

## THE 5 REFORMS FOR LATIN AMERICA



TO PUT THE STATE IN ITS PLACE  
AND OUR COUNTRIES ON FOOT

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## **THE FIVE REFORMS FOR LATIN AMERICA**

To put the State on its place and our countries on foot

*This document is for you, who are still doubting about capitalism and socialism, or continue believing in socialism. It's possible that when reading the first sentences you'll already be in disagreement, and you might even feel some dizziness or like you're about to throw up. However, it is advisable that you follow the reading, and you're your judgment at the end, because otherwise it will not be a trial, but only a pre-trial. And we are full of prejudices in this country.*

National borders are unguarded: there aren't enough soldiers. Our streets and avenues are insecure: there isn't enough budget for the police. In the courts of justice there is no justice, but there is an abundance of bureaucracy, corruption, neglect and ineptitude; and there is no budget to correct those evils either. And the few infrastructure physical works existing in the country, such as roads, bridges, reservoirs and tunnels, are very old, and their maintenance is scarce and deficient.

### **Security, Justice, and Public Works**

Of what we're talking about? We talk about: 1) defense and security; 2) judicial service; 3) public works. These are the three proper functions of the State, which is the legal monopoly of strength. Such is its nature, that these functions correspond to it because they require the use of force in order to be accomplished. And what happens today with them? They're neglected and badly attended to, for the State has taken for itself, and has pretended to accomplish, many other functions that don't correspond to it, since its nature isn't endowed to realize them.

That's right: the State doesn't work for all those tasks that don't require the use of force to be realized, but rather private accords, like e.g.: doing business or administer companies, educate the children and youngsters, cure or attend the sick, the old, the widows, and the orphans. However, the State and the governments that personify all of these, which have attributed to themselves the management of all its country's economy, above the businessmen, workers, and consumers; and also have assumed the power to lend services in all levels of teaching, in the diverse specialties of medical attention, and retirement and pension funds, and therefore give obligatory orders and directives to those who provide services in these three sectors in a private manner.

### **The Economy, Education, Medicine and Provision**

It's worth asking: does the State attend well all these other functions in economy, education, medicine, and social provision, alien to its nature, while it also pretends to realize them along its own?

Look around a Little: the economy is in bad shape, judging from the insufficient incomes and the poor living quality of the majority of people; so much that the State justifies itself in this immense poverty to take to its care teaching duties, medical

attention, and provision funds, claiming that it must attend an immense majority of people in need.

And what happens to “the most needy”? 1) In education the State is not very successful; and the worst education is for the poor. 2) It happens the same with medical attention: state hospitals aren’t the best, and the worst attention is for the poor. And 3) the same with jubilations and pensions: the most miserable ones are for the poor.

### **The Actual Situation**

What happens is that the State isn’t in its proper place: it neglects what is its own, and what isn’t is very badly attended, and even disturbs private entities and prevent them from doing better. That’s why our countries are upside down: head below, with their feet up.

That’s why the economy isn’t in good shape, despite being planned, directed, and controlled by the State; there is too much poor people, and a lot of “too poor people!” And in the three called “social” sectors of teaching, medicine, and provision, it’s evident that there’s a terrible or bad attention from the State, because it can’t choose anything else; and the rich, from the top side, who can pay the best services, the private ones. It’s like an “apartheid” or segregation, not of the racial type but socioeconomic instead. Segregation is segregation; better to call bread, bread, and wine, wine, and all things by their name.

Is this socialism? Capitalism? What is it?

### **Mercantilism is a Capitalism for a Few Privileged**

What is mercantilism? It’s what we’ve always had in Latin America: a type of political, statist, liar, and cheating capitalism, which is not for everyone but rather for a small circle of businessmen who are friends of the government, to whom unjust privileges are provided which allow them to enjoy the advantages and benefits of capitalism just for them, excluding the rest of the population.

### **And What is Socialism?**

Something even worse. It’s a fired up rhetoric in favor of equality, but in practice socialism has enormous and abysmal inequality, between two economic and social classes: for one side all of us, the businessmen, formal and informal, as much as the workers, paying enormous sums in taxes, year after year, and fighting to survive; and on the other side, those who rule, enjoying a royal train of luxuries, trips, and life, given to them with the taxes hat all of us pay. They live at the expense of our ribs. Don’t let them fool you: it’s not a “deformation” of socialism: that is socialism!

That of today is a little of capitalism, for just a minority, mixed with socialism. Its what people call the mixed model: a little of capitalism, for the rich; and socialism for the rest, for the poor.

In order to put the State on its place and the nation on foot, Five Reforms are required, inspired in Classic Liberalism, a doctrine that mustn't be confused with the so wrongly-called "Neo" liberalism, which of liberalism has very few or nothing at all, and much of updated mercantilism ("Washington Consensus"), mixed with socialism.

### **Liberalism: Capitalism for Everyone**

Capitalism for everyone is called Liberal Capitalism, and its pillars are three: limited Government, free market, and private property.

- 1) Limited Government, as much in functions as in powers and resources. Accomplishing the functions of the State, which are three: defense and security, justice, and physical infrastructure works. If it gets out of these limits, all Governments begin to fail and be ineffective. Its powers must be strictly limited to its necessary ones in order to accomplish its three functions, for otherwise it usurps freedoms that correspond to the people. And its resources must also be limited to the necessary ones to realize its three functions, for otherwise it usurps huge sums of money that isn't its own but rather from the citizens, who in this way become impoverished.
- 2) Free market means that the markets must be free of violence and fraud, and this is the duty of the police forces and the tribunals. And also free of monopolies; it's enough for the State not to grant them: "monopoly" isn't a company of great size, but rather a company to which the government gives a privilege. And that privilege is a subsidy or any other improper advantage over its competitors, or a market restriction imposed on its actual or potential competitors as well, which dispenses it from its obligation of enduring the free and open competition.
- 3) Extended private property: which is not restricted to a few, but is amplified instead, until having a country of proprietors, not of proletariats.

The Three Pillar or Principles are traduced in five concrete and specific reforms. The First Principle gives form to the Reform 1, in politics; and the Second to the Reform 2, in the economy. The Third Principle is based on Reforms 3, 4 and 5, in the social aspect: education, health and foresight.

## The Five Reforms

- 1) The First Principle is “limited Government”, as much limited in functions as in powers and faculties, and also in resources and money. In order to achieve it the First Reform is required, which is the most important of all, and is aimed at:
  - Put the Government in its place, that is, in charge of its three specific proper functions, which are: provide defense (exterior) and security (interior); administer justice; hire the construction and maintenance of physical works of infrastructure.
  - Cut the excessive powers and faculties that the State enjoys today, oppressing people through this manner. This Reform 1 will unload the cluster of improper functions from Governments that have wrongly assumed them, and can't fully comply, and endow them with the powers and faculties for them to fulfill their three genuine functions. This leaves more freedom and power in the hands of the people.
  - Cut all the excessive resources and money that the State spends as well. Analogous to the case of powers and faculties, it consists in endowing it with the most strictly necessary resources for the fulfillment of its three genuine functions, and nothing more. This way a lot of money is left available in the pockets of the people.

This Reform 1 is complemented freeing the political parties from its current domination by Governments, and putting its leading and control in the hands of the people.

- 2) The Second Principle is “free markets”, and to abolish all the bad laws that one way or another concede monopolistic or oligopolistic positions to businesses and favored companies, impeding the laws of supply and demand to work, therefore obstructing the performance of the economy and its productivity.

These two first reforms, the political and economic ones, are complementary. They'll permit the country to have an incredible explosion of prosperity, growth, development, and employment, which will favor the poor and disfavored in the first place, just like it occurred in Northern Europe and the United States some 300 or 200 years ago, before taking the socialist path to finally return to mercantilism.

- 3) The Third Principle, “private property”, is concretized in the Reforms 3, 4, and 5 or “social reforms”, respectively in education, health, and social provision. On the side of supply, these reforms will empower the producers: teachers and educators (3); health and medical personal (4); and the retirement plans and social security providers (5). How? By giving in property the educative, medical and provisional entities that are today from the State, with all its installations and teams.

On the side of demand, these reforms will empower consumers and users that today lack the resources to pay for these services: students and pupils (3); the sick, incapacitated, and injured (4); the retired and pensioned or workers in the age of retirement or about to reach it (5). How? With the delivery of vouchers and coupons for them to pay in the institutes of their election, reimbursable in money to the entities that they've chosen.

Reforms 3, 4, and 5 are complementary to the Reforms 1 and 2. In the three social reforms, the coupons are for the transition to a mature, liberal capitalism, which will help balance those who are poorer today because of the current system.

Now, one by one, with their specific objectives.

### **1. The Political Reform: security, justice, and infrastructure.**

Put the State in its place, in charge of the functions of security and defense, the administration of justice, and infrastructure works; and in consequently limit its powers and budget to the strictly necessary attributions and resources for the compliance of such functions. In other words, put state agents in its public functions: militaries (and diplomats) and policemen; judges and justice officials; construction contractors for bridges, roads, dykes, and reservoirs, etc.; and the collectors of the few taxes or "imposed" contributions indispensable for these ends, direct and indirect taxes, low and flat, and equal for everyone.

This implies putting the militaries and policemen in fighting insecurity, violence, terrorism, and crime, as first priority in the State's agenda; and put diplomats and consuls to attend the citizens who live abroad before local politicians. And put judges and common tribunal courts (not agencies dependent of the Executive, as it is now) in charge of the intervention of the State in the economy, banking, education, and all the social and cultural spheres; but only if it occurs a true and provable violation to the rights of life, property, and freedoms, defined and typified in the ordinary or common codes of Civil, Mercantile, or Penal Law.

To these ends, of defense (and diplomacy), security, and justice, and to the realization and maintenance of public infrastructure works that increase the productivity and performance of private activities, public policy must be limited. And public powers and resources as well.

To the private field or the particulars belong sexual, marital, familiar, labor, commercial, educative, civic, cultural, artistic, religions, medic, informative and entertaining, scientific and technical, and provisional relationships, among others, and have to unfold with the will and consent of the participants and involved as expressed in contracts; not of reglementary type norms dictated by Congress in the shape of special

laws, nor by the Executive in form of decrees, nor by the UN, the OAS, nor any interstate bodies in the shape of treaties or “international agreements”.

This implies taking away from Congress the reglementary task regarding activities that are private by nature, and put it on its place in its most important function: make sure that the Executive doesn't trespass its limits, vigilance that is exercised above all through the control of its Fiscal Budget, fed only by taxes and not loans. It also implies leaving political parties in their place as well: like private entities, without any dependency relationship with the State so that they can be instruments in the hands of the citizens.

There won't be legal privileges or monopolies. This implies that there won't be e.g. State concessionary companies or contractors in the field of energy nor in communications or transport; nor any “legal tender” of the currency, and so the different currencies will freely circulate, each one choosing the one of its preference. This reform will put the banks on their place, eliminating the privilege of “legal reserves” that demands the reserve of only a fraction of the deposits. Therefore, there won't be any artificial multiplication of money, nor of credit or forms of payment. But this topic belongs to the next reform.

## **2. Economic Reform: Earn More and Live Better**

This reforms consists in putting the economic agents in charge of the economic activities, which aren't the politicians, officials, and bureaucrats, but instead the workers, entrepreneurs and managers, and capitalists: investors and savers.

In other words: put the private economic agents in charge of the agriculture and mining, the industry and services, transport, banking and finances, insurances, etc. For that these activities must be privatized and deregulated so they become sensible to the needs, wishes, demands, and preferences of the consumers, the side of demand, and of the producers, the side of supply, and thus create and distribute wealth through its natural channels: the markets.

This way we'll empower the actual “informal” economic agents so that they might compete with the same rights that the formalized companies have. This way a stock market sector independent of banking will be formed, not as it is now.

The only way to have a strong and solvent currency, proof of inflation and hyperinflation, is to give it by law a Gold Standard. This is a monetary system in which the value of the currency is convertible into gold of a determined quality at an exchange rate previously fixed by law. The Central Bank is obliged to give gold in exchange of currency, and vice versa, at the officially fixed price and in the demanded moment. The amount of gold determines the amount of money in circulation, and the printing of banknotes beyond this limit is illegal.

The execution of this Reform and the next will most probably imply that the country must retire from certain International Organisms and Agreements, starting with the International Monetary Fund and the World Bank (which aren't paradigms of liberalism), followed up by FAO, the UNESCO, the WHO, and others. We'll have to ignore their advices and "technical missions"; which will be a great blessing.

Now, the Three Social Reforms, which will eliminate the current "apartheid" or segregation regime, not of the racial type but rather a socioeconomic one, in teaching, health, and provision.

### **3. The Education Reform: First Quality Teaching for All**

From the side of supply, it consists in putting education in the hands of educators and not the State, so that learners of all specialties and levels, and the fathers of elemental teaching, might choose with complete freedom the teaching center of their preference, with the education type, content, plans, programs and system or method that they prefer. All of this with coupons for those who can't pay. And from the side of demand, that all teachers, professors, and capacitors might compete, as much in quality as in variety and prices. And yes, this is of course, in other words: privatize and deregulate education. We mustn't be afraid of saying those words, nor calling things by their name, with the only condition that they are well defined and described.

And the poor? In the transition path to a mature capitalism and wealth, the poor learners shall be assisted by the State with vouchers or coupons for them to pay their tuition and spending in the teaching centers and agencies of their choice, which will be reimbursable in money by the State to all those institutes that the users have chosen for their education. We'll put workers and social visitors to do their job: social assistance in services and not in money, focused and not indiscriminate.

### **4. The Medical Attention Reform: Efficiency and Excellency in Health Care**

Analogously to the case of education, it's about putting medicine in the hands of medics and doctors, not of the State, so that the sick, incapacitated, and injured might choose freely the medical center, hospital, or clinic of their preference, with the attention of their election, on the side of demand of medical services. And so that doctors, nurses, bio analysts, dentists, and people of the medical profession in general might compete, both in quality and variety as in price, on the side of supply of medicine. In other words: privatize and deregulate medicine.

In the transition, and analogously to education, the sick, incapacitated, and injured poor will be assisted by the State with coupons in order for them to pay for their spending in the medical centers of their choice, which will be reimbursable by the State to the health institutes that poor users have chosen for their treatments.

## **5. Jubilations and Pensions Reform: Worthy And Sufficient Benefits**

Based on the same scheme of education and health, this reform consists in putting the Retirement Funds and Policies in the hands of fund managers and not of the State, so that the retired and pensioned might choose with full freedom the Provisional Fund of their preference, with the type of Plan, Policy or contract of their choice, on the demand side. And on the side of supply, so that administrative companies might compete in quality, variety, and prices. In other words: privatize and deregulate the jubilation and pension systems.

In the transition to a mature capitalism, the workers, retired, and pensioned poor shall also be assisted by the State with coupons for them to pay the payment Policy of their election, in the Provisional Funds of their election. Just as in education and health (Reforms 3 and 4), the coupons shall be reimbursable by the State to those private or privatized institutes that the users have chosen.

### **The Three “U” Tax**

— Today at a national level can be found dozens of taxes and tariffs that take more than one third of the produced wealth by the Latin Americans. With the Reforms 1 and 2, all of those encumbrances will be substituted by the flat tax “of The Three U”, which will be Unique (only that one); Universal (without exceptions); and Uniform (the same for everyone); and will work as an Value-added tax.

The collected income will be used to sustain the three proper State functions of Defense/Security, Administration of Justice, and infrastructure works at a national level. And also to finance the temporary “social spending”: the three coupon series for education, medical attention, and jubilation of the most poor, with the Reforms 3, 4, and 5.

— “Laffer effect”. And will the money suffice? Of course! Look: in addition to many and high taxes, today we have a large amount of bad laws that impose innumerable statist obstacles to the economy, decreeing unfair privileges that generate monopolistic niches and obstruct the free competition. And if that weren’t enough, we also have a banking of partial reserves, based on a purely fiduciary currency without any metallic support, which can be indiscriminately and massively emitted. All of which prevents the great-scale creation of wealth.

But with the first two reforms, we’ll pass into a free (of violence and fraud) economy, without statist obstacles, and with a full-reserve banking, based in a tough currency with a gold standard. This means that the production will be multiplied by 4 or 5 times in the first year alone. It’s called the “Laffer effect”, by Arthur Laffer, the economist that discovered and explained it. Therefore, the

collected amount by the unique national tax will be many times more than the actual revenue of all taxes combined.

- Fiscal Federalism. At regional and municipal levels, each department and municipality of the country will be able to decree all the taxes that its residents approve, for the ends that its residents approve.

The principle is that every department or municipality that wants more public spending, for whatever purpose, shall have it paid with the money of its own pocket.

### **Do You Find These Reforms “Weird”?**

They might seem weird to you because they do not contain the usual rhetoric of direct allusions to the details of the problem of unemployment, poverty, working women, abandoned or malnourished children, the sick elderly, family abuse, immigration, racism, environmental pollution, etc., and because of that liberal reforms don't seem to be directed to treating them. Even less with pseudo-problems such as “homophobia”.

These problems, the real ones, some of them very grave, not the invented ones, are nothing more than links in the chain of consequences and repercussions (or symptoms) of statism, a chain that has become very large, including its most indirect and remote effects. People focuses in discussing details of links of the chain. And thus they forget the cause of the problems and the true evil behind it: statism; which is very good for statism! The trees don't allow people to see the forest; just so with the crisis provoked by statism, and they imprudently pretend to solve them with even more statist “solutions”, which don't really solve these difficulties, but rather aggravate and multiply them.

### **Common Sense: Four Popular Sayings**

¿Te parecen “simplistas” estas Reformas? Son simples quizá; mas no “simplistas”. Bien miradas, las soluciones liberales no son sino de puro sentido común. Aplican en la práctica cuatro refranes populares de gran sabiduría:

- 1) “Whoever covers much, barely tightens up” is what occurs with the State under statism. How can only one social institute, the Government, provide us security and defense, justice, and public works, if it also aspires to cover all our other necessities as well in many other diverse matters such as basic aliments, housing, employment, transport, and others related to economy and finances; and also education and culture, moral orientation for families, medical attention, elderly care, etc., “from the crib to the tomb” as the social democrat principle declared? This multipurpose State that wants to do a thousand things and does

nothing, wrongly called “Welfare State”, ends up being an uncontrollable bureaucratic monster, unmanageable and impossible to audit, a place of all kinds of abuses and corruptions.

- 2) “What’s perfect is enemy of what’s good”. The statist “solutions” always look for perfect plans for the State to apply; the liberal ones are probably not perfect, but are very good; and to be applied by everyone, both the (limited) Government and the private sector, answering to the principle “everyone with what is theirs”.
- 3) “Shoemaker, back to your shoes”, is another form of “everyone with what is theirs”, and means that each institution of the society, both the State and private ones, have their own ends, and are ideal for them, being absolutely inept in accomplishing the other distinct functions.
- 4) “Much helps that which doesn’t hinder” alludes to private institutions: families, schools, churches, clinics, syndical private institutions, religious or philanthropic for social assistance, provisional funds, etc. The state can’t replace them; but in its desperate attempts to do so, it impedes or hinders (or makes them more expensive) them in their attempt to comply with their own ends, for which they are endowed by their constitution and structure.

### **“In Which Country is There a System Like That?”**

In order to finish, the eternal question: “in which country is there a system like that one, or at least similar?” The answer: before there were, in the “rich nations” of Northern Europe and USA; practicing liberal capitalism made them rich. And for the moment, China as well, since the 80s, following the model used by Hong Kong, though not in all the country, but only in the Special Economic Zones and Autonomous Regions. The paradigm of capitalism is no longer USA nor Europe; it’s China: the new land of production, progress, and well-being.

We hope that you’ve understood well. And if you like it: help us spread this Program!