

Moral Foundations of Business

Week 3

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1. Define economic freedom.
 - a. Economic freedom is an environment through which individuals are free to produce and exchange goods and services in order to satisfy their personal needs and goals, within a framework of stable laws (rule of law), contracts and the protection of private property.
 - b. Economic freedom requires minimum state intervention which should be focused on sustaining effective rule of law, aiding in the enforcement of contracts and protecting private property.
 - c. Exchanges within an environment of economic freedom should be voluntary, without deceit or coercion and with mutual gains for both parties involved.
2. Define economic freedom in your country.
 - a. Guatemala is a relatively free economy. Some key factors to support this:
 - i. We do not have legal tender for our currency, which allows us to trade basically in any currency and open bank accounts in major currencies like US dollars, Euros and our own Guatemalan Quetzal.
 - ii. The state hardly intervenes in exchange rates, which also accounts for our relatively stable macroeconomic environment.
 - iii. There has been little change in taxes, which also accounts for stable rules of the game that allow for long term investment thinking.
 - iv. We lack a developed capital market that allows for more efficient and cheaper access to capital for entrepreneurial and capital investments to enhance productivity.
 - v. In terms of import tariffs, these are also relatively stable and this allows us to enjoy from all sorts of goods and services from all over the world at relatively good prices. An example would be a Macbook Air M2 which retails in the US at \$1,199, sells in Guatemala for Q11,999, about US\$1,519. The difference would be accounted by VAT (12%) and logistics and import costs.
 - vi. We do have issues with ensuring property rights. Years of corruption and poor record keeping have made this an issue, which is something our property registry is seeking to strengthen. The downside to this is that property taxes will likely increase as we have more certainty as to who owns what.
 - vii. We have no embargo against any country nor does any country against us. We have, however, suffered the negative effects of treaties like CAFTA through non-tariff regulations (specific packaging requirements, etc) that make exports to markets like the US more expensive.
 - viii. Access to investment capital, investment loans and other instruments that are key for an economy to develop are still low for the majority of the population. Most credit in Guatemala is for consumption, which also make us vulnerable to people falling into considerable debt.
3. Compare your country to another concerning economic freedom and explain why differences matter.

| Country Name | World Rank | 2023 Score | Property Rights | Judicial Effectiveness | Govt Integrity | Tax Burden | Gov't Spending | Fiscal Health | Business Freedom | Labor Freedom | Monetary Freedom | Trade Freedom | Investment Freedom | Financial Freedom |
|--------------|------------|------------|-----------------|------------------------|----------------|------------|----------------|---------------|------------------|---------------|------------------|---------------|--------------------|-------------------|
| Guatemala | 64 | 62.7 | 39.2 | 28.5 | 24.9 | 91.7 | 94.0 | 85.8 | 65.8 | 50.1 | 77.4 | 74.6 | 70 | 50 |
| Egypt | 151 | 49.6 | 39.7 | 22.1 | 27.9 | 86.7 | 79.4 | 4.1 | 51.1 | 33.4 | 75.0 | 60.2 | 65 | 50 |
| | -87 | 13.1 | -0.5 | 6.4 | -3 | 5 | 14.6 | 81.7 | 14.7 | 16.7 | 2.4 | 14.4 | 5 | 0 |

These differences are very important because they can determine investment decisions both for local and multinational companies. In the case of Guatemala and Egypt, it is important to notice the important difference in key indicators like government spending, fiscal health, business, labor, and trade freedom. Trust and stability are key for investors to decide where to place their resources and for consumers to decide on long term investments like housing.

It is interesting to notice that Egypt does rank better than Guatemala in property rights and government integrity, which should be indicators of more economic freedom. Guatemala has been struggling with corrupt governments that have been eroding investor and consumer confidence and if we are not careful, we can lose the important gains in freedom that have been hard-fought over the years.

Source: <https://www.heritage.org/index/visualize?cnts=guatemala|egypt&src=ranking>