

## **Bucking the Trend** by Enrique Bolaños Geyer

It is said in the United States that Social Security and Medicare are the proverbial third rail of U.S. politics because like the train's third, electrical rail "if you touch it, you die". Similarly in Nicaragua, and in much of Latin America, most governments have been hesitant to tackle important issues because of the assumed political costs. These "rails" are: the corruption within the political elite, out-of-control spending by government bureaucrats, and privileges and subsidies granted to a small, but powerful economic upper class.

In the past decade, Nicaragua has swung from Socialism to the neo-liberal economic policies of the Washington Consensus. Yet, it has failed to achieve sustained economic growth and poverty reduction because of the endemic failure to address these "third rail" issues. And systematic corruption and mismanagement in Nicaragua have created a rage and disillusionment against this nation's political leaders who have done so little to move our country forward. Much of the same is on evidence elsewhere in the hemisphere. Indeed, this feeling of hopelessness extends beyond our borders and has resulted in a resurgence of populist politics in a number of Latin American nations.

Therefore, upon taking office, in January 2002, I made the decision that in Nicaragua we had to launch an all out battle to confront these issues in order to create a strong foundation for economic growth and bring back hope. I did not promise a lot, a-la-caudillo style. As the Nike commercials would have it: we just did it.

First, my government launched a crusade against the corruption of the political elite that had spread like a cancer in Nicaragua. This corruption was largely responsible for the fact that there was little to show for Nicaragua's massive debt, which only its interests now eats up one-third of the government's income. Moreover, foreign investors were discouraged from investing in Nicaragua because of a perception that their investment decision would be at the mercy of corrupt bureaucrats and politicians. That battle has been fought and has caused my government a lot of scars, but ultimately, with the imprisonment of various top political figures, it has been successful in signaling to the world that in Nicaragua the rule-of-law is the rule of the land.

Second, my government set forth an austerity plan to stop the free-spending privileges of the bureaucratic elite. The budget of the executive branch has been reduced by forty three percent in a year and a half. We eliminated credit cards used by government executives, cut top salaries by more than half, stopped the bureaucratic abuse of government cars, limited official consumption of gasoline and streamlined government spending. I confess to taking great pleasure from hearing that two recent U.S. visitors to the Presidential palace tried to find a phone to make a call home, but found a block on international calls on every phone. Austerity begins at the top and, after many years of mismanagement and fiscal chaos, Nicaragua's financial house is on its way back to order, with our deficit having been reduced by 18 percent in 2002 and this year by another 12 percent.

Now, my government has launched a fiscal and tax reform package that focuses attention toward equity issues and the privileges and subsidies that benefit a select few. While in Nicaragua tax

reform had become a synonym for tax increases, in this case, it has more to do with fiscal fairness. In fact, in this reform package more than 90% of taxpayers will pay less because their social security contributions will no longer be taxed. The package is targeted mainly at reducing evasion and at the elimination of over 60% of privileges and subsidies in the tax code that overly benefit economic elites and stifle free competition. Moreover, recognizing that trade is the engine of our growth, the tax reform package provides a multitude of incentives to our indigenous export sector.

When Congress approves the tax package this week, the international community which has been so patient with our country, will forgive 80% of Nicaragua's foreign debt: as per the terms of the Highly Indebted Poor Countries Initiative (HIPC). This will occur because our nation, after decades of economic mismanagement, is demonstrating that it is entering a new era of financial responsibility and social equity. For our nation, this debt forgiveness will open the door to channel precious resources to serve the social needs of our people and modernize our infrastructure.

Why should Americans care about my government's decision to tackle the most difficult issues in Latin America? Because if we are successful, it signals to all of Latin America that dealing with these radioactive issues is not politically impossible. It also is a clear example that before blaming all of one's ills on the outside, one must remove what is rotten on the inside.

After a failed socialist experiment with the Sandinistas, Nicaragua cannot afford to allow corruption and privilege to create a failed experiment in capitalism. My goal is to prove to Nicaraguans that in our country a career as a politician or a bureaucrat is not the only road to prosperity.

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