

Héctor Orellana

Why Business

Hayek Global College

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**Essay 2:
Your Country and the Indices of Economic Freedom**

Rule of Law:

Property rights in Guatemala are decently established and detailed, however, the execution of a claim can get complicated. On land, there are three institutions involved in the registration of property and they do not always coincide on who owns an asset. These unmatched registries are due to the creation of new institutions without the abolishment of the old ones. Besides the risk given by this, there is also a huge problem regarding the process of executing the law. Corruption is evident and very frequently observed, the process is inefficient and can take unreasonable amount of time to go through.

Government size:

When it comes to government, I believe Guatemala has a good management of taxes. Companies get taxed about 25% over their earnings which is a high percentage, but it is lower than many nations, including First World Countries. As for the individual, the taxes are low, the health insurance tax is mostly absorbed by employers for example. According to the Index of Economic Freedom, Guatemala has a really good score on this topic. I would argue that even with the numbers they show, it is not as good as it seems, since the government spending is used inefficiently or stolen due to corruption.

Regulatory efficiency:

“Guatemala has lost ground in business freedom as other countries, on average, have outpaced it in implementing business-friendly reforms. Over two and a third times more people work in the informal sector than in the formal sector

The informal sector being larger than the formal one is true. Most people, even in Guatemala City, tend to include a good amount of their purchases from people or businesses that are not formally registered. The system makes it a long and complicated processes to file business under the law. There are many government institutions to go through with many processes involved, also electronic solutions are still rare and the cost of creating a company is avoided.

Open Markets:

The Index of Economic Freedom says “No impediments to the formation of joint ventures or the purchase of local companies by foreign investors are in force, but inefficient regulatory systems discourage investment. The banking sector is relatively stable. The overall financial sector is underdeveloped, and a modern capital market is largely absent.” Guatemala has a good amount of international trading; it is not overly expensive to perform such trades. However, as mentioned, there are various system related problems such as the inefficiency and slow working customs. It is normal to expect delays in shipments

or “random” container checks, this can be discouraging to citizens if they are looking to bring merchandise to the country or to foreigners looking to do business in Guatemala.

There are also regulations that protect certain product types, stopping many foreigners from entering the industry in the country. A few of these are alcoholic beverages, cement and sugar. *Cervecería Centro Americana* (Beer) , Cementos Progreso (Cement) and the various sugar producers of Guatemala are some of the biggest enterprises locally and are known to have agreements with the government.

Contrary to the IoEF, I wouldn't call the banking system underdeveloped. I believe it is quite well established, relative to its economy. Various financial tools are offered to the Guatemalan citizen and are tailored to our economy, also the reach has expanded to rural areas. The market capital, however, is close to non-existing with only very limited options.

To improve the economy of Guatemala I would start by making it more accessible to do business, with this I refer to the entry barriers, costs and efficiency of the system to integrate into the formal economy. Implementing fast, automated solutions for the filing of companies through the web would reduce the time needed for a business to start and reduce the money spent, on behalf of the government, on paying salaries to people to do this. Also, it would allow the elimination of physical document storage and time of handling. Tax incentives like grace periods or tax exemptions should be offered to new businesses, encouraging them to formalize. Then, I would consolidate all the functions related to property rights in a single institution, as to keep only one registry per asset.

Every single salary paid in government positions should be monthly published to the public, and adjusted to market levels. Also, all government expenditures should be public as well. This could reduce corruption, since it would mean anyone can see where tax money is going.