedom to Trade Internationally: it ranks 19th in both. The top marginal income and payroll tax rate in Colombia is 47%, one of the highest in Latin America. The mean tariff rate in Colombia is 12.5% and the capital market controls are among the most rigid in Latin America.

Colombia's performance in Area 3, Sound Money, and Area 5, Regulation, is stronger, but still weak compared to other Latin American countries and the world. Ranking 12th in Area

3, Colombia had single digit inflation in the most recent year, 2.28%, and low variation in the inflation rate, 1.75. However, restrictions on owning foreign currency bank accounts decrease Colombia's rating for Area 3. Colombia ranked 7th in the region in Area 5, its highest area ranking. It only takes 14 days to start a business in Colombia, the fourth shortest time compared to Latin American countries. Yet, it takes 165 days to get electricity in Colombia, the longest time in Latin America.

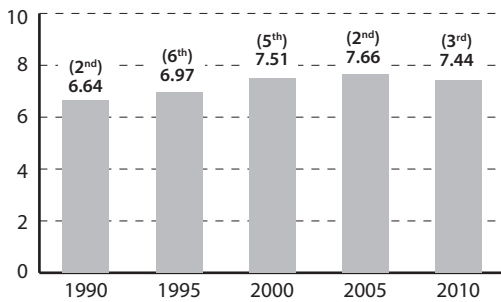
Political institutions and civil liberty

The political institutions of Colombia place it in the middle group among Latin American countries. It ranks 12th in Area 2, Legal System and Property Rights of the EFW index, and 13th in Freedom House's *Freedom in the World* political rights component. However, it ranks poorly in the Polity IV measure of democracy, 16th. Its rankings are higher in the Polity IV measure of constraints on the executive, 9th, and Transparency International's measure of perceived corruption, 5th.

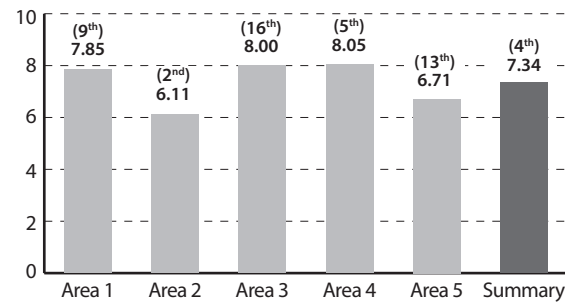
Protection of civil liberties is a continuing problem. Colombia ranks 17th among the 22 countries in the region in Freedom House's *Freedom in the World* civil liberties component and *Freedom of the Press*. Reporters Without Borders' *Press Freedom Index* ranks Colombia's press freedom 21st among 22 Latin American countries. While the Colombian constitution guarantees freedom of expression, crime, drug trafficking, and political corruption often undermine civil liberties and make it difficult for journalists to operate effectively.

Costa Rica

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Costa Rica's income per capita was \$11,568, 8th highest in the region. During the period between 2000 and 2010, real GDP grew at an annual rate of 4.06%, 9th most rapid in Latin America.

Economic institutions and analysis

Among the 22 countries in the region, Costa Rica ranked 4th in the EFW index and 5th in the *Global Competitiveness Report*. However, its ranking is only 16th in the World Bank's *Doing Business* report. This suggests that excessive regulation is a problem in Costa Rica. During the past two decades, Costa Rica has consistently registered an EFW summary rating well above both the Latin American and worldwide averages.

Costa Rica has a relatively sound legal system and only modest trade restrictions. Among Latin American countries, it ranks 2nd in Area 2 (54th worldwide) and 5th in Area 4 (16th worldwide). Rule of law is strong and military intervention in legal affairs absent. The mean tariff rate in Costa Rica is 5.4%.

In Area 5, Regulation, Costa Rica ranked 13th in Latin America and 89th worldwide. It takes 60 days to start a business in Costa Rica, a lengthy time compared to some of its close neighbors. By way of comparison, it only takes 7 days in Chile, Jamaica, and Uruguay, and 8 days in Panama. Furthermore, it takes 246 hours for a business to prepare and pay taxes in Costa Rica, twice the required time in Australia (109 hours) and Canada

(131 hours). Costa Rica's ranking for Area 1, Size of Government, placed it 9th among Latin American countries. Judged by Latin American standards, government consumption was large and the top marginal tax rate relatively high.

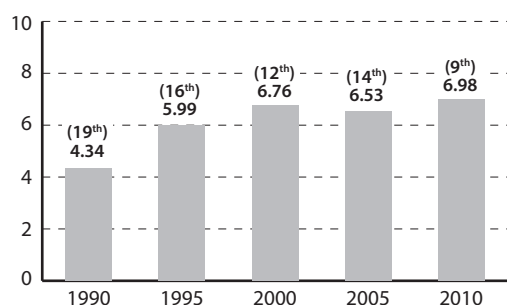
Costa Rica's area of greatest weakness is Area 3, Sound Money, where it ranks 16th in the region and 85th worldwide. This low rating for Sound Money is primarily the result of restrictions on ownership of foreign currency bank accounts.

Political institutions and civil liberty

Costa Rica is an electoral democracy and its elections are generally considered to be free and fair. Its rating in Area 2, Legal System and Property Rights in the EFW index was the 2nd highest among the 22 countries in the region. It was the highest ranked Latin American country in Freedom House's *Freedom in the World* political rights component, and the Polity IV measures of both democracy and constraints on the executive. It ranked 3rd in the region in Transparency International's *Corruption Perceptions Index*, even though all but one of the country's presidents since 1990 have been accused of corruption after their departure from office. Costa Rica's record for civil liberties protection and freedom of the press is outstanding. It ranks number one in Latin America in each of the three civil liberty measures included in this analysis. Clearly, the political and legal institutions of Costa Rica are among the strongest in Latin America.

Dominican Republic

Changes across Time: Chain-linked Summary Rating (Ranking)



Income and growth

In 2010, the Dominican Republic's income per capita was \$9,350, placing it 12th among the 22 Latin American countries. From 2000 to 2010, real GDP grew at an annual rate of 5.38%, 4th most rapid in Latin America.

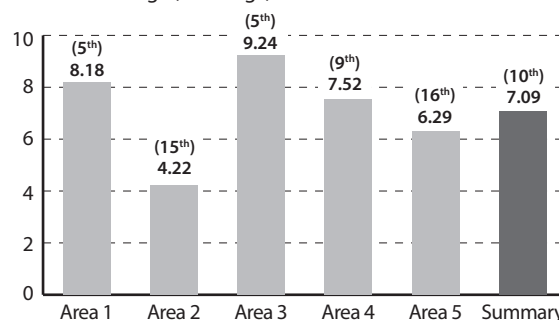
Economic institutions and analysis

The economic institutions of the Dominican Republic are generally in the lower middle group among Latin countries. Its 2010 summary EFW rating placed it 10th among the 22 countries in the region. Its 11th place ranking in the *Doing Business* report was similar, but its 17th rank in the *Global Competitiveness Report* was a little lower. The EFW summary rating of the Dominican Republic has improved during the past two decades, rising from 4.34 in 1990 to 6.98 in 2010. In turn, its ranking among Latin American countries rose from 19th in 1990 to 9th in 2010.

The Dominican Republic's highest EFW ranking is 5th, in both Area 1, Size of Government, and Area 3, Sound Money. Government consumption as a share of the total is low, 8%, and the top marginal income tax rate moderate, 25% without the payroll tax, and 33% when the payroll tax is included.

The Dominican Republic's rankings in the other three areas range from 9th to 16th. It ranks mid-range among Latin American countries for most components, including Impartial courts (13th), Protection of property rights (10th), Hiring regulations and minimum wage (11th), and Hiring and firing regulations (9th). On the positive side, it only takes 8 days to obtain the necessary

EFW Area Ratings (Rankings) in 2010



permission for exporting, the shortest in Latin America. The 19 days required to start a business ranks 9th in Latin America.

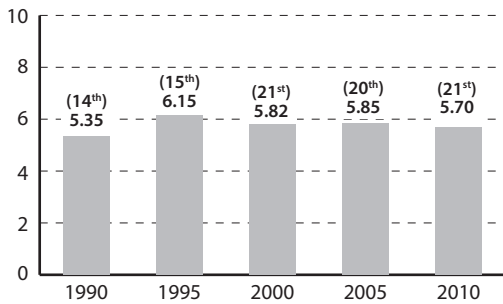
Political institutions and civil liberty

The legal and political institutions of the Dominican Republic also place it in the middle group in the region. Its EFW ranking for Area 2, Legal System and Property Rights is 15th among the 22 countries in the region. Freedom House ranks it 5th in its political liberties index, while the Polity IV Project places it 9th in its measures of both democracy and constraints on the executive. Corruption is a continuing problem in the Dominican Republic: it ranked 16th among Latin American countries and 129th among 182 countries worldwide in Transparency International's *Corruption Perceptions Index*. Political leaders, judges, and the police have all been involved in various types of corrupt behavior. This reduces the confidence of the general populace in the legal and political institutions of the country.

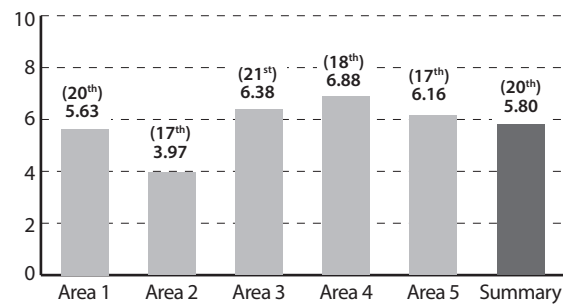
The Dominican Republic ranks in the upper middle group among Latin American countries in measures of civil liberties and freedom of the press. It places 4th in the region in Freedom House's *Freedom in the World* Civil Liberties component, but its press freedom rankings in the Freedom House and Reporters Without Borders publications were 7th and 12th, respectively. The constitution of the Dominican Republic guarantees freedom of speech, press, religion, and association. Moreover, the country has an abundance of newspaper publications, and there are no legal restrictions on access to the Internet, though it is not widely available except in large, urban areas.

Ecuador

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Ecuador's income per capita was \$8,027, 13th among Latin American countries. Its growth rate during the past decade has been more impressive. From 2000 to 2010, real GDP grew at an annual rate of 4.46%, the 5th most rapid in Latin America.

Economic institutions and analysis

The economic institutions of Ecuador are poor, even by Latin American standards. It ranks 20th among 22 Latin American countries in the EFW index and 19th in the World Bank's *Doing Business* report. Its *Global Competitiveness* ranking is slightly higher, 15th. Taken together, the measures of economic institutions indicate that the economy of Ecuador is highly regulated and politically directed. Ecuador's EFW summary rating has fluctuated between 5.35 and 6.15 during the past two decades. However, its ranking in Latin America has slipped from 14th in 1990 to 21st in 2010.

Ecuador ranks in the bottom group in all five areas of the EFW index. It ranks 20th in the region in Area 1, Size of Government. Government consumption spending makes up 15% of the total. Transfers and subsidies are small, only 2% of GDP. However, Ecuador's top marginal tax rate is high, 35% without the payroll tax and 47% when the payroll tax is included. Its ranking in Area 3, Sound Money is 21st. Restrictions on the ownership of foreign currency bank accounts contribute to its low rating in this area.

Its rankings in Area 2, Legal System and Property Rights (17th), Area 4, Freedom to Trade Internationally (18th), and Area 5, Regulation (17th) are also low. As is so often the case, countries with low regulatory ratings also have weak legal systems. Ecuador ranked 19th in the region in the Impartial courts

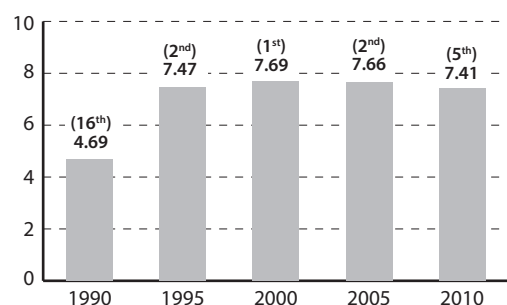
component (2B), 17th in the Protection of property rights component (2C), and 19th in the Hiring and firing regulation component (5Bii). In Ecuador, it takes 654 hours for a business to prepare and pay taxes, more than twice the figure for Chile (316 hours) and Peru (309 hours). Moreover, it takes 5.3 years to resolve insolvency in Ecuador, the longest time among Latin American countries except for Haiti.

Political institutions and civil liberty

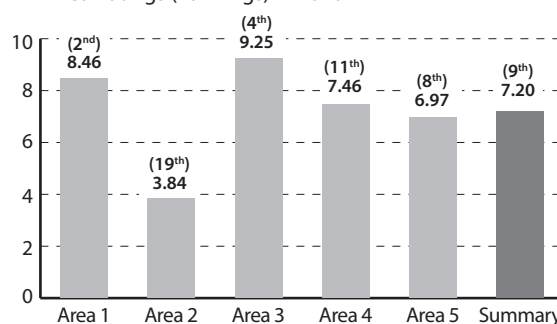
While Ecuador is an electoral democracy, its political institutions are characterized by instability, arbitrary actions, and widespread corruption. The eight changes in executive power since 1996 are indicative of the country's political instability. Ecuador's ranking in Area 2, Legal System and Property Rights of the FEW index was 17th in the region. Ecuador ranked 13th in Freedom House's political rights index, 20th in the Polity IV measure of democracy, and 21st for constraints on the executive. The president's authority to dissolve the legislature and call for new assembly elections once during his term contributes to Ecuador's low rating for constraints on the executive. Given the presence of extensive regulation and arbitrary power, it is not surprising that corruption is widespread. Ecuador ranked 14th among the 22 Latin American countries in Transparency International's *Corruption Perceptions Index*. While Ecuador ranks 9th in Freedom House's Civil Liberties component, its ranking in *Freedom of the Press* is only 16th among Latin American countries. Even though freedom of expression is generally respected, there has been a recent increase in violent attacks against journalists, resulting in a ranking of 15th in the Reporters Without Borders' *Press Freedom Index*.

El Salvador

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, El Salvador's income per capita was \$6,667, 15th among the Latin American countries. During the period from 2000 to 2010, real GDP per capita grew at an annual rate of 1.93%, placing it 20th among the countries in the region.

Economic institutions and analysis

El Salvador's summary EFW rating is the 9th highest among Latin American countries. However, its ranking is substantially lower for the other measures of economic institutions. It ranks 12th among Latin American countries in the *Doing Business* index and 13th in the *Global Competitiveness Report*. El Salvador substantially increased its EFW summary rating from 4.69 in 1990 to 7.66 in 2005, increasing its ranking in the region from 16th in 1990 to 2nd in 2005. By 2010, however, its summary rating had fallen to 7.41.

The government of El Salvador is small. El Salvador's rating for Area 1, Size of Government was the 2nd highest in Latin America and the 6th highest worldwide. Government consumption was only 10.5% of total consumption and transfers and subsidies were only 3.6% of GDP. El Salvador also ranks high, 4th in the region, in Area 3, Sound Money of the EFW index. It has adopted the US dollar as its official currency and citizens are free to maintain foreign currency bank accounts if they prefer. In recent years, the inflation rate has been low and relatively constant.

El Salvador has major weaknesses in legal structure and regulation. In Area 2, Legal System and Property Rights, it ranked 19th in the region and 129th among 144 countries worldwide. Ratings were particularly low for the following components: Judicial independence (2A), Impartiality of the courts (2B), Integrity of the legal system (2E), and Legal enforcement of contracts (2F). In Area 5, Regulation, El Salvador ranked 8th in the region and 69th worldwide. High costs of employee dismissal and military conscription contribute to the low rating in this area.

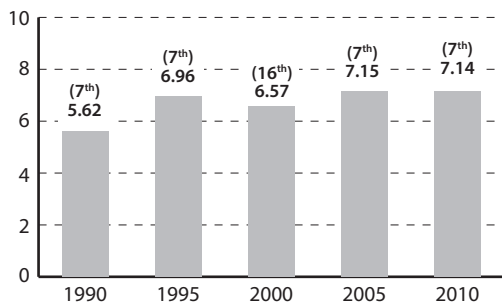
Political institutions and civil liberty

The political institutions of El Salvador rank in the upper middle among Latin American countries. It ranks 5th in the political liberties component of Freedom House's *Freedom in the World* and 9th in the Polity IV index of both democracy and constraints on the executive. Transparency International also places it 5th among Latin American countries in its *Corruption Perceptions Index*.

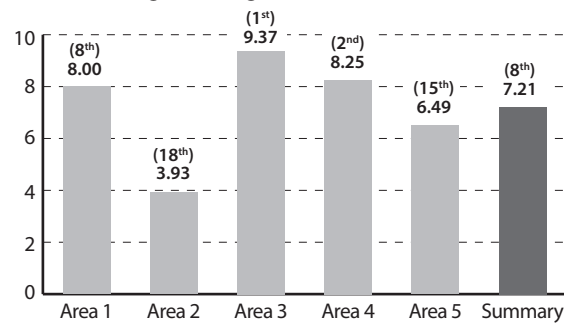
In the civil liberties area, El Salvador also places in the upper middle group of Latin Countries. Freedom House ranks it 9th in civil liberties protection and 8th in *Freedom of the Press*. Its 4th-place ranking in Reporters without Borders' *Press Freedom Index* is significantly higher. This indicates that, while reporters seldom face violence, there are still limitations on the media. While freedom of the press is constitutionally guaranteed, media ownership is highly concentrated.

Guatemala

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Guatemala's income per capita was \$4,784, 18th among Latin American countries. From 2000 to 2010, real GDP per capita grew at an annual rate of 3.37%, placing it 16th among Latin American countries.

Economic institutions and analysis

Guatemala's EFW summary rating in 2010 was the 8th highest among Latin American countries. Moreover, its ranking was only slightly lower for the other economic institutional measures. Guatemala's ranking was 9th in Latin America in both the World Bank's *Doing Business* report and the *Global Competitiveness Report*. During the last decade, Guatemala has made significant moves toward economic liberalization. Its summary EFW rating was 6.57 in 2000 but by 2010 the rating had climbed to 7.14, increasing its ranking among Latin American countries from 16th in 2000 to 7th in 2010.

As is often the case in Latin America, Guatemala's weakest areas in the EFW index are Area 2, Legal System and Property Rights, and Area 5, Regulation, where it ranks 18th (126th worldwide) and 15th (102nd worldwide), respectively. A closer look at a few components shows areas in need of improvement. Guatemala ranks 16th in Latin America in Impartial courts (2B), 15th in Protection of property rights (2C), and 11th in Hiring regulations and minimum wage (5Bi). It takes 37 days to start a business in Guatemala, the 14th longest in Latin America. Guatemala's most striking barrier to conducting business is the difficulty in enforcing contracts. According to the World Bank, it takes 1,459 days or four years to obtain a judicial judgment for the collection of an undisputed debt, the longest in Latin America.

Guatemala ranked 1st in Latin American and 33rd worldwide in Area 3, Sound Money, its best area ranking. In the most

recent year, Guatemala's inflation rate was 3.86%. Guatemala also has strength in Area 4, Freedom to Trade Internationally, where it ranks 2nd in the region and 8th worldwide. The high ranking in this area is a result of a low mean tariff rate, 5.60%, and low international trade tax revenues as a share of the trade sector, 1.56%.

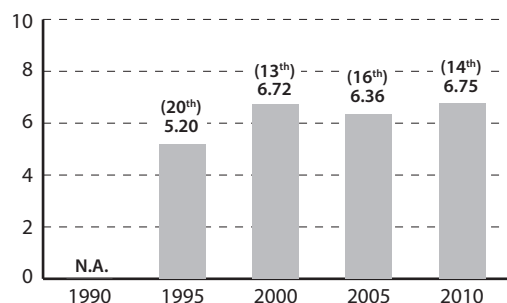
Political institutions and civil liberty

The political institutions of Guatemala place it in the middle group among Latin American countries. Its rating for EFW Area 2, Legal System and Property Rights, place it 18th among the 22 Latin countries. It ranks 13th in Freedom House's *Freedom in the World* political rights component, but 9th in the region in the Polity IV index of democracy and constraints on the executive. Transparency International places it 14th in its *Corruption Perceptions Index*.

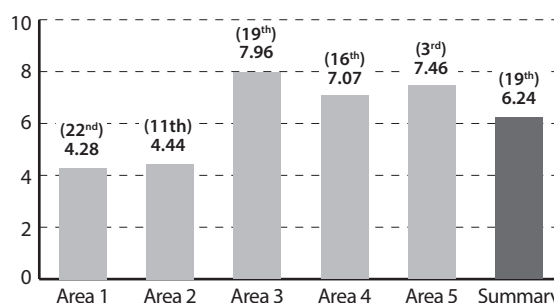
Guatemala's civil liberties and press freedom are among the lowest in Latin America. Guatemala ranks 17th in Freedom House's Civil Liberties measure and 18th in *Freedom of the Press*. It ranks 13th in the region in Reporters Without Borders' *Press Freedom Index*. Even though the constitution guarantees freedom of expression and speech, those who criticize the government or condemn past human rights violations have been known to face persecution. Both journalists and scholars have received death threats and faced violent attacks for raising questions about government actions. Guatemala has recently enacted measures such as the 2009 Law for Free Access of Public Information to increase the transparency of government operations, which was also served by a decision in 2010 of the Constitutional Court that made information on the beneficiaries of Guatemala's conditional cash-transfer program, *Mi Familia Progresá*, publically available.

Guyana

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

Guyana is one of the poorest countries in Latin America. In 2010, its per-capita GDP was \$3,431, 20th among the 22 Latin American countries. Only Nicaragua and Haiti had a lower income level. From 2000 to 2010, real per-capita GDP grew at an annual rate of 2.1%, 19th in the region.

Economic institutions and analysis

The economic institutions of Guyana are among the weakest in Latin America. Its summary economic freedom rating is 19th among the 22 Latin American countries. Its rankings in *Doing Business* and the *Global Competitiveness Report* are only incrementally higher, 14th in the former and 18th in the latter. Moreover, its EFW summary rating has changed little during the past decade.

Guyana is a “big government” economy. It ranks last in the region and 136th among the 144 countries worldwide in Area 1, Size of Government in the EFW index. Government consumption makes up 15% of total consumption. Government enterprises dominate the economy and government investment sums to more than half of total investment, 54%. By Latin American standards, the top marginal income tax rate, 41% when the payroll tax is included, is high.

Among Latin countries, Guyana ranks 11th in Area 2, Legal System and Property Rights, 16th in Area 4, Freedom to Trade Internationally, and 19th in Area 3, Sound Money. Weaknesses in the independence of the judiciary, impartiality of the courts, and integrity of the legal system contribute to Guyana’s low rating in Area 2. Guyana’s 11% mean tariff rate is high by Latin

American standards. Considering the usual correlation in Latin America between Areas 2 and 5, Guyana’s high regulatory ranking (3rd in the region and 47th worldwide) is surprising. Military conscription is absent and other regulation of the labor market is low. However, business regulations are somewhat less impressive. It takes 26 days to start a business, placing it 10th in the region for this component.

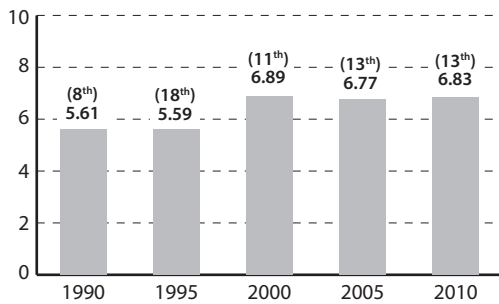
Political institutions and civil liberty

Guyana’s legal and political institutions are characterized by judicial uncertainty and favoritism, weak protection of personal liberty, and political corruption. While Guyana places 11th in the region in the Area 2 of the EFW index and 5th in Freedom House’s political rights measure, its ranking is 19th in the Polity IV measures of democracy and constraint on the executive and 18th in the *Corruption Perceptions Index* of Transparency International.

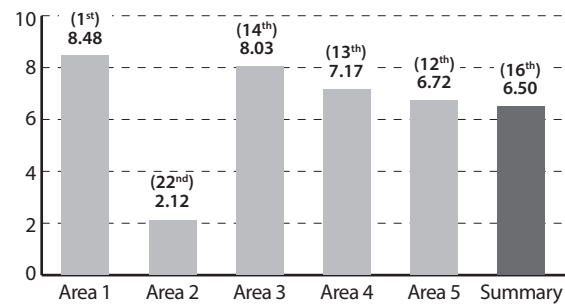
The civil liberties ratings of Guyana are marginally better. Freedom House places it 9th in the region in its civil liberties index and 6th in *Freedom of the Press*. Guyana’s press freedom ranking by Reporters Without Borders is 8th. Even though freedom of expression is constitutionally guaranteed, opposition party leaders often complain about a lack of access to state-owned media, which operates the country’s only radio station. Furthermore, Guyana serves the drug trafficking community as a transshipment point for cocaine between South America and North America and Europe. According to Freedom House, drug revenues fuel the informal economy, and provide the raw material for corruption that reaches to the highest levels of government.

Haiti

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

Haiti is the poorest country in Latin America and its growth rate is anemic. In 2010, Haiti's income per capita was \$1,110, substantially lower than any other country in Latin America. From 2000 to 2010, real GDP grew at an annual rate of 0.23%, last in the region.

Economic institutions and analysis

While Haiti's summary rating in the EFW index places it 16th in Latin America, its regional ranking is 21st in the World Bank's *Doing Business* report and 22nd in the *Global Competitiveness Report*. Its EFW summary rating is based on incomplete data. The *Doing Business* and GCR data suggest that, if the EFW figures for Haiti were more complete, it is highly likely that its rating and ranking would decline.

Haiti ranked 1st among Latin American countries in the EFW index for Area 1, Size of Government. Government consumption as a share of the total, 10%, and other indicators of size of government push Haiti's rating up in this area. But, this does not mean that the government is focusing on basic functions such as protection of people and their property. Clearly, failure in this vitally important area is a major deficiency of Haiti. In the EFW Area 2, Legal System and Property Rights, Haiti ranks last among the 22 Latin American countries and last among the 144 countries worldwide.

Haiti ranks 12th in the region in Area 5, Regulation. However, this ranking is misleading. It is based on incomplete data and relatively high ratings for labor-market regulation. Business regulations, however, are quite restrictive. It takes 105 days to start a business in Haiti, the third longest in Latin America. Furthermore, it takes 1,129 days to obtain a construction permit in Haiti, the longest in Latin America and more than four times the number of days of any other Latin American country.

Regulations also restrict trade. It takes 31 days to clear customs for imports and 33 days for exports, the second longest time among Latin American countries.

Political institutions and civil liberty

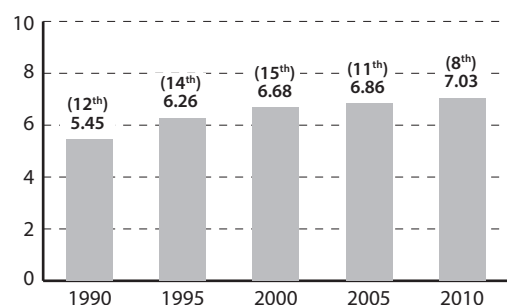
While Haiti has had several elections in recent decades, they have been characterized by intimidation, violence, and corruption. The history of the country is one of authoritarian government and political corruption. In the political rights area, Freedom House places it in a tie with Honduras for 19th place among the 22 Latin countries. Only Nicaragua and Venezuela earned lower ratings. In the Polity IV measure of democracy, Haiti tied with Ecuador for 20th. Only Venezuela had a lower rating. Moreover, corruption is rampant. In 2011, Transparency International's *Corruption Perceptions Index* ranked Haiti 175th among the 182 countries worldwide. Even Venezuela had a higher rating in the region.

In the civil liberties area, Haiti ranks 21st in Freedom House's *Freedom in the World* civil liberties component and 14th in *Freedom of the Press* among Latin countries. Its ranking in the Reporters Without Borders' *Press Freedom Index* is 7th, reflecting that journalists seldom face violence or death in Haiti. However, corruption and unreliable police protection undermine security of the right to assemble and freedom of speech. Additionally, the high level of corruption persuades many press outlets to self-censor, and violence against women and children is extremely prevalent.

Clearly, a corrupt government that tramples on political and civil rights and fails to protect property rights and provide for the personal safety of citizens is a huge problem. These weaknesses undermine economic progress. Until improvement is made in these areas, Haiti will remain one of the poorest countries in the world.

Honduras

Changes across Time: Chain-linked Summary Rating (Ranking)



Income and growth

In 2010, Honduras' income per capita was \$3,922, 19th among the 22 Latin American countries. Its growth rate during the past decade provides some justification for optimism: from 2000 to 2010, the annual growth rate of real GDP per capita was 4.24%, the 6th most rapid in Latin America.

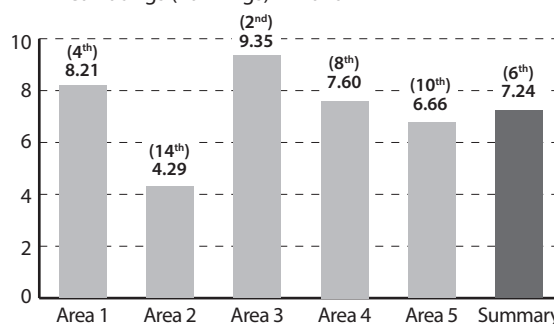
Economic institutions and analysis

Honduras ranks 6th among Latin American countries in the EFW index but its ranking is significantly lower for other economic indicators. Among Latin American countries, its ranking is 18th in the *Doing Business* report and 12th in the *Global Competitiveness Report*. Its summary rating in the EFW has shown some improvement, rising from 5.45 in 1990 to 6.68 in 2000 and 7.03 in 2010.

The ratings of Honduras are relatively robust in three areas of the EFW index: Area 1, Size of Government, Area 3, Sound Money, and Area 4, Freedom to Trade Internationally. Honduras ranks in the top five in the region in both Size of Government, 4th, and Sound Money, 2nd. Transfers and subsidies account for only 0.30% of GDP, the lowest in Latin America. In recent years, the rate of inflation has been both modest and relatively stable. In Area 4, Honduras ranks 8th in the region and 47th worldwide. Its tariffs are low. The mean tariff rate is 5.50% and trade tax revenues are only 0.92% of the trade sector.

The EFW area ratings highlight two major economic institutional weaknesses of Honduras: an unsound legal system and excessive regulation. Honduras's rating for Area 2, Legal System and Property Rights gave it a rank of 14th in the region and 116th among 144 countries worldwide. Its rating in Area 5, Regulation places it 10th in the region and 85th worldwide. As an example, it takes 920 days to settle a contractual issue in Honduras, the 4th longest in Latin America, shorter only than in Guatemala, Colombia, and Trinidad & Tobago. Honduras ranked last among Latin American countries for sub-component 5Bi, Hiring regulations and minimum wage.

EFW Area Ratings (Rankings) in 2010



Political institutions and civil liberty

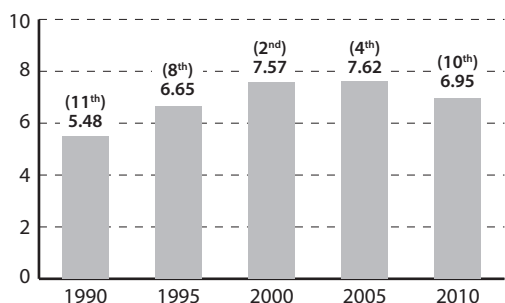
Honduras ranks near the bottom of the region in all measures of political and civil freedoms. Its 14th ranking in the EFW index for Area 2, Legal System and Property Rights, is reinforced by measures of its political institutions. Freedom House ranks Honduras 19th in its *Freedom in the World* political liberties component, while the Polity IV Project places it 16th in its measure of democracy and 19th in its constraints on the executive measure. Transparency International places Honduras 16th in the region and 129th among the 182 countries included in its *Corruption Perceptions Index*.

Its civil liberties performance is equally poor. Freedom House places Honduras 17th in its *Freedom in the World* civil liberties component and 20th in *Freedom of the Press* among the countries in the region. The Reporters Without Borders' *Press Freedom Index* also places Honduras 20th in the region. Honduras can be a very dangerous location for journalists, and media self-censorship is prevalent. According to Freedom House, "since the 2009 coup, authorities have systematically violated the constitution's press freedom guarantees."

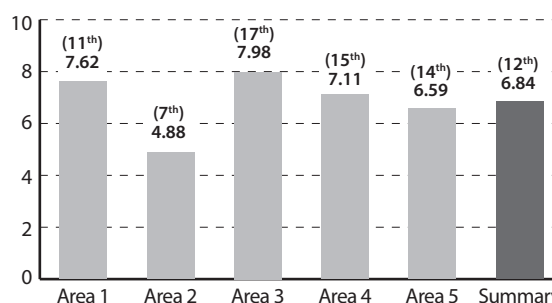
Given its institutional deficiencies, Honduras is considering a unique method of improving institutional quality: contracting out special enterprise zones to developers pledging to establish a legal and regulatory infrastructure to promote economic freedom and entrepreneurial activity. The idea is to set aside special enterprise zones patterned after Hong Kong that will establish transparent and predictable rules administered impartially to encourage investment, employment, and economic growth. Economists Paul Romer and Brandon Fuller have been at the forefront of those advocating this path of institutional development. Several investment groups are engaged with the government of Honduras in an effort to work out such a development plan. Both judicial and political obstacles still stand in the way, but it will be interesting to observe if this form of institutional development is able to move forward.

Jamaica

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Jamaica’s income per capita was \$7,673, 14th highest among the 22 Latin American countries. From 2000 to 2010, real GDP grew at an annual rate of 0.96%, one of the slowest in the region, outpacing only Haiti.

Economic institutions and analysis

While Jamaica ranks 12th in the region in the EFW index and 7th in the *Doing Business* report, its ranking is lower (16th) in the *Global Competitiveness Report*. Its small size and limited domestic market contribute to its lower ranking in the latter index. Jamaica’s summary EFW rating has fallen in recent years. Its 2010 rating was 6.95, down from 7.62 in 2005. In the chain-linked index, this corresponds to a reduction in its regional ranking from 4th in 2005 to 10th in 2010.

Jamaica’s ranking in Area 2, Legal System and Property Rights, is 7th in the region and 92nd worldwide, and performance for several components in this area is borderline. For example, in the Impartial courts component (2B) it ranks 8th in the region, and in the Protection of property rights component (2C) it ranks 5th.

Jamaica’s performance in other areas is strong compared to the rest of the region, but unimpressive in contrast with the rest of the world. In Area 1, Size of Government, Jamaica ranks 11th in the region. Transfers and subsidies as a share of GDP are small, 1.4%, there are few government enterprises, and the top marginal income-tax rate is relatively low, 25%. Jamaica ranked

14th in Latin America in Area 5, Regulation. In some components, Jamaica’s performance in the region is outstanding. It only takes 7 days to start a business in Jamaica, the shortest time in Latin America. Moreover, in the sub-component showing the regulatory cost of hiring, Hiring regulation and minimum wage (5Bi), it ranks in the top five in the region.

Areas of weakness include sound money and trade barriers. Jamaica ranks 17th in the region in Area 3, where the inflation rate has been high—12.61% in the most recent year—and 15th in Area 4, where the mean tariff rate is relatively high, 7.5%.

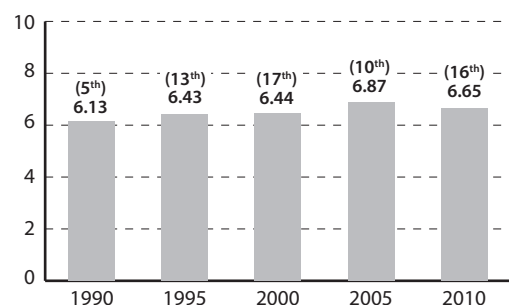
Political institutions and civil liberty

By Latin American standards, the legal and political institutions of Jamaica are strong. Jamaica ranks 7th in Area 2, Legal System and Property Rights, and 5th in Freedom House’s *Freedom in the World* political liberties measure. It places 5th in the Polity IV measure of democracy and 1st for its constraints on the executive. Transparency International places Jamaica 8th in the region in its *Corruption Perceptions Index*.

In the area of civil liberties, Freedom House ranks Jamaica 9th among Latin American countries in its *Freedom in the World* civil liberties measure. Its ratings for press freedom were excellent. Jamaica ranked 1st in the region in both the Reporters Without Borders’ *Press Freedom Index* and Freedom House’s *Freedom of the Press*. Jamaica’s journalists operate with a high level of autonomy on story selection and rarely fall victim to intimidation or violence.

Mexico

Changes across Time: Chain-linked Summary Rating (Ranking)



Income and growth

In 2010, Mexico's income per capita was \$14,563, 4th highest in the region. From 2000 to 2010, real GDP per capita grew at an annual rate of 2.25%, placing Mexico 18th in Latin America.

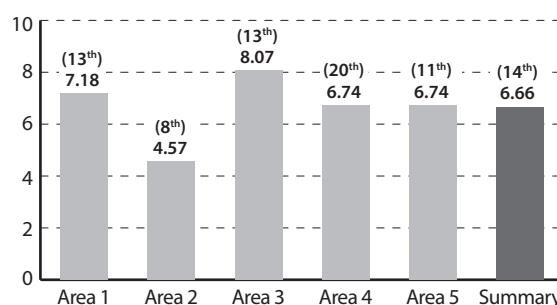
Economic institutions and analysis

Mexico placed 14th in the region in the EFW index. This deviates substantially from Mexico's ranking in the *Doing Business* report and the *Global Competitiveness Report*, 4th. Its EFW summary rating shows a modest upward trend over the past two decades from 6.13 in 1990 to 6.65 in 2010. However, the ratings of other Latin American countries have increased even more rapidly. As a result, Mexico's regional chain-linked ranking fell from 5th in 1990 to 16th in 2010.

Mexico's strongest regional rankings are in Area 2, Legal System and Property Rights, where it placed 8th, and Area 5, Regulation, where it was 11th. It only takes 9 days to start a business in Mexico, the second shortest time in Latin America and competitive even compared to Australia (2 days) and Canada (5 days).

On the other hand, Mexico falls behind the region and the world for freedom of international trade (Area 4), ranking 20th among Latin American countries and 95th worldwide. Its low rating is a result of a high mean tariff rate, 9%, and substantial variance in tariff rates, 19.6. Mexico also has room for improvement in Area 1, Size of Government, and Area 3, Sound Money, where it ranked 13th. Though general government consumption

EFW Area Ratings (Rankings) in 2010



spending as a share of the total is competitive worldwide, 15%, government enterprises account for 29% of investment in Mexico, and the top marginal income and payroll tax rate is 43%, both high figures when compared to other Latin American countries. Mexico has a history of monetary instability. Its inflation rate was 4.16% in the most recent year.

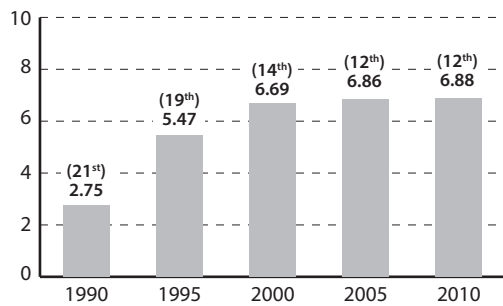
Political institutions and civil liberty

Mexico's legal and political institutions place it in the middle among Latin American countries. Mexico ranks 8th in Area 2 of the EFW index, Legal System and Property Rights, and 13th in the Freedom House political rights measure. It places 9th in the Polity IV measures of democracy and constraints on the executive. Transparency International places Mexico 11th in the region in its *Corruption Perceptions Index*.

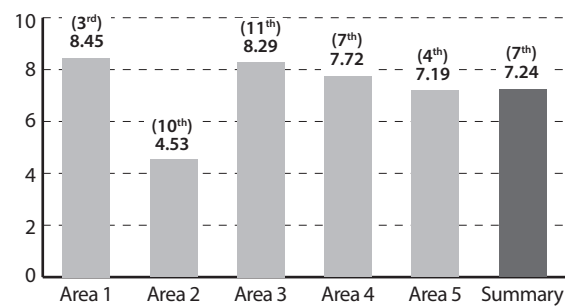
While Mexico places 9th in the Freedom House civil liberties measure, its ranking in the press freedom area is substantially lower. Freedom House ranks it 21st among 22 Latin American countries in *Freedom of the Press* and Reporters Without Borders places it dead last in the *Press Freedom Index*. Moreover, the environment has been deteriorating: "Eighty journalists have been murdered since 2000 and 14 others have disappeared since 2003" (*Press Freedom Index*). Self-censorship has become more prevalent because of the increase in violence towards reporters who investigate drug trafficking, police brutality, and corruption. Reporters Without Borders describes Mexico as "the western hemisphere's most dangerous country for the media."

Nicaragua

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Nicaragua's income per capita was \$2,913, 21st among the 22 Latin American countries. Only Haiti had a lower income per capita. From 2000 to 2010, real GDP grew at an annual rate of 3.48%, 13th most rapid in Latin America.

Economic institutions and analysis

Nicaragua's summary rating in the EFW index places it 7th among countries in the region. However, its rankings in the *Doing Business* report and the *Global Competitiveness Report* are substantially lower, 15th in the former and 19th in the latter. Nicaragua's EFW rating has increased significantly during the past two decades. Its summary rating rose from 2.75 in 1990 to 6.88 in 2010, pushing its chain-linked regional ranking up from 21st in 1990 to 12th in 2010.

Nicaragua has made substantial improvements in the last year towards increasing economic freedom. It now ranks in the top ten in the region in four areas, Size of Government, Legal System and Property Rights, Freedom to Trade Internationally, and Regulation. Its strongest area ranking was 3rd in the region, which it earned in Area 1, Size of Government. Compared to regional standards, government consumption as a share of the total is low, 9.5%. The top marginal income-tax rates are reasonable, 30% with or without the payroll tax.

It achieved a high ranking in Area 4, Freedom to Trade Internationally, 7th, with relatively low tariff rates, 5.6%. Nicaragua ranked 4th in Area 5, Regulation. In two regulation components, Hiring regulations and minimum wage (5Bi) and Hiring and

firing regulations (5Bii), it ranks in the top five in the region. However, Nicaragua could still make improvements to its regulatory structure. It costs 107.9% of income per capita to start a business in Nicaragua, the second highest cost in Latin America. There is also room for improvement in the legal structure. Nicaragua's regional rankings—20th for Impartial courts (2B) and 16th for Protection of property rights (2C)—are particularly weak.

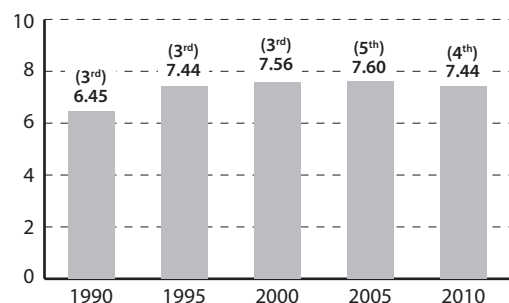
Political institutions and civil liberty

The rankings for political institutions of both Freedom House and Transparency International are similar to that of Area 2, Legal System and Property Rights in *Economic Freedom of the World*. Nicaragua's political liberties rating from Freedom House was the lowest, tied with Venezuela, in Latin America. Transparency International placed it 18th in its *Corruption Perceptions Index* among Latin countries. Surprisingly, its ratings by the Polity IV Project were substantially higher: 5th in the democracy index and 1st (tied with eight other regional countries) in the constraints on the executive measure. In October of 2009, the Supreme Court in Nicaragua lifted the restriction on presidential term limits, effectively lifting constraints on the executive. This may affect its future ratings by the Polity IV Project.

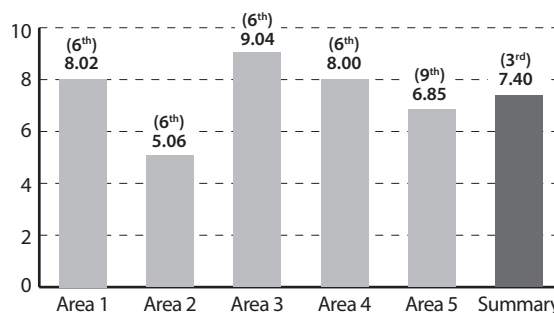
Freedom House ranked Nicaragua 17th in its *Freedom in the World* Civil Liberties component and 13th in *Freedom of the Press*. Reporters Without Borders placed it 9th in its *Press Freedom Index*. According to Freedom House, "the press has faced increased political and judicial harassment since 2007."

Panama

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Panama's income per capita was \$13,607, the 6th highest in the region. From 2000 to 2010, Panama's real GDP per capita grew at an annual rate of 5.73%, the 2nd most rapid in Latin America.

Economic institutions and analysis

The economic institutions of Panama are among the most sound in the region. Panama's EFW summary rating places it 3rd in the region, behind only Chile and Peru. It ranks 5th in the *Doing Business* index of regulation and 2nd in the *Global Competitiveness Report*. Panama has continually placed among the freest economies in the region since 1990.

International trade and sound money are strengths of the Panamanian economy. Panama ranked 6th in the region and 19th in the world in Area 4 of the EFW index, Freedom to Trade Internationally. Tariffs are relatively low and goods move efficiently through the canal and into and out of the country. Its ranking for Area 3, Sound Money, is also 6th in the region. Panama has used the US dollar for more than a century and its inflation rate is low and relatively stable. Moreover, the widespread use of the dollar throughout the world facilitates international exchange and enhances the size of the trade sector.

Panama ranked 6th in the region in Area 1, Size of Government. Government consumption accounts for 8% of the total, the lowest in Latin America. Its top marginal personal income-tax rate is 27% (43% when the payroll tax is included).

As is the case with many countries in the region, Panama's legal system needs improvement and regulation is excessive. Its regional rankings for Areas 2 and 5 are 6th and 9th, respectively. However, worldwide its ranking for Area 2 is 88th and its rating for Area 5 places it 82nd among the 144 countries. Absence of judicial independence and lengthy time for the legal enforcement of contracts contribute to Panama's low rating in Area 2. Labor market regulations are particularly restrictive. For example, it ranked 16th in the sub-component, Hiring and firing regulations (5Bii).

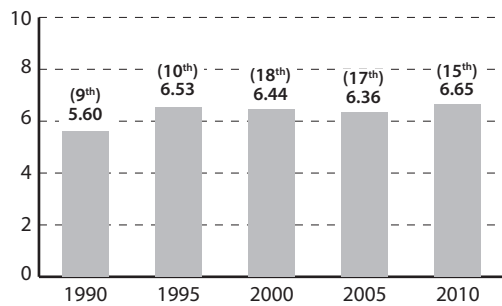
Political institutions and civil liberty

While Panama's rating for Area 2 places it 6th in the region, Freedom House ranks it number 1 in Latin America for its protection of political rights. The Polity IV index places it 5th in its democracy index and 9th for constraints on the executive. Transparency International ranks it 8th in Latin America in its *Corruption Perceptions Index*.

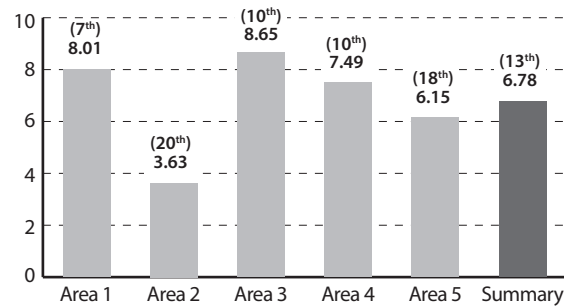
Panama also ranked highly, 4th in Latin America, in Freedom House's index of protection of civil liberties. However, its freedom of the press rankings were lower, 10th in the Freedom House measure and 17th in the Reporters Without Borders' index. Journalists who condemn and reveal the presence of sex trafficking in Panama often face criminal prosecution. As Freedom House notes in *Freedom in the World 2012*, "the U.S. State Department's 2010 Trafficking in Persons Report criticized Panama for its failure to comply with minimum international standards to combat human trafficking."

Paraguay

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Paraguay's per-capita income was \$5,181, 16th among Latin American countries. From 2000 to 2010, real GDP per capita grew at an annual rate of 3.42%, 15th in Latin America.

Economic institutions and analysis

Paraguay ranked 13th in the EFW index and 20th in the *Global Competitiveness Report* among Latin American countries. Its ranking was higher, 10th, in the World Bank's *Doing Business* report. Its EFW summary rating has fluctuated substantially since 1990, but its regional chain-linked ranking fell from 9th in 1990 to 15th in 2010.

Paraguay places in the top ten in the region in three areas of the EFW index: Area 1, Size of Government, Area 3, Sound Money, and Area 4, Freedom to Trade Internationally, where it ranks 10th. The mean tariff rate is high, 10.2%, and varies substantially. There are high compliance costs with importing and exporting and debilitating capital controls. It takes 33 days to fulfill the necessary requirements to import or export goods, one of the longest waiting periods in Latin America.

The legal system and regulation are major weakness of the Paraguayan economy. In Area 2, Legal System and Property Rights, Paraguay ranked 20th in the region and 131st among the 144 countries worldwide. This low ranking is explained partly by its performance in two components, Impartial courts (2B) where it ranked 17th in the region, and Protection of property rights (2C) where it ranked 18th. In Area 5, Regulation,

Paraguay ranked 18th in Latin America and 117th in the world. The presence of conscription pulls Paraguay's rating down in this area.

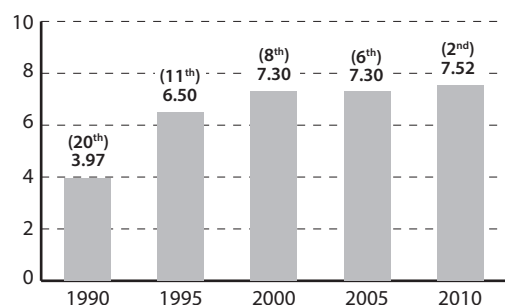
Political institutions and civil liberty

Widespread corruption permeates the political institutions of Paraguay. Its rating for Area 2 of the EFW index, Legal System and Property Rights, is 20th among the 22 countries in the region. Its Freedom House ranking of political liberty is slightly higher, 13th, but Transparency International's *Corruption Perceptions Index* places it 20th in the region. In 2011, Paraguay ranked 154th among the 182 countries included in the *Corruption Perceptions Index*. The Polity IV Project ranks Paraguay 9th in its democracy measure and 1st (tied with eight other countries) in its executive constraints index. Nonetheless, the indicators illustrate that rule of law is uncertain and corruption widespread. Until there is substantial improvement in these areas, Paraguay will continue to be one of the poorer countries in the region.

Paraguay ranks 9th in Freedom House's *Freedom in the World* civil liberties component and 19th in its *Freedom of the Press* measure. Reporters Without Borders places it 10th in its *Press Freedom Index*. The latter ranking indicates that violence against journalists is less of a problem than corruption. As Freedom House notes in *Freedom in the World 2012*, "corruption cases languish for years in the courts without resolution, and corruption often goes unpunished as judges favor the powerful and wealthy."

Peru

Changes across Time: Chain-linked Summary Rating (Ranking)



Income and growth

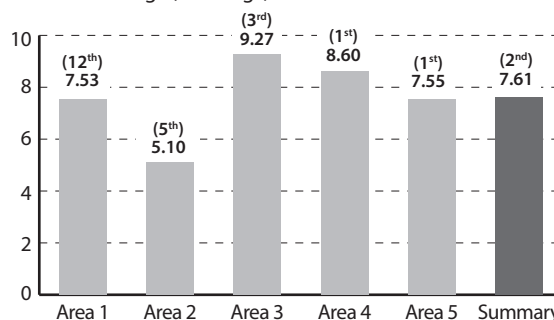
In 2010, Peru's income per capita was \$9,537, placing it 10th in the region. From 2000 to 2010, real GDP per capita grew at an annual rate of 5.46%, the 3rd most rapid in Latin America.

Economic institutions and analysis

Peru's summary rating on the EFW index is the 2nd highest in Latin America, behind only Chile. Its rating in the *Doing Business* report is the 2nd highest in the region. It places 7th in the *Global Competitiveness Report*. During the past two decades, Peru has moved from one of the least free economies in Latin America to one of the most free. After implementing several liberal economic reforms in the early 1990s, Peru's summary EFW rating rose steadily from 3.97 in 1990 to 7.52 in 2010. The reforms continued and some were expanded even though the country experienced several periods of political upheaval and uncertainty. Peru's impressive average annual growth rate during the past two decades, 3.36%, provides strong evidence for the potency of economic freedom as a source of growth and prosperity.

Peru ranks in the top five among the countries in the region in all areas of the EFW index except Area 1, Size of Government. Its high rating in Area 3, Sound Money, reflects its low 1.53% rate of inflation and the low variation in that rate. Peru allows its citizens to own foreign currency bank accounts and has now moved into the top 25 countries worldwide for Freedom to Trade Internationally, ranking 1st. International trade tax revenues as a percentage of the trade sector are very low, 1.32%, and the mean tariff rate is competitive at 5.4%. In Area 5, Regulation,

EFW Area Ratings (Rankings) in 2010



Peru ranks 1st in the region and 38th in the world. Despite its high regional ranking, restrictive regulations are present in some areas. In Peru, it takes 26 days to start a business, three times as long as some of its Latin American neighbors, including Jamaica, Chile, and Uruguay (7 days), and Panama (8 days). It takes 309 hours for a business to prepare and pay taxes in Peru, more than three times the number of hours required in Australia (109 hours), and Canada (131 hours).

In Area 1, Size of Government, Peru ranks 12th in the region. The top marginal income and payroll tax rate in Peru is 48%, one of the highest in the region.

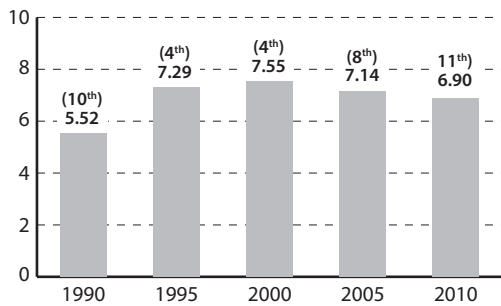
Political institutions and civil liberty

Peru is an electoral democracy and its political institutions rank in the top third among Latin American countries. Its rating in Area 2, Legal System and Property Rights, of the EFW index places it 5th in the region. Freedom House ranks it 5th for protection of political freedom. The Polity IV Project places it 5th in its democracy index and 1st (tied with 8 other countries) for the constraints on the executive component. Transparency International ranked it 5th in Latin America in its *Corruption Perceptions Index*.

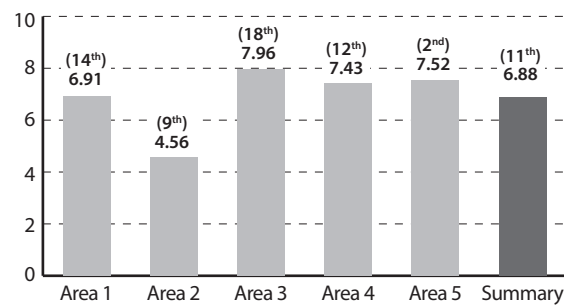
Peru's performance in the civil liberties area is less impressive. Freedom House placed it 9th in both the civil liberties component of *Freedom in the World* and *Freedom of the Press*. It placed even lower, 18th, in the Reporters Without Borders' *Press Freedom Index*. Murder of journalists is rare in Peru, but they often face physical attacks and verbal threats.

Trinidad & Tobago

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Trinidad & Tobago's income per capita was \$25,738, the highest in Latin America. Its growth rate was equally impressive. From 2000 to 2010, real GDP per capita grew at an annual rate of 5.76%, the highest in the region.

Economic institutions and analysis

The economic institutions of Trinidad & Tobago rank in the upper half among Latin American countries. Trinidad & Tobago's summary rating on the EFW index places it 11th in the region. The *Global Competitiveness Report* places it 10th in the region, while the World Bank ranks it a little higher, 6th, in its *Doing Business Index*. The EFW summary rating of Trinidad & Tobago rose during the 1990s and reached a peak of 7.35 in 2000, but it has fallen during the past decade.

Trinidad & Tobago's highest ranking in the region is in Area 5, Regulation, where it ranks 2nd. Regulatory costs of hiring are the lowest in Latin America, and military conscription is absent. The monetary cost of starting a business is also low, 0.9% of income per capita.

Trinidad & Tobago ranks 14th in the region in the Area 1, Size of Government and 9th in the Area 2, Legal System and Property Rights. Its top marginal personal income-tax rate is 25% (39% when the payroll tax is included). Government investment sums to 24% of total investment. By Latin American standards, its ratings for judicial independence, integrity of the court system, and absence of military interference in rule of law are strengths of the judicial system.

Area 3, Sound Money, is a major weakness for Trinidad & Tobago. It ranks 18th among the 22 Latin American countries in this area. In 2010, the inflation rate was high, 10.6%. Citizens are permitted to maintain foreign currency bank accounts.

Political institutions and civil liberty

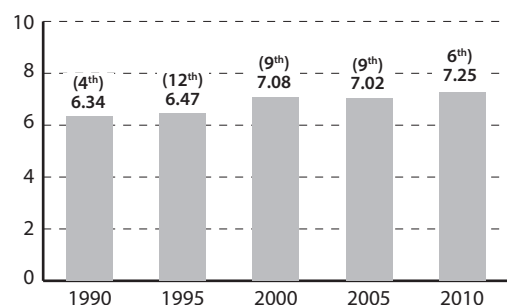
The political institutions of Trinidad & Tobago are democratic, personal liberties are protected, and the political process is open and relatively free of corruption. Trinidad & Tobago ranks 5th among countries in the region in Freedom House's political rights index, but Polity IV ranks it first in the region in its measures of democracy and first, tied with eight other countries, for effective constraints on the executive. It ranks 10th in Latin America in Transparency International's *Corruption Perceptions Index*.

Trinidad & Tobago's civil liberties ratings are also high: it ranked 4th in Freedom House's civil liberties measure and 3rd in *Freedom of the Press*. Reporters Without Borders ranks it 6th in the region in its *Press Freedom Index*. The constitution of Trinidad & Tobago guarantees citizens freedom of speech, religion, association, and assembly. To a large degree, these freedoms are both respected and upheld in practice.

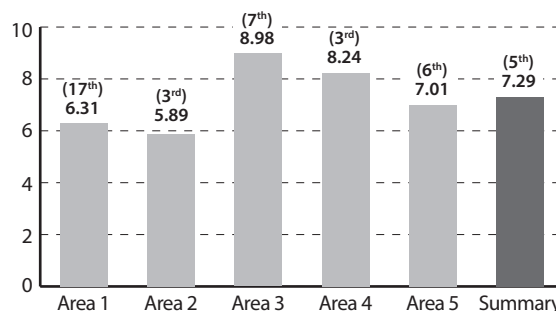
Taken as a whole, the economic, legal, and political institutions of Trinidad & Tobago are among the strongest in Latin America. Its growth rate during the past decade has been impressive. With some modest improvements in legal structure and economic policy, this country could become a major success story in the decade immediately ahead.

Uruguay

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Uruguay's income per capita was \$14,108, the 5th highest in Latin America. From 2000 to 2010, real GDP per capita grew at an annual rate of 2.82%, 17th among Latin American countries.

Economic institutions and analysis

The economic institutions of Uruguay fall in the upper middle group of the countries in the region. Uruguay's summary rating in the EFW index ranked 5th and its *Doing Business* regulatory rating placed 8th among Latin American countries. Its ranking, 6th in the region, in the *Global Competitiveness Report* was a little higher. Uruguay's summary chain-linked rating in the EFW index has steadily increased over the past 15 years, jumping from 6.47 in 1995 to 7.25 in 2010. Among countries in the region, its chain-linked ranking has risen from 12th in 1995 to 6th in 2010.

Uruguay is a "big government" economy. It ranked 17th in the region in Area 1, Size of Government. A large number of government enterprises as a share of investment in Uruguay, 31%, and a relatively high top marginal income and payroll tax rate, 31%, contribute to Uruguay's low rating in this area.

In contrast with its low rating for Area 1, Uruguay's legal structure is relatively sound. In this respect, it is an anomaly in Latin America. Uruguay ranked 3rd in the region and 58th worldwide in Area 2, Legal System and Property Rights. This is a result of its strong protection of property rights and impartial courts. It ranks in the top two for both of these components of Area 2. It ranked 6th in the region and 67th worldwide in Area

5, Regulation. Military conscription is absent and the regulatory costs of hiring are low (5Bi). However, regulations on hiring and firing are restrictive. Uruguay's ranking for this component (5Bii) is 18th in the region.

Political institutions and civil liberty

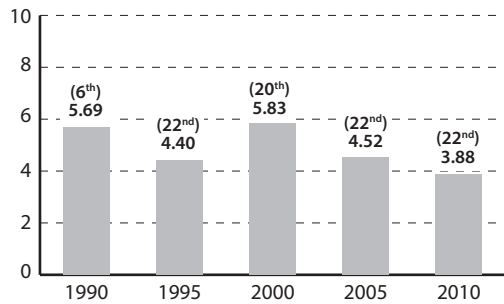
Uruguay is an electoral democracy with political parties that represent a diversity of views. Uruguay receives high marks from each of the political measures of our analysis. This provides confirmation of its high rating in Area 2 of the EFW index, Legal System and Property Rights. Uruguay ranks 1st in the region in Freedom House's *Freedom in the World* political rights component and the Polity IV measures of democracy and constraints on the executive. It is also relatively free of corruption, placing 2nd in Transparency International's *Corruption Perceptions Index*.

Uruguay is the highest rated Latin American country in Freedom House's civil liberty index, tied with Chile. It ranks 4th in *Freedom of the Press* and 3rd in the Reporters Without Borders' *Press Freedom Index*. Civil liberties such as the freedom of expression, religion, and assembly are constitutionally protected and widely respected in Uruguay.

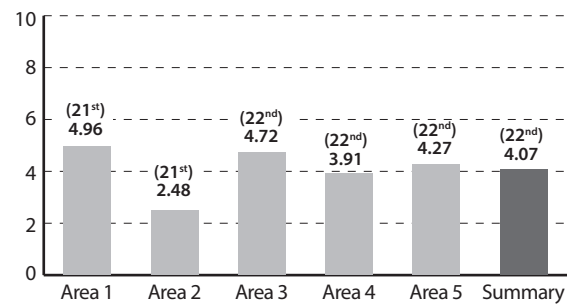
In summary, the legal and political institutions of Uruguay are among the best in the region. However, it would benefit substantially from more economic liberalization. Of course, Uruguay is a small country, but Hong Kong is also small. With a substantial move toward economic liberalization, Uruguay has the potential to become the Hong Kong of South America.

Venezuela

Changes across Time: Chain-linked Summary Rating (Ranking)



EFW Area Ratings (Rankings) in 2010



Income and growth

In 2010, Venezuela's income per capita was \$12,232, the 7th highest in Latin America. From 2000 to 2010, real GDP per capita grew at an annual rate of 3.48%, 13th among Latin American countries.

Economic institutions and analysis

This resource-rich country has the worst economic institutions in Latin America. It ranks last among the countries in the region in both the summary index of *Economic Freedom of the World* and the World Bank's *Doing Business* report. It is next to last—only Haiti is lower—in the *Global Competitiveness Report*. Worldwide, Venezuela's summary ranking places it dead last among the 144 countries included in the EFW index.

Venezuela's record for economic freedom over the past two decades stands in stark contrast with the situation from 1970 to 1980. Worldwide, among the countries for which EFW data were available, Venezuela's economic freedom rating placed it 11th in 1970, 17th in 1975, and 16th among 104 countries in 1980. During the next three decades, Venezuela's ranking worldwide declined precipitously, plunging to 56th in 1990, 101st in 2000, and 144th in 2010.

Venezuela ranks in the bottom two in the region in each of the five areas of the EFW index. Worldwide, it ranks in the bottom five in each of the areas except the Area 1, Size of Government, where it ranks 126th out of 144 countries. The Venezuelan economy is characterized by numerous government enterprises, high rates of inflation, and restrictions on international trade. Specifically, government enterprises make up 56% of investment in Venezuela, crowding out the private sector. A 29% inflation rate in 2010, and restrictions on owning foreign-currency bank accounts contributed to Venezuela's low rating in Area 3, Sound Money. Venezuela's 12.5% mean tariff rate is the third highest in Latin America. The time cost to

export a standard 20-foot container of dry goods is 49 days and the money cost per container is \$2,590, 50% more than any other Latin American country.

Furthermore, regulation in Venezuela is a major deterrent to business activity. It takes 141 days to start a business in Venezuela, the longest time of any Latin American country. The time costs of complying with the tax code for a business amount to approximately 864 hours, more than twice the parallel figures for Chile and Peru. As if the regulatory environment was not bad enough, an authoritarian political regime, military interference, and a partial and politicized judiciary undermine the legal system of Venezuela.

Political institutions and civil liberty

Like the economic institutions, the political institutions of Venezuela are the worst in Latin America. It has the least democratic, most authoritarian, and most corrupt government in the region. Venezuela ranks either last or next to last in all five of the legal and political measures included here. Venezuela ranks 21st, just above Haiti, in Area 2, Legal System and Property Rights, of the EFW index, Freedom House's political liberties measure, and the *Corruption Perceptions Index*. Not only does Venezuela rank next to last in the region in the *Corruption Perceptions Index*, it places 172nd among 182 countries worldwide.

Although the constitution guarantees several civil liberties, in practice the government suppresses their exercise. Freedom House ranks Venezuela 21st among the 22 Latin countries in its *Freedom in the World* civil liberties measure and 22nd in its *Freedom of the Press*. Reporters Without Borders ranks Venezuela 19th in its *Press Freedom Index*. In summary, a broad set of measures assembled by a diverse group of institutes and scholars reflect remarkable agreement that the economic, political, and civil institutions of Venezuela are the most disastrous in Latin America.

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