



**Episode 358 – Is Salon Right? Is Honduras a Libertarian Nightmare?**

**Guest: Michael Strong**

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**WOODS:** I am so glad we're able to talk to you because I have had so many people posting over on Facebook this article from Salon that we sent you saying that Honduras is a libertarian paradise, and it's the murder capital of the world thanks to you followers of Ayn Rand. She's the only person they think we read, by the way, if we support the free market. There's Ayn Rand, and she's pretty much it—Ayn Rand and Milton Friedman.

**STRONG:** Well, Salon has had almost a fetish for bashing Rand for some time. It's a genre they specialize in, which exhibits their cluelessness.

**WOODS:** It is. The Salon articles against libertarianism and the free market are just—it's like a giant make-work project. They are trying to put me to work just by writing stupid articles for me to refute. So in a way it does keep me occupied, but there are other things I would like to do.

**STRONG:** Well, I used to respect them. Five years ago, I thought Salon did some good work, but they have completely discredited themselves at this point.

**WOODS:** Oh, it's terrible. It's terrible. Well, let's talk about this situation in Honduras, because I would be willing to bet that most of my listeners are not familiar with the circumstances down there, so they really don't know how to sort out fact from fiction when they read an article like the one at Salon. I will be linking to that article and to some, in effect, rebuttal articles over on the show notes page for today, which would be [tomwoods.com/358](http://tomwoods.com/358). So if

you would like to follow along with our discussion and look at that article while we are doing that, that's the place to go. In that article, we are told that there have been reforms that have taken place in Honduras that have made it very free-market friendly, and that the results have been exceptionally poor—that there's this tremendous inequality, that there's tremendous crime, all kinds of social pathologies. What's your response to that? First of all, what's actually been going on? Is there any truth to the claim that Honduras is now a libertarian utopia, which is really how they put it?

**STRONG:** No, that's ridiculous. One of the biggest lies by academia in general is that the developing world is unregulated. As Hernando de Soto showed more than a decade ago, as the World Bank's Doing Business Index shows year after year, the developing world is massively overregulated, which is precisely why it's poor. Honduras is ranked 104th on the World Bank's Doing Business Index out of maybe 199 countries. That's typical of developing countries. Hong Kong and Singapore went from poverty to freedom in 50 years by being the two most free-market jurisdictions on Earth. Every jurisdiction that has economic freedom has become prosperous. Developing countries without exception lack economic freedom and typically have excessive regulation, Honduras included. So this is just one of the biggest, dishonest myths throughout much of academia outside of economics. Most economists know that the developing world lacks economic freedom, but most other professors and most journalists are continuing to spew the factually incorrect information that developing countries are unregulated.

**WOODS:** Apparently, even the minimum wage in Honduras is extremely convoluted and difficult to understand and not particularly favorable to business. So certainly the labor market is not *laissez faire*. As you say, starting a business is not *laissez faire*. And you mentioned Hernando de Soto: I remember reading *The Other Path* years ago, and he described the hoops you had to jump through to start a business in Peru, and he listed all the forms, the number of days of labor filling out the forms,

the number of overt bribes you had to pay—who would have the wherewithal to do that? Certainly not a poor person, certainly not an up-and-coming entrepreneur. You'd have to be already established even to have a prayer of meeting all those requirements.

**STRONG:** One of my favorite examples are notary publics. In Honduras and other Latin American countries, notary publics are typically attorneys where you have to pay between \$500 and \$1,000 to get every document notarized. In business, in Latin America as in the U.S., you often have to get documents notarized. In the U.S., anybody can get a document notarized for free or \$5, but if you are a poor Honduran because you cannot afford notary services, there is no chance of developing a legal business. This is why in Honduras and most other developing countries almost all business is in the informal sector, which means there are no legal protections. The police can harass you at any point in time. You cannot get insurance on anything you own. It's difficult to transfer property. In the informal market, they find workarounds for a lot of these things, but basically, Hernando de Soto estimated that 95% of developing world people are outside the formal legal sector, and it's because of this excessive regulation on every front.

**WOODS:** One of the complaints of the Salon author involves police militarization, but this is hardly the free market's fault. It's the government that funds all that. So that's one thing. But he's saying that what has begun to happen is that gang activity seems to be overtaking the country—various problems involving crime. And then he would say that we have a lot of private security guards, and the implication is that they can't seem to cope with this wave of crime. What's the truth regarding what's going on in the level of crime? And then let's talk about the charter city issue.

**STRONG:** Sure. Obviously the drug war is a big issue. Colombia used to be a complete basket case. As the U.S. and Colombian governments both cracked down to some extent, a lot of the big drug trafficking violence moved

north, which is why Mexico had had exceptionally violent drug wars for the last decade, and the Honduran, well, Central American governments in general are much weaker, and as a consequence, the drug lords can pretty much do as they please down there. I once calculated that the estimated value of cocaine traveling through Honduras was about 10 times the total security budget of Honduras. And so insofar as people complain about corrupt Honduran police, well, police in the U.S. are corrupt, but imagine how much more corrupt they would be if we had ten times the total security budget of the United States sloshing around. It makes *The Wire* seem positively ethical in comparison to what's going on down in Honduras. So, yes, it's a very, very violent place, but that's largely due to the U.S. drug war, which is both U.S. prohibiting drugs and the U.S. consumers consuming drugs.

**WOODS:** I am reading an article on AlterNet right now, which is linked in the article at Salon, and it says, "Contrary to commonly held perceptions, most of the violence in Honduras is not caused by large, transnational drug trafficking organizations, but rather by smaller gangs fighting over territory, including street corners, neighborhoods, and even prisons, in which to conduct extortion rackets, small scale smuggling efforts, and prostitution operations among other illegal activities." Well, okay, but some of that has something to do with government. Some of these activities maybe ought not to be illegal, but then, again, if you're upset about the inability of the police to deal with crime, this is not a market problem. It's the government that has monopolized the response to crime, so it doesn't seem to me that this is Ayn Rand's fault.

**STRONG:** No, not at all. There are violent activities separate from the drug war, but when you have a complete collapse of legitimate policing, then basically you have chaos. And because Honduras cannot be governed effectively given the violence, and I would say that it would be good, and Honduras is trying to make efforts to improve police, but as you say, that's a government issue, and that is not in any sense a free-market issue. One of the

hopes of many working class people in Honduras is to have zones with effective security. There are very small working-class residential developments that are, as it were, working-class gated communities. I visited one in Choloma, Honduras where the average cost of residence is \$10,000, and so a poor working-class Honduran working at a maquila sewing shirts can afford one of these homes, and the homes have modest, gated-community security, and the working-class Hondurans love it. So the whole notion that somehow the private market is responsible for this disaster is false, and even working-class Hondurans, when they get a chance, hire private security to protect themselves. So this is what happens when government services collapse.

**WOODS:** Tell us what the grain of truth is in the claim that there's been some kind of shift, some kind of libertarian experiment. Isn't there some kind of arrangement now in Honduras involving autonomous cities, and how does that work?

**STRONG:** I got into this because I am a great believer in entrepreneurial solutions to world poverty. Entrepreneurs always and everywhere have created prosperity when they have been allowed to do so, and yet, when you start looking at why entrepreneurs haven't created prosperity around the world, it's because the developing world governments are overregulated. That led me to the Free Zone movement, and globally, free zones have brought more people out of poverty than any other policy improvement anywhere. Chinese special economic zones have brought an estimated 600 million people out of poverty. The average urban wages in China have gone up from \$1,000 per person 20 years ago to more than \$6,000 per person. In Honduras, I worked with a man, Bob Haywood, who designs the free zones there. He predicted in the late 1980s when he developed these that they would create more than 100,000 jobs. So he did in fact create more than 100,000 jobs under the single largest economic employment base in Honduras. The next stage in free zone development are free zones with their own legal systems because while free zones can reduce taxes

and regulations—that's a good thing—you still have disastrous laws very often.

So if we can create zones with higher quality law, that's the next big win. In 2004, Dubai wanted to create a world-class financial center. They actually hired a British common law judge to administer, but it's common law on 110 acres in a sea of UAE sharia law. As a consequence, Dubai has one of the world's best financial centers. Hundreds of billions of capital have flown through Dubai as a consequence. It would not have happened under sharia law. As a consequence, various reformers have said we need zones with their own legal systems. In this case, common law is much more market-friendly than is civil law, Spanish civil law. So the Honduran government has passed really wonderful legislation—this time called ZEDE. ZEDE is for Zones for Economic Development. These zones allow for common law jurisdictions within Honduras. It's better to think of them as zones rather than cities. We believe they will evolve into cities like Hong Kong and Singapore over time, but the great thing is, imagine if you had a reliable common law legal system with the incredibly hardworking Honduran labor force, you could create zones where Hondurans could get great jobs and eventually we could have the rise to prosperity we have seen in Hong Kong and Singapore take place in Honduras.

**WOODS:** How widespread are these zones at this point? If you were to look at the percentage of territory in the whole country that we're talking about, how much would be under the influence of these?

**STRONG:** There was legislation passed in 2012, and that was invalidated by the Supreme Court. They passed new legislation in 2014, and as a consequence, the new legislation has not been implemented. There are many of us who are very interested in the first zones being created. The Honduran government has been negotiating with the South Korean government to do a large zone on the Pacific coast, but there are many private entrepreneurs, including a group that I am associated with, that is interested in doing zones elsewhere in Honduras once the procedures

for actually administering these zones have become clear. So the stage at which we stand is that truly revolutionary legislation has been passed for the ZEDEs.

One of the other things they did is they appointed an administrative board for these zones, which includes some of the most illustrious libertarians. Grover Norquist is on this board, to give you a sense for exactly the level of their free-market commitment. Mark Skousen is on this board. Richard Drayton, who helped develop the Cayman Islands financial center—developed the Cayman Islands as a great financial center. So you've got a board that will administer these zones at the highest level that includes really brilliant free-market thinkers and experienced policymakers, and as a consequence, many of us are waiting for the procedures that will allow for the creation of these zones. So to your question, no zones have yet been created, but the legislation is in place, and they have got a fabulous free-market administrative board in place.

**WOODS:** Then it does then provoke the obvious question: how can these zones be blamed for all of these problems if they are still in the planning stages? I don't understand the critique at this point.

**STRONG:** Dishonesty—just flat-out dishonesty. It could be ignorance, but at what point—when the status of the situation is clear—the one thing where I think—there's some important background here. So in 2008, there was a President Manuel Zelaya, who had gone into Hugo Chavez's leftist turn, and he started doing things like surrounding the Honduran Congress with tanks, trying to force the Congress to nominate his chosen Supreme Court candidates. This was an egregious violation of the rule of law, and the Hondurans were outraged. The Honduran military took Zelaya out of Honduras to Costa Rica in his pajamas in the middle of the night with the support of the Honduran Congress and the Honduran Supreme Court and all legitimate Honduras. Nonetheless, the international community declared this a coup—a military coup. Hillary Clinton went down to Honduras and scolded the Hondurans, telling them to bring their president back.

Tens of millions in foreign aid were pulled suddenly from Honduras. Six months later, a center-right candidate, President Lobo, was elected. And he was the one who passed this initial zone program—a free-market zone program, and so from the leftist perspective, they had a Chavez-style leftist president, who was taken out by the legitimate centers of Honduran power. This president was replaced by a more market-friendly candidate who created these zones, and they will never accept this fact. So basically, there is no truth that it's a libertarian paradise, but they are still resentful that they don't have a Chavista in there.

**WOODS:** I see, okay. You told me before we went on that you have actually visited Honduras a number of times. What have you learned from your own observations on the ground, so to speak?

**STRONG:** First of all, the Hondurans are incredibly hard working. I have visited free zone factories where there are international corporations that do manufacture products in these zones, and one of these places we visited said their factory is the most profitable factory in the world because the Honduran labor force was one of the highest quality labor forces they had seen. So the Honduran people on their own could become prosperous—100,000 Hondurans immigrate mostly legally from Honduras to the U.S. every year to get jobs here. If and only if we can create these zones with high-quality legal systems and decent security, I do think that Honduras could rapidly become a prosperous country. The other thing I would say is that while there is plenty of corruption in the Honduran government, the individuals within the Honduran government who are responsible for this program are brilliant classical liberal thinkers, and they are principled, brilliant, classical liberal thinkers. So I have met people who really get why this important to create prosperity in Honduras, and whatever attitudes one has towards Honduras and the government and so forth, and you know, it is a Third World government, there are people on the inside who understand why this is truly the path to help the working class in Honduras have a better life.



**WOODS:** It's interesting that we get a lot of complaints these days about inequality supposedly in market societies, and there was a study—it might have been the Heritage study of the economic freedom of the world—but it included a chart where they took the 25 freest countries in the world, and then they took the 25 least free, and they used the Gini coefficient to determine inequality, and they found out that inequality was vastly worse in the least free countries. I can understand why in Honduras, where entrepreneurship is almost an impossibility in the formal sector given all the hoops you have to jump through. Of course, if you are deliberately keeping people from rising, they are not going to rise. And yet, when I read these articles critiquing what's going on in Honduras, the implication is that it's unbridled capitalism that has created a nightmare of inequality there.

**STRONG:** Well, what none of these people understand is that it's a combination of government mismanagement and crony capitalism. A different example: my wife is from Senegal. At one point they went from one monopolistic concrete manufacturer in Senegal to adding a second competitor, and overnight, concrete prices went down by 30%. That's the power of competition. Whenever you have monopolies—and in most developing world governments you have crony capitalist monopolies where a few insiders, a few elites basically, either create straight-out monopolies or regulatory constraints that produce *de facto* monopolies, and as a consequence, of course, you have this tiny, tiny elite, but this is simply ignorance of free enterprise 101. I think it's shameful the extent to which people don't recognize that these horrible situations in developing countries are not caused by free markets. They are caused by the absence of free markets that lead to corruption and crony capitalism. We need to shout this over and over and over again until these people get it, and we need to shame venues like Salon that are dishonest about this so that we can finally get the facts out. Hello, it's this massive crony capitalist overregulation that keeps the poor poorer. Once we create truly free markets, we

will see global prosperity as we have anywhere it's been allowed.

**WOODS:** Michael, take a minute to tell us a little bit about your organization, Radical Social Entrepreneurs. I will make sure and link to that also at [tomwoods.com/358](http://tomwoods.com/358), but it sounds very interesting.

**STRONG:** Absolutely, well, there's a social entrepreneurship movement that has been focused on integrating the doing of good as well as entrepreneurship, and some of those, I think, are actually not very constructive. But we see this idea that entrepreneurship plus doing good should be integrated as a powerful, positive sort of thing. I created the original organization, Flow, in conjunction with John Mackey, the CEO of Whole Foods, and we all believe that capitalism can be a powerful force for good. In my case, I see Radical Social Entrepreneurs as among other things, liberating poor countries through these zones. So if you are a principled entrepreneur, you should not be a crony capitalist. If you are a principled entrepreneur, you should be advocating for greater free enterprise and no special deals. If you are a principled social entrepreneur, you should be finding ways to deliberately create win-wins.

I would say one other spin on the Honduras project that's really important is that it is a conceivable danger, and the Hondurans don't want this, that you can have enclaves that were just expat enclaves in Honduras. It's really important that those of us who develop zones there create zones that deliberately create a path upward for Hondurans. One of the great ironies, by the way, is that factory work is one of the best paths upward, and yet, the Left hates factory work. So it would be easier to create zones of maquilas, but if you're conscientious, you need to argue to the Left, hello, this is the way to create paths upward. So for me, radical social entrepreneur means going beyond the shallow, feel good, or do-good entrepreneurship to say what does it really take to help people? It really takes free markets as well as a kind of decency in how you treat people.

**WOODS:** Michael, I am going to be linking to a variety of ways people can follow you; Twitter, your blog, the radical social entrepreneur's website on the show notes page [tomwoods.com/358](http://tomwoods.com/358), but feel free at this point to mention any website, any URL you want to send people to to find out more information about what you do.

**STRONG:** Absolutely, I would say one other place with a lot of great information is [StartUpCities.org](http://StartUpCities.org), and it's an organization in Guatemala associated with Universidad Francisco Marroquin, the most free market university in the world. [StartUpCities.org](http://StartUpCities.org), UFM, provides a lot of information on these kind of zones and various projects associated with them. We need to create a global movement where people realize that we, the free marketeers, are the most powerful advocates for the global poor, and this kind of issue is precisely how we'll do it. By means of this, we get the moral and intellectual high ground, and then finally the anti-capitalists will fall into the dustbin of history, so to speak.

**WOODS:** Well, we can certainly hope so, and it will be due, in large part, to pioneers like yourself. So thank you so much, Michael Strong, for your time today. We all appreciate it.

**STRONG:** Thank you, Tom.