

The Economic Implications of the Political Status of Puerto Rico

By

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Presentation Outline

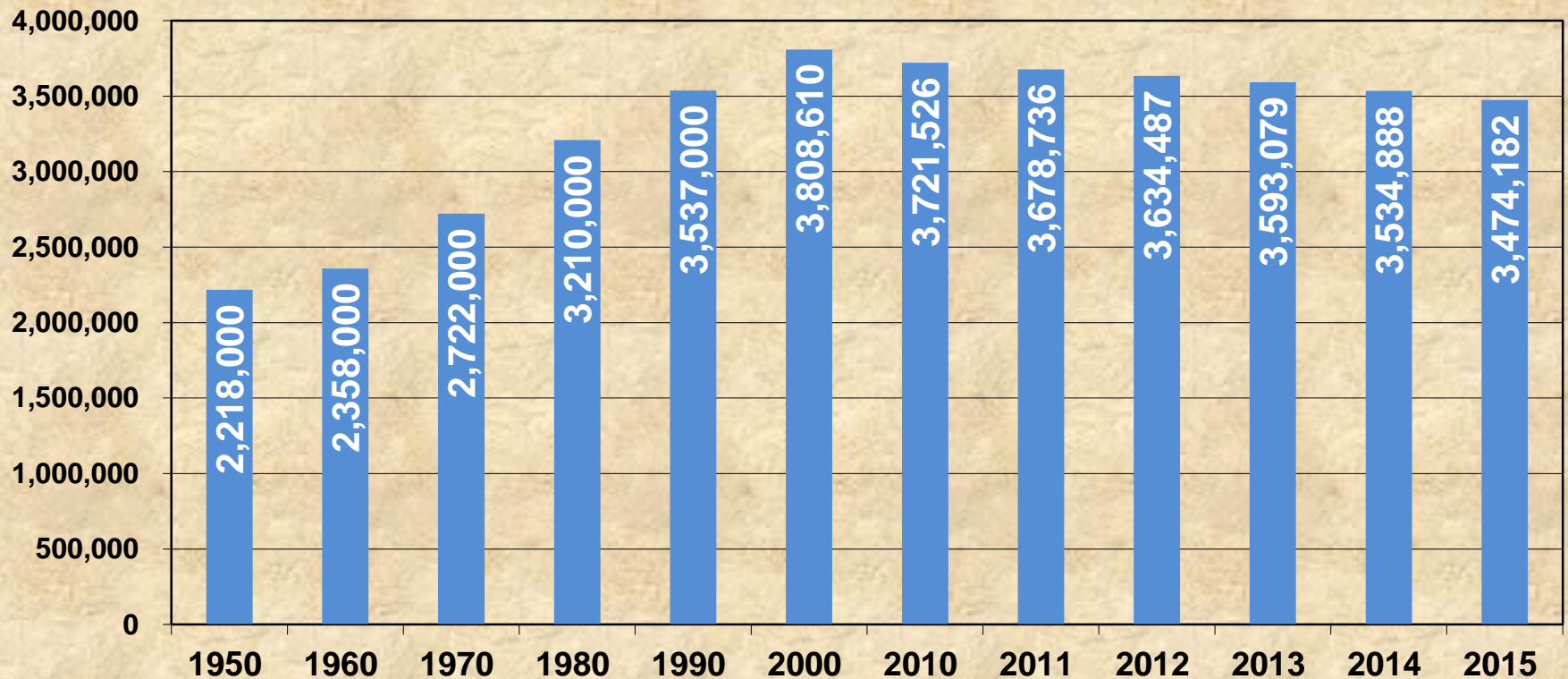
- ➔ Puerto Rico: A Brief Background
- ➔ The Status Problem in a Nutshell
- ➔ What Happened in 1952?
- ➔ The Economy of Puerto Rico (1948-2015)
- ➔ Convergence
- ➔ Puerto Rico's Fiscal Crisis: A Debt Problem?
- ➔ Investment in Puerto Rico: 2003-2015
- ➔ Puerto Rico in a Broader Context
- ➔ PROMESA
- ➔ Conclusions and Recommendations

Puerto Rico: A Brief Background

Puerto Rico: Some Basic Facts

Geography:	
Size	100 miles long X 35 miles wide
Area	3,435 miles ² (9,000 km ²)
Economy:	
Currency	US Dollar
Personal income (2015)	\$18,347 per person
Inflation rate (2015)	-0.8%
Labor force (2015)	1,131,000 persons
Unemployment (2015)	994,000 persons
Unemployment rate (2015)	12.1%
Participation rate (2015)	40.0%

Population of Puerto Rico



Source: US Census Bureau.

Glossary

- ➔ Section 936 (US Internal Revenue Code)
- ➔ Cabotage law (Jones Act of 1920 – US)
- ➔ Federal minimum wage (US)
 - Currently = \$7.25 per hour (\approx \$1,260 per month)
- ➔ Nutritional Assistance Program or “food stamps” (US)

The Status Problem in a Nutshell

The Current Political Status of Puerto Rico

- ➔ Violates the basic human rights of the residents of the Island.
 - Government is not by consent of the governed.
 - Taxation without representation.
- ➔ Regardless of these violations of human rights, the fact remains that, whenever the people of Puerto Rico have had the chance to change, they have elected to stay the course.
- ➔ Why?

Misapplication of Economics

➔ Inputs over outputs

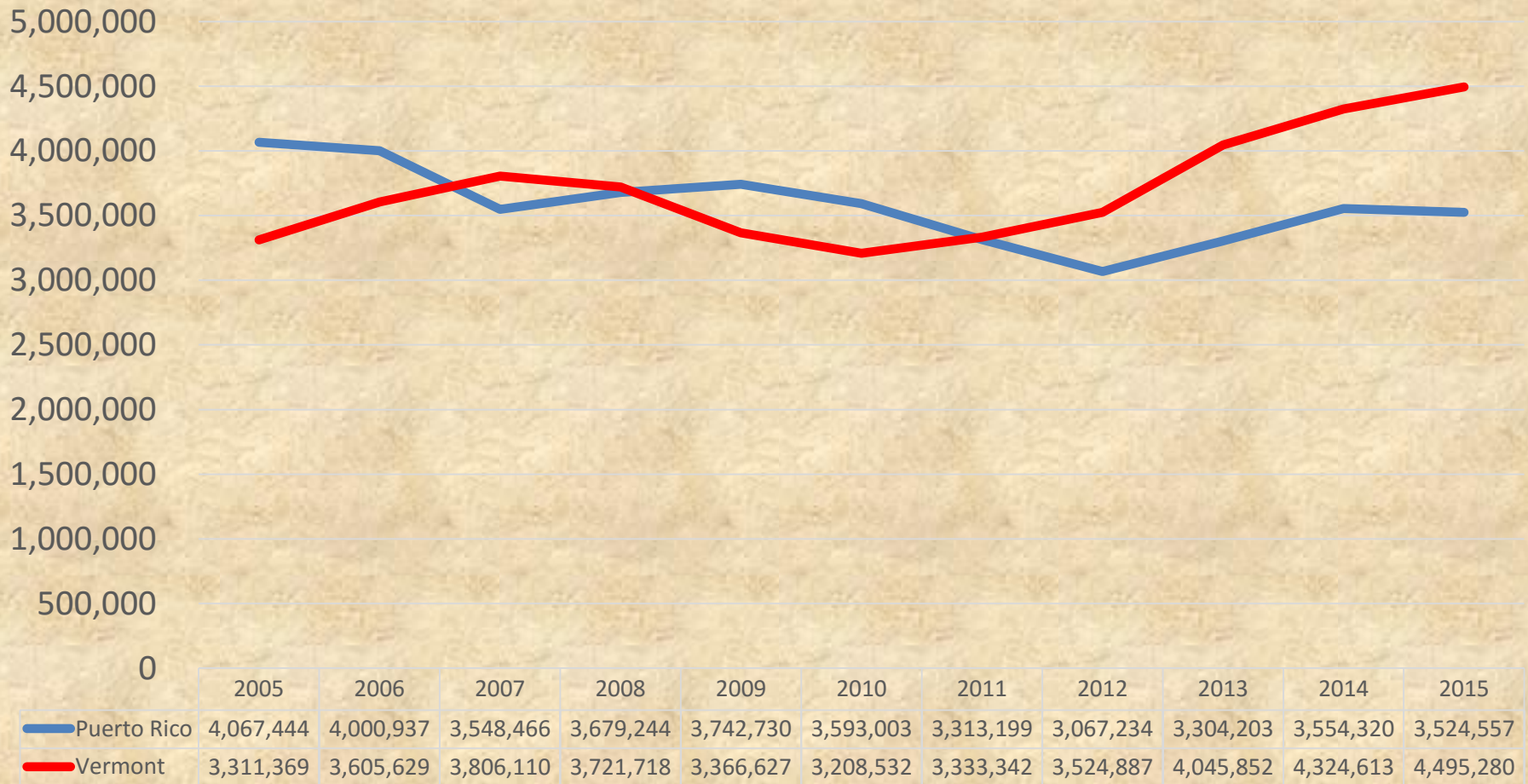
- Analysis of inputs (tax incentives, cabotage laws, etc.) appears to favor the current status.
- Analysis of outputs demonstrates that the current status has not worked.

➔ Behavioral economics: humans and their biases

- **Status-quo-bias:** People have a general tendency to hold on to their current situation.
- **Framing matters:** The issue is always framed placing the burden of proof on the alternatives.
- **Choosing by default:** Current status has always been the default choice.

IRS Tax Collections (In \$000s)

(“Taxation without representation is tyranny.”)



The Premises

- ➔ The analyses and discussions of the economic implications of the political status of Puerto Rico tend to be based on the following premises:
 - The current status (Commonwealth or “Estado Libre Asociado”) was created in 1952 upon the approval of the Constitution of Puerto Rico.
 - The creation of the “Estado Libre Asociado” status was the cause for the extraordinary economic development experienced by Puerto Rico in the mid 20th Century, with the economy of the Island growing at a rate that even exceeded the growth rate of the U.S. economy in several years.

The Premises (*cont.*)

- ➔ Based on these premises:
 - The defenders of the current status argue that, since it was responsible for the economic development of Puerto Rico, it would be advantageous to maintain the “Estado Libre Asociado,” in any of its many proposed forms, as the Island’s political status.
 - Advocates of Statehood and Independence argue that, from the economic standpoint, their status options would “work better” prospectively.
- ➔ Two problems:
 - By arguing that their options would “work better”, advocates of Statehood and Independence, by implication, concede the premises.
 - The premises, however, are false.

Two Fundamental Questions

- ➔ Was a new political status created in 1952 that changed, and significantly improved, the political relations between Puerto Rico and the U.S.?
- ➔ Was this new status the cause of the economic development of Puerto Rico in the mid 20th Century?
- ➔ Let the facts speak for themselves.

What Happened in 1952?

A Brief History of Puerto Rico

- ➔ November 19, 1493: Christopher Columbus “discovers” Puerto Rico
- ➔ 1493-1898: Puerto Rico is a Spanish colony
- ➔ July 25, 1898: As part of the Spanish-American War, the US invades Puerto Rico
- ➔ December 10, 1898: Upon the signing of the Treaty of Paris, ownership of Puerto Rico passes from Spain to the US
- ➔ April 12, 1900: Foraker Act
- ➔ March 2, 1917: Jones Act
- ➔ July 25, 1952: Puerto Rico’s Constitution takes effect

The PR-US Relationship

	<u>Year</u>	<u>Source</u>
➤ Common currency	1900	Foraker Act
➤ Resident Commissioner in Congress	1900	Foraker Act
➤ Common Market	1902	Foraker Act
➤ Bicameral Legislature elected by Puerto Ricans	1917	Jones Act
➤ US Citizenship		
▪ To residents of Puerto Rico	1917	Jones Act
▪ To persons born in Puerto Rico	1941	Nationality Act of 1940
➤ Common Defense		
▪ PR defended by US armed forces	1898	Treaty of Paris
▪ Puerto Ricans serve in US armed forces	1917	Proclamation by President Woodrow Wilson
➤ Fiscal Autonomy		
▪ Exemption from some US Federal income taxes for residents of PR	1913	US Internal Revenue Code
▪ Federal Tax Incentives for US MNCs	1921	US Internal Revenue Code
➤ PR's Governor elected by Puerto Ricans	1948	Elective Governor Act of 1947

In Summary

➔ Before 1952:

- Common currency, market, and defense, and limited tax exemption.
- Puerto Ricans are US citizens
- PR's legislature and Governor elected by Puerto Ricans
- Nonproportional, and nonvoting, representation in Congress by a Resident Commissioner
- Puerto Ricans did not vote for US president

➔ After 1952:

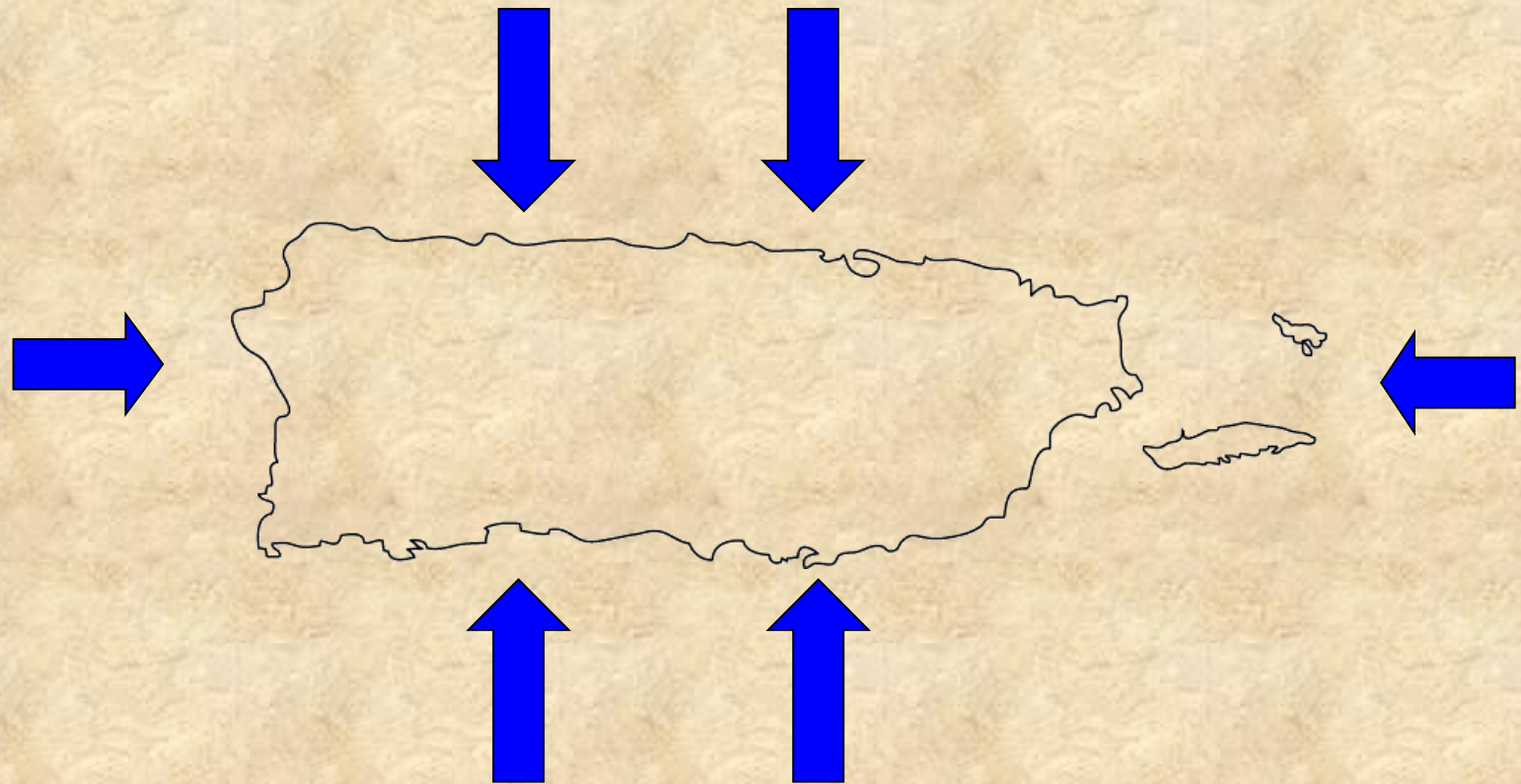
- Common currency, market, and defense, and limited tax exemption.
- Puerto Ricans are US citizens
- PR's legislature and Governor elected by Puerto Ricans
- Nonproportional, and nonvoting, representation in Congress by a Resident Commissioner
- Puerto Ricans did not vote for US president

What Happened in 1952?

- ➔ From the economic standpoint: No change
- ➔ From the political standpoint: No change
- ➔ Was a new political status created?
- ➔ No!!!
- ➔ How can something that did not happen be the cause of the economic development of Puerto Rico?

The Economy of Puerto Rico: 1948-2015

Puerto Rico: The Traditional View



Puerto Rico: GNP and GDP

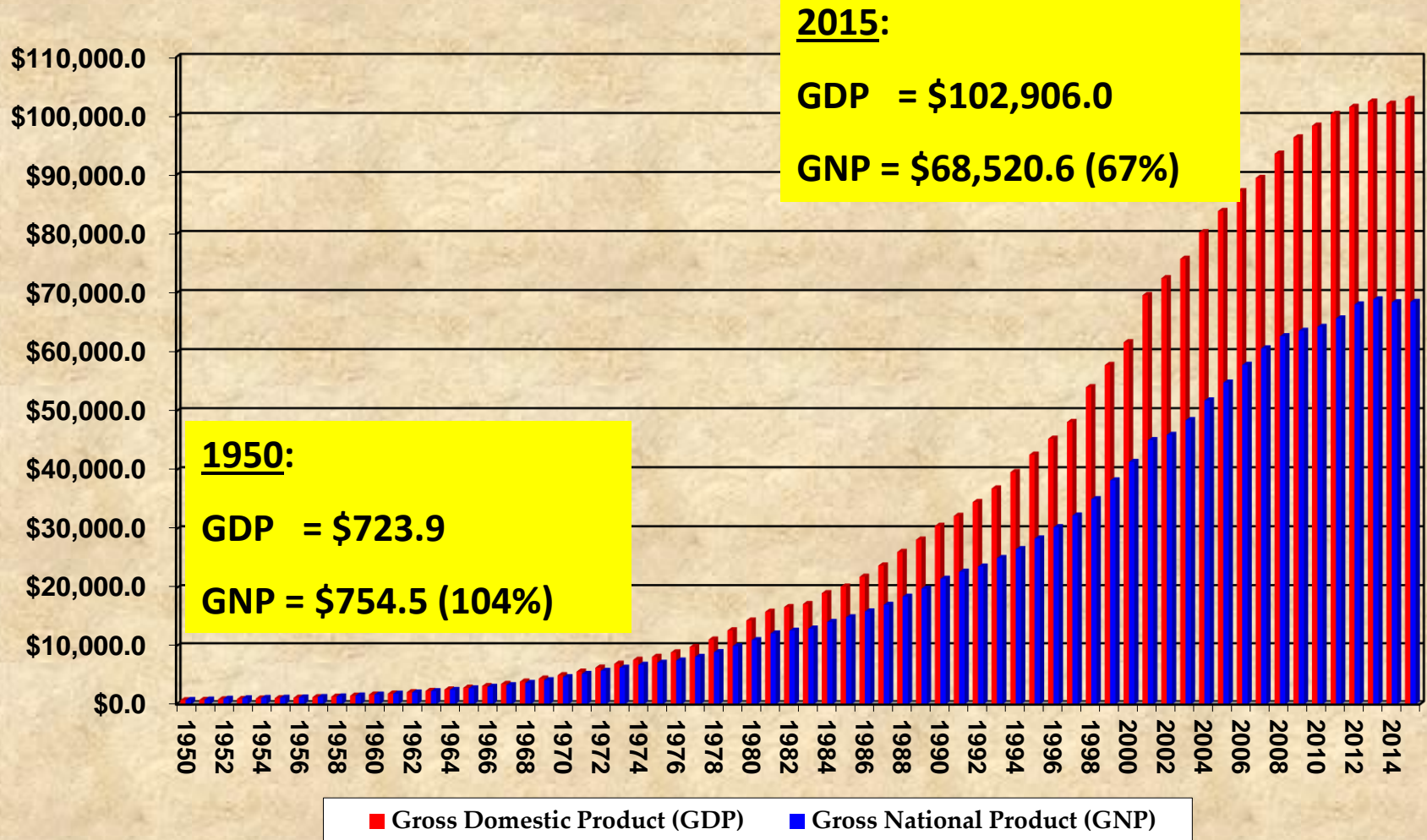
(Current prices. In millions)

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Personal consumption expenditures	\$62,477.6	\$61,753.0	\$61,911.3
Government consumption expenditures	10,589.4	10,946.0	9,189.8
Gross domestic Investment, total	9,763.0	9,229.0	8,956.0
Net sales to the rest of the world	(13,885.0)	(13,466.8)	(11,536.6)
GROSS NATIONAL PRODUCT (GNP)	\$68,944.9	\$68,461.2	\$68,520.6
Less: Funds received from the federal government	(1,203.4)	(1,161.7)	(1,259.5)
Plus: Net income generated by nonresidents	34,708.5	34,789.1	35,645.0
GROSS DOMESTIC PRODUCT (GDP)	\$102,450.0	\$102,088.6	\$102,906.0

Source: Puerto Rico Planning Board, Statistical Appendix, Tables 2 and 9.

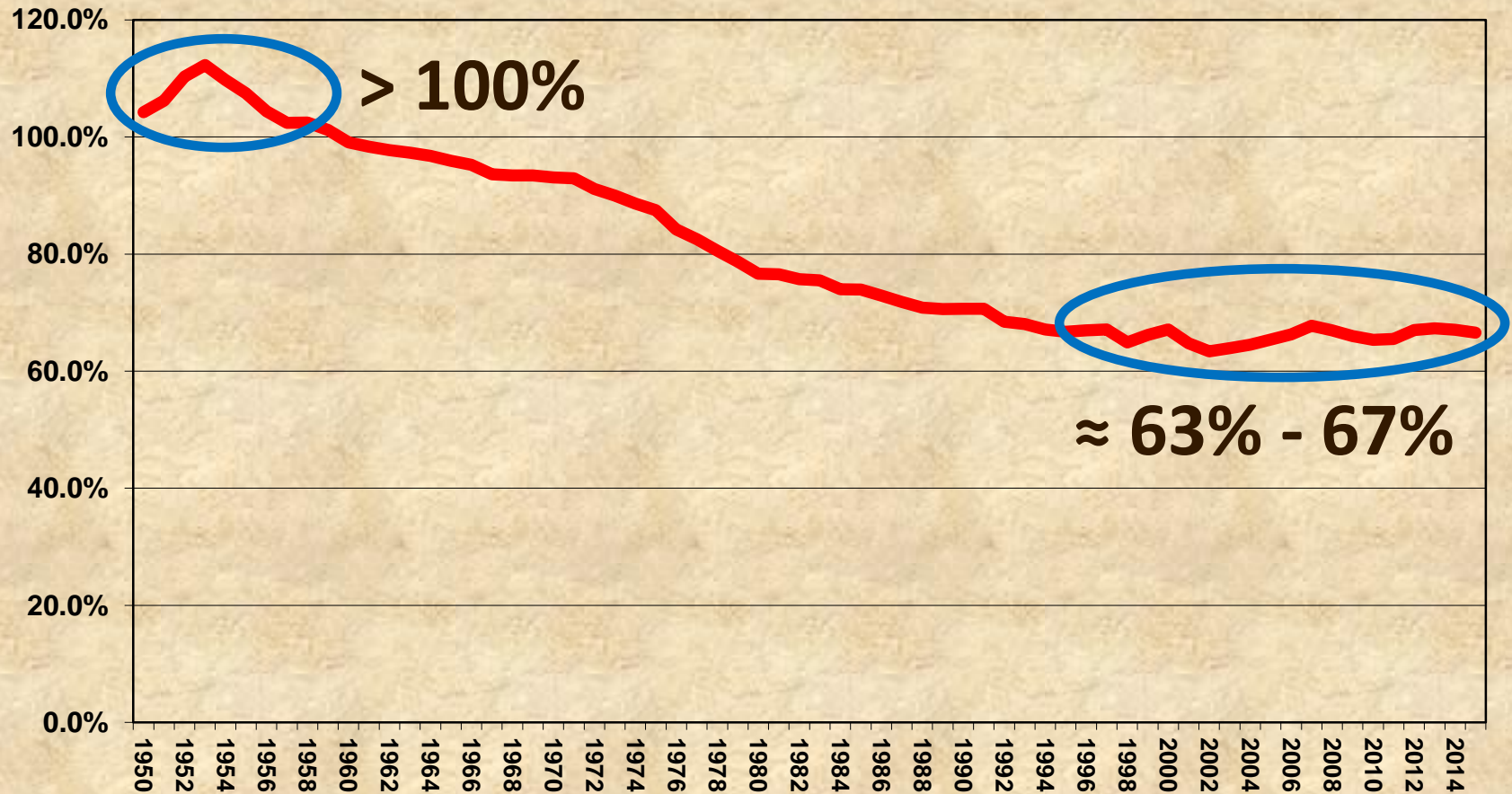
Puerto Rico: GDP vs. GNP

(Current prices. In millions.)



Source: Puerto Rico Planning Board, Statistical Appendix, Table 1, and author's computations.

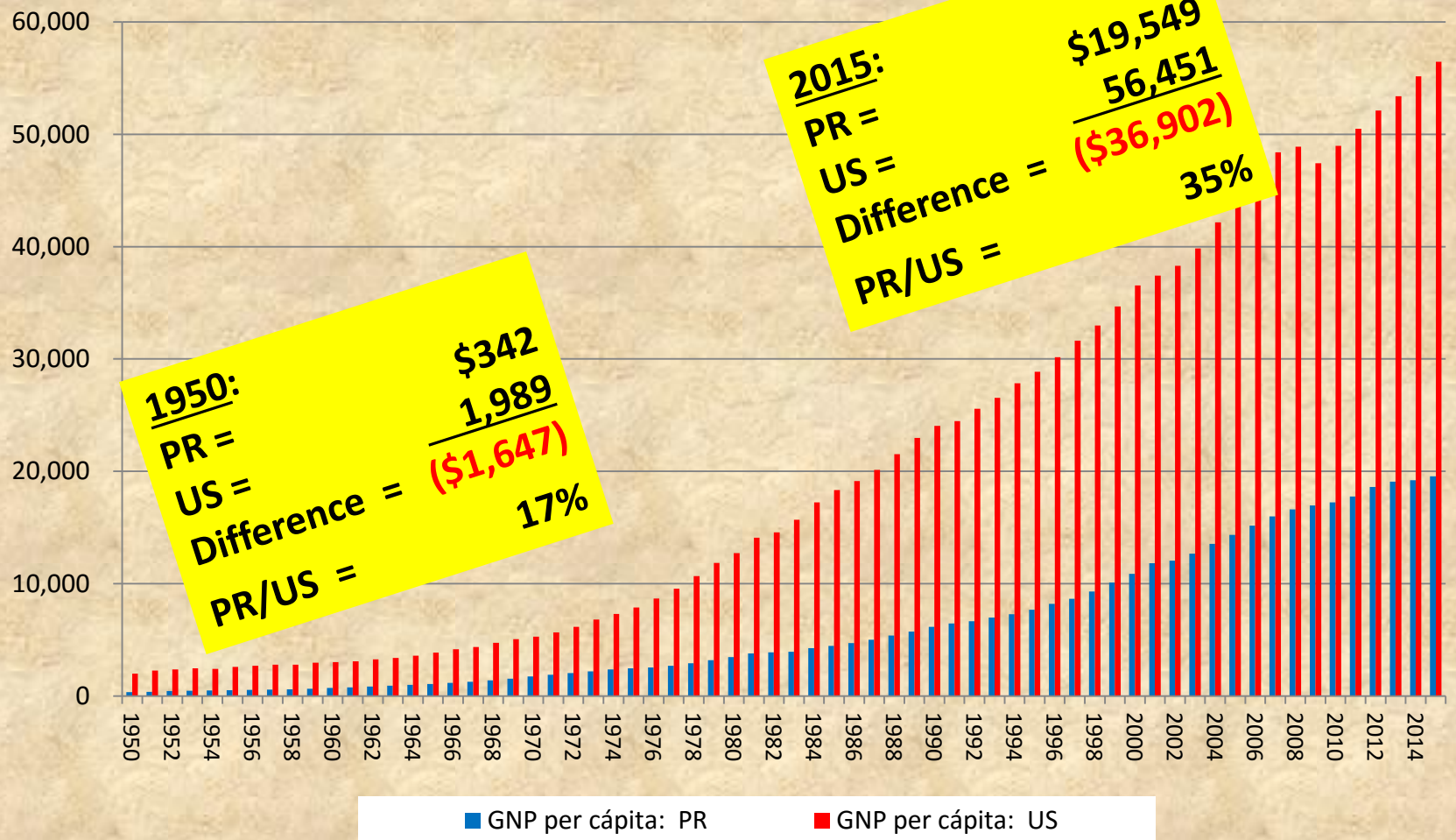
Puerto Rico: GNP / GDP



Source: Puerto Rico Planning Board, Statistical Appendix, Table 1, and author's computations.

GNP per Cápita: PR vs. US

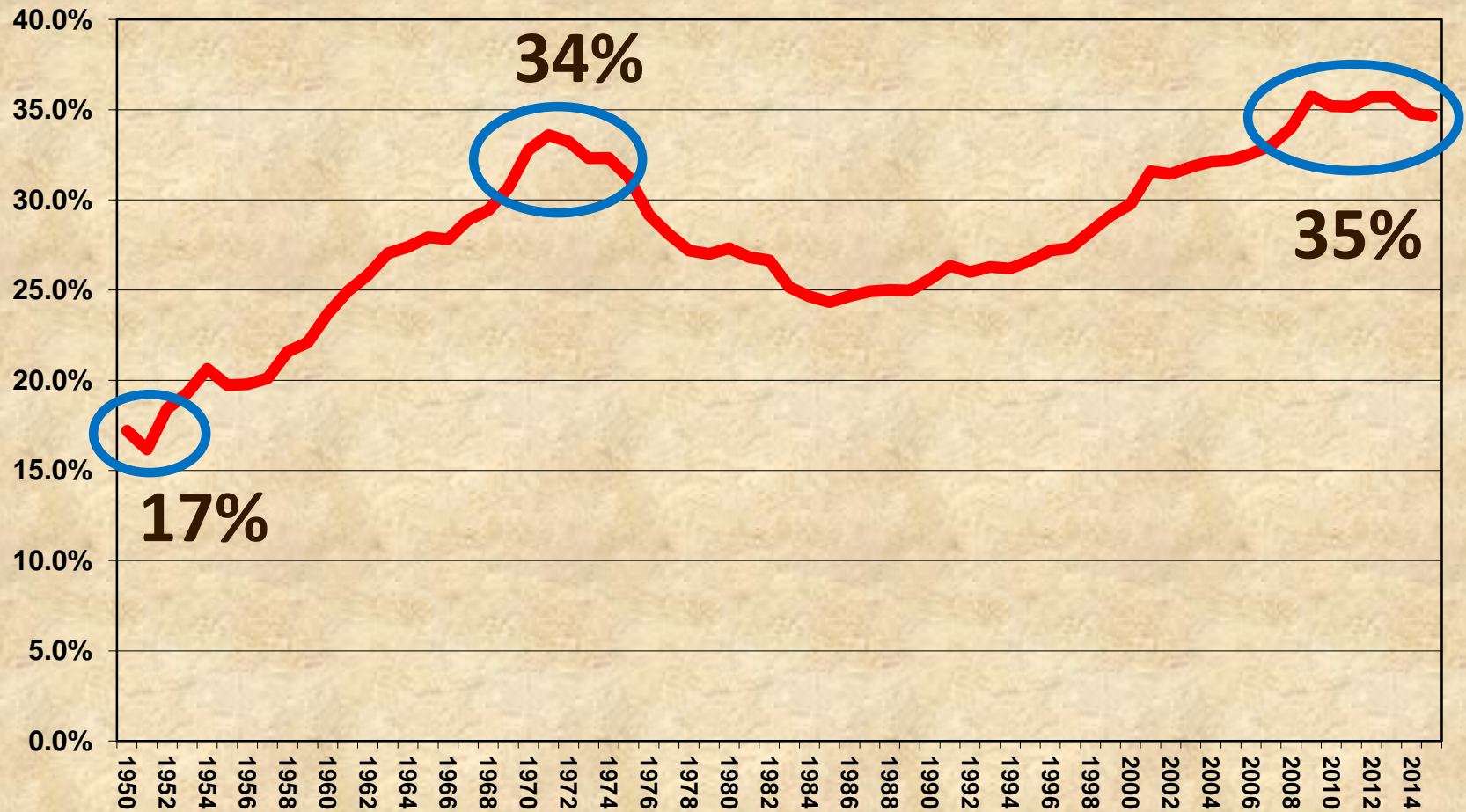
(Current prices.)



Source: Puerto Rico Planning Board (Statistical Appendix, Table 1), U.S. Bureau of Economic Analysis (Table 7.1), and author's computations.

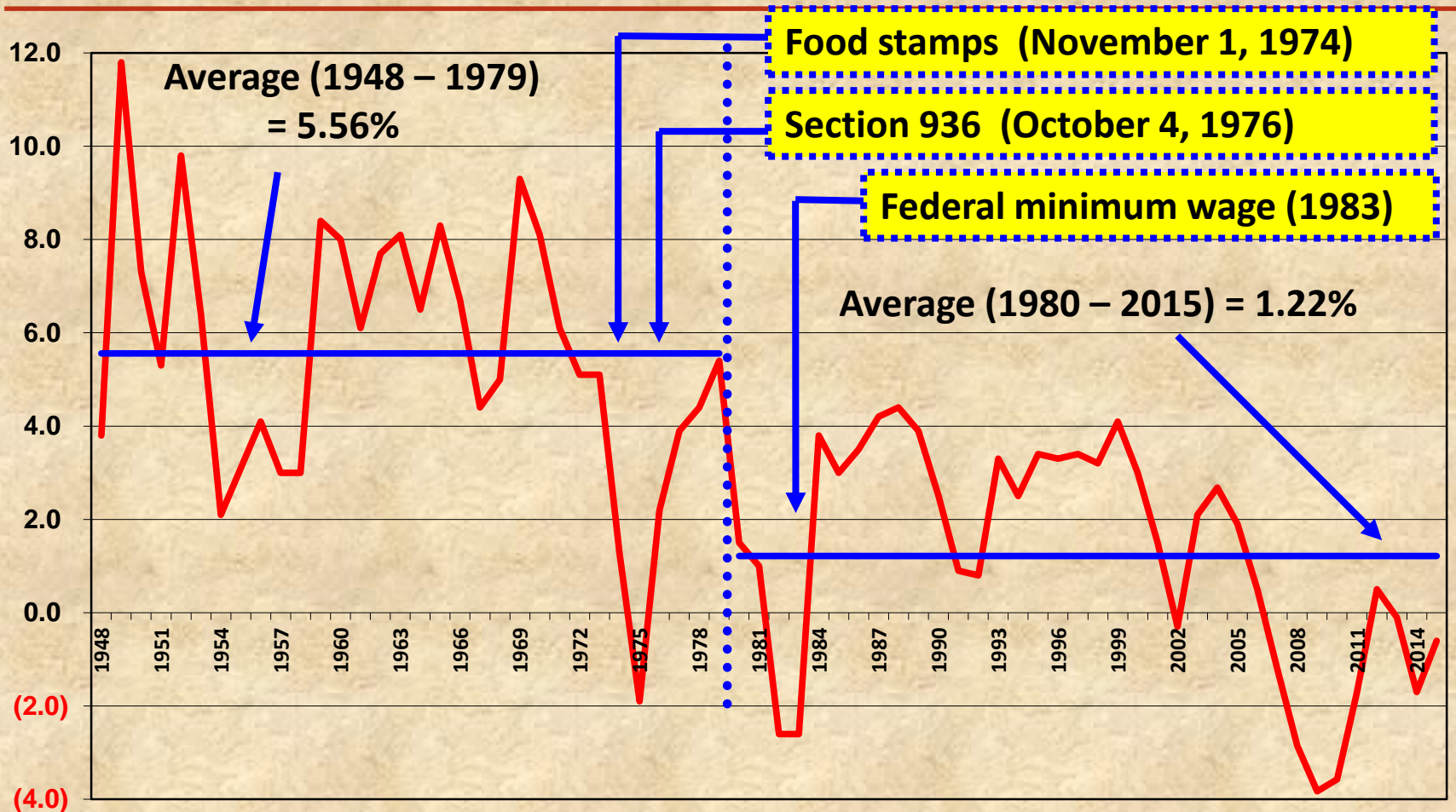
GNP per Cápita: PR / US

(Current prices.)



Puerto Rico: GNP Annual Growth

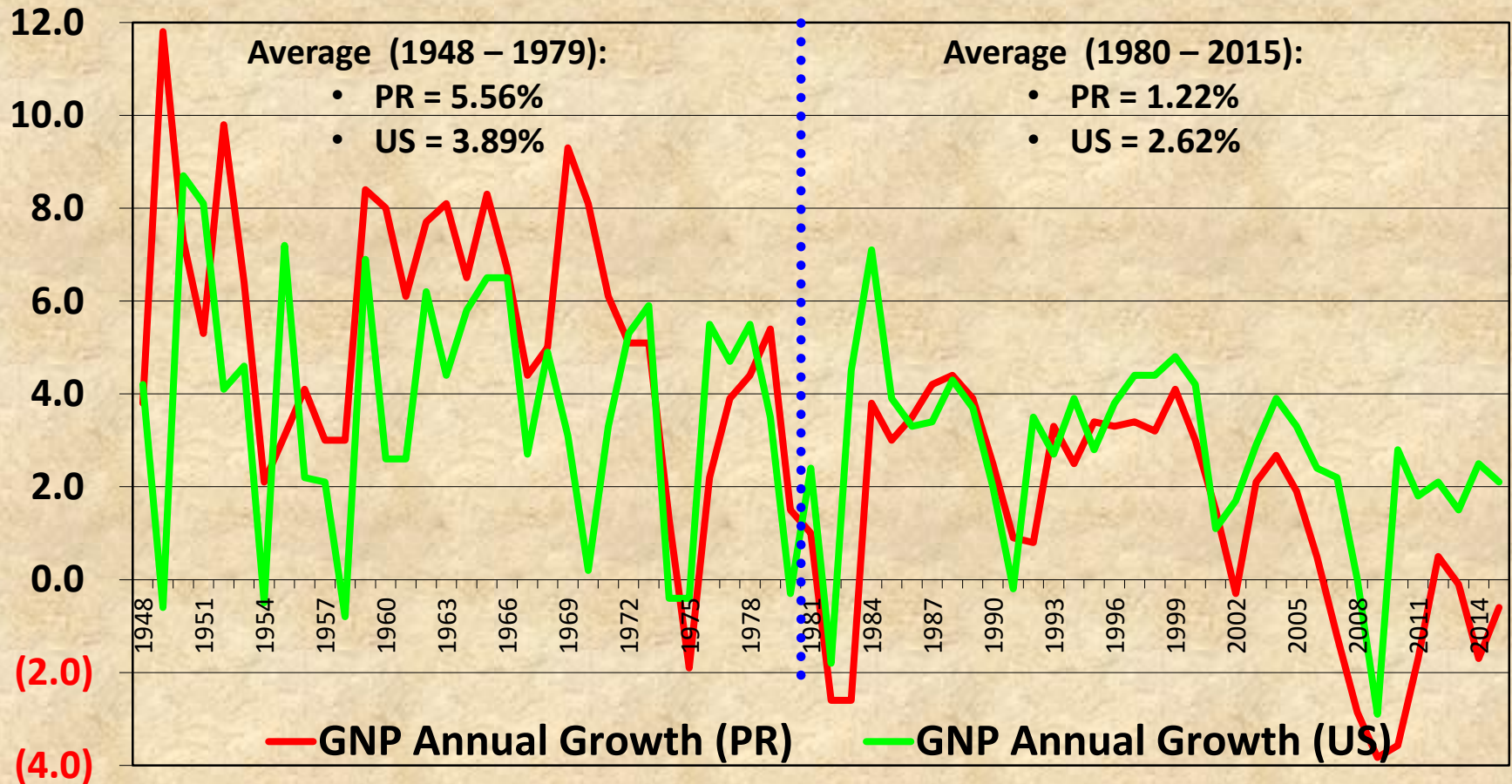
(In real terms and in %.)



Source: Puerto Rico Planning Board, Statistical Appendix, Table 1, and author's computations.

GNP annual Growth: PR vs. US

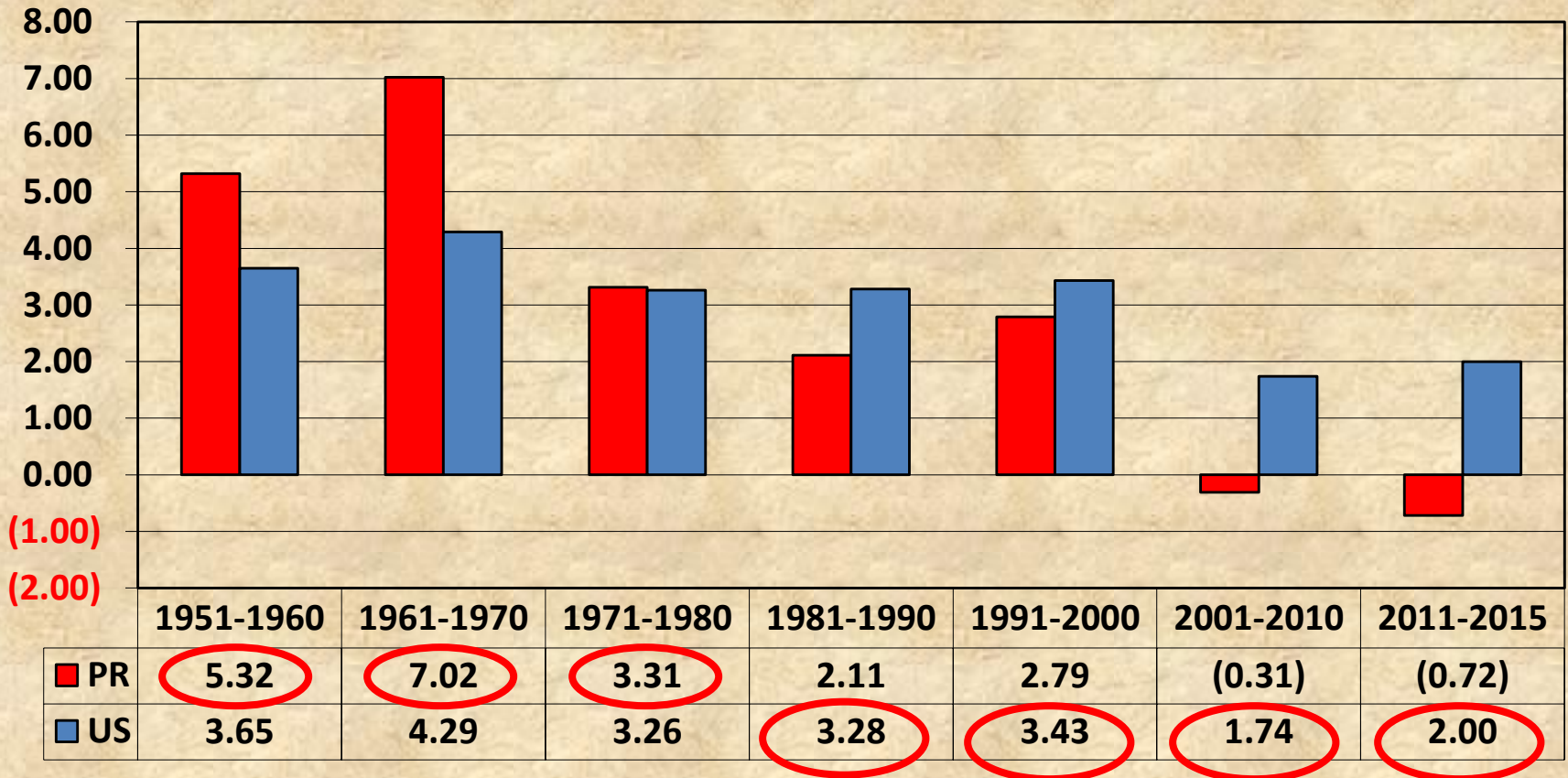
(In real terms and in %.)



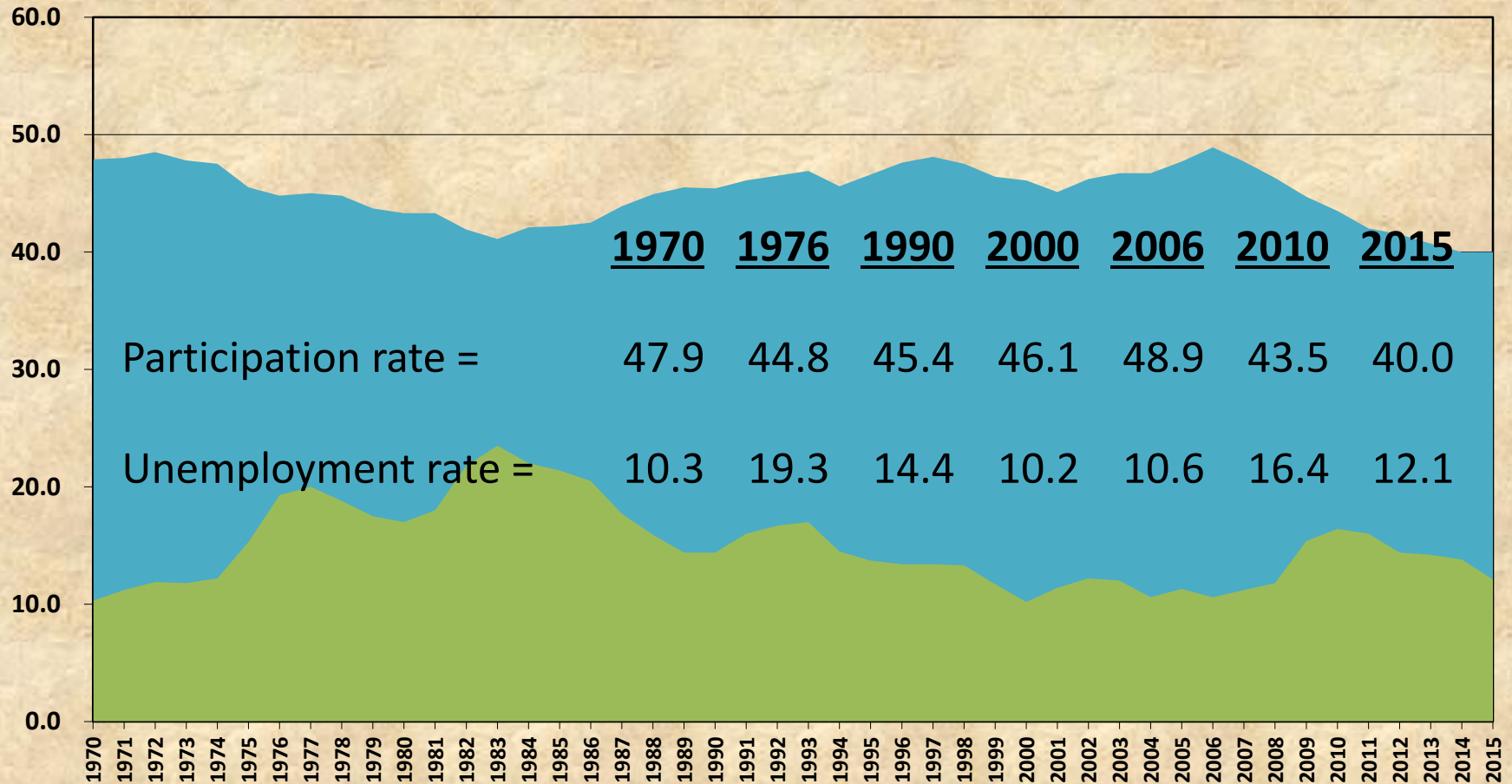
Source: Puerto Rico Planning Board (Statistical Appendix, Table 1), U.S. Bureau of Economic Analysis (Table 1.7.1), and author's computations.

GNP Average Annual Growth: PR vs. US

(In real terms and in %.)



Participation Rate and Unemployment Rate in Puerto Rico (%)



Source: P.R. Department of Labor and Human Resources, Household Survey.

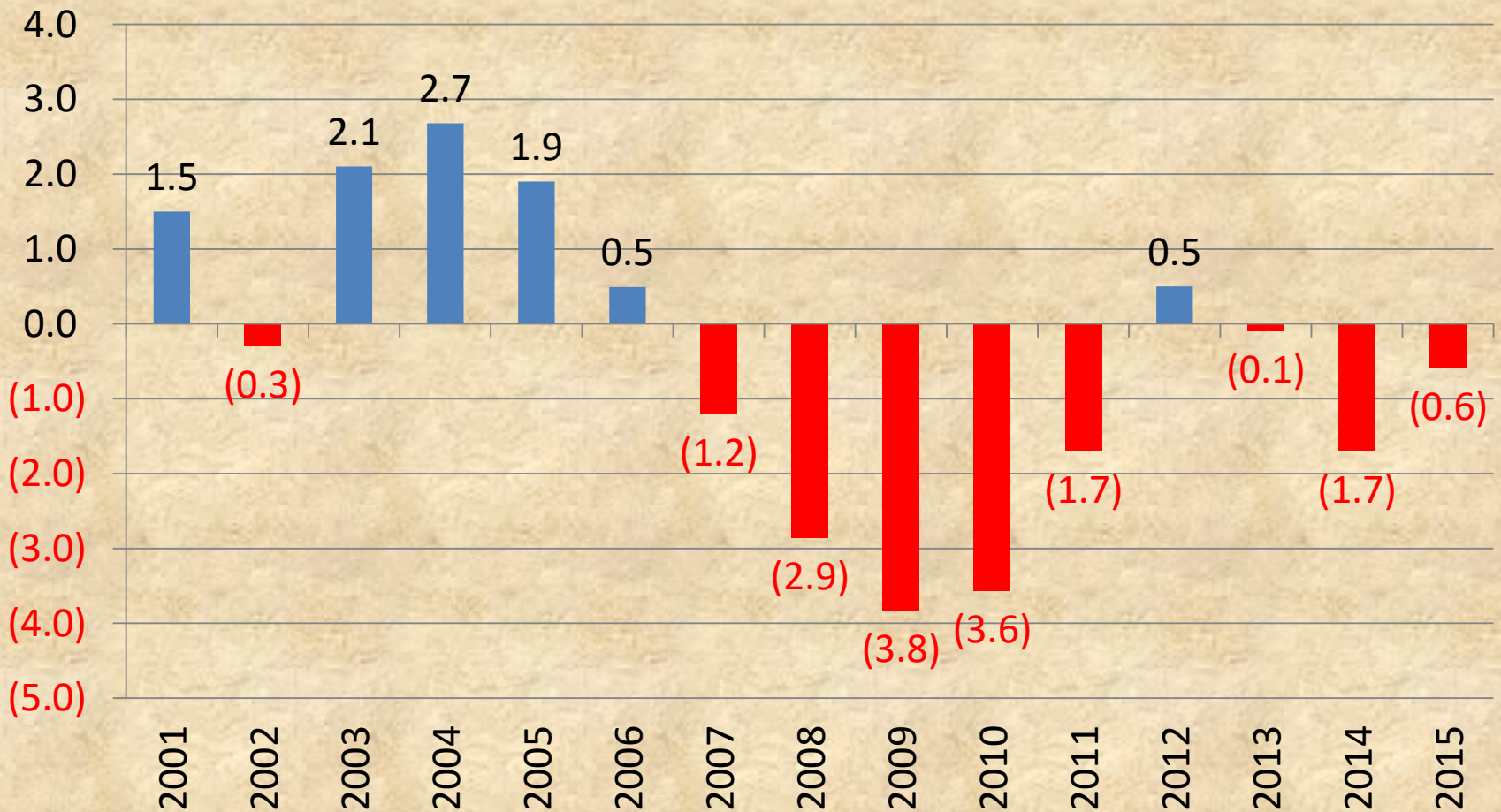
Contributing Factors for Puerto Rico's GDP Growth *(In real terms and in %.)*

	Sub-Periods				Entire Period
	1950-1960	1960-1970	1970-1980	1980-1990	1950-1990
Traditional factors (e.g., education, investment & openness to international commerce)	5.25	6.21	0.55	2.57	3.75
Net emigration	0.36	0.12	(0.06)	0.23	0.14
Transfers from federal & state govts.	(0.33)	0.08	0.98	0.47	0.21
Section 936	0.00	0.00	0.04	0.21	0.07
	5.28	6.41	1.51	3.48	4.17

Baumol, William J. and Edward N. Wolff, "Catching Up in the Postwar Period: Puerto Rico as the Fifth 'Tiger'?", *World Development*, Vol. 24, No. 5, May 1996, Table 6, p. 881.

Puerto Rico: Annual Growth in GNP

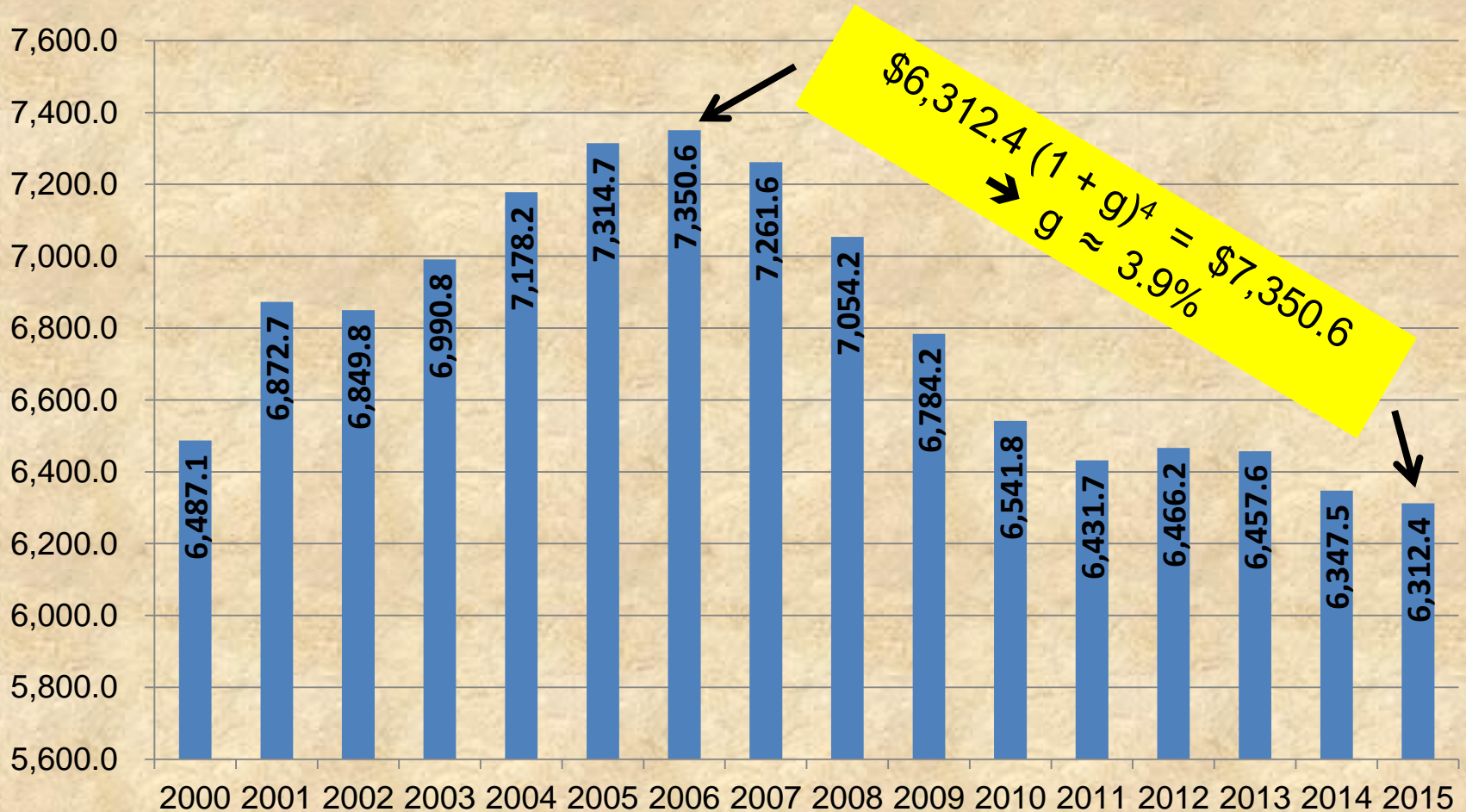
(In real terms and in %.)



Source: Puerto Rico Planning Board, Statistical Appendix, Table 1.

Puerto Rico's GNP

(Constant prices. In \$ millions.)



Source: Puerto Rico Planning Board, Statistical Appendix (Table 1), and author's computations.

Convergence

Among the States

- ➔ For the 48 contiguous U.S. states, over various periods from 1840 to 1988:
 - The *per cápita* income of poor states tends to grow faster than for rich states.
 - The *per cápita* incomes of the states have been converging at the rate of 2% per year.

Source:

- Barro, Robert J. and Xavier Sala-i-Martin. (April 1992). "Convergence." *Journal of Political Economy*, 100(2), 223-251.

Puerto Rico vs. the States

- ➔ In comparable terms, between 1940 and 1990, the *per cápita* income of Puerto Rico grew at a rate that was between 2.2% and 3.3% lower than the growth rate in the *per cápita* income of the U.S. States.
- ➔ Puerto Rico is not closing the *per cápita* income gap with the U.S.
- ➔ Not being a state appears to be part of the explanation for this phenomenon.

Source:

- Lefort, Fernando. (1997). "Is Puerto Rico Converging to the United States?," Working Paper, Banco Central de Chile.

Number of Years for PR to Catch Up With US

GNP *per Cápita* (2015): EE.UU. = \$56,451
P.R. = \$19,549

US \ PR	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%
2.0%	217	109	73	55	44	37
2.5%		218	109	73	55	44
3.0%			219	110	73	55
3.5%				220	110	74
4.0%					221	111
4.5%						222

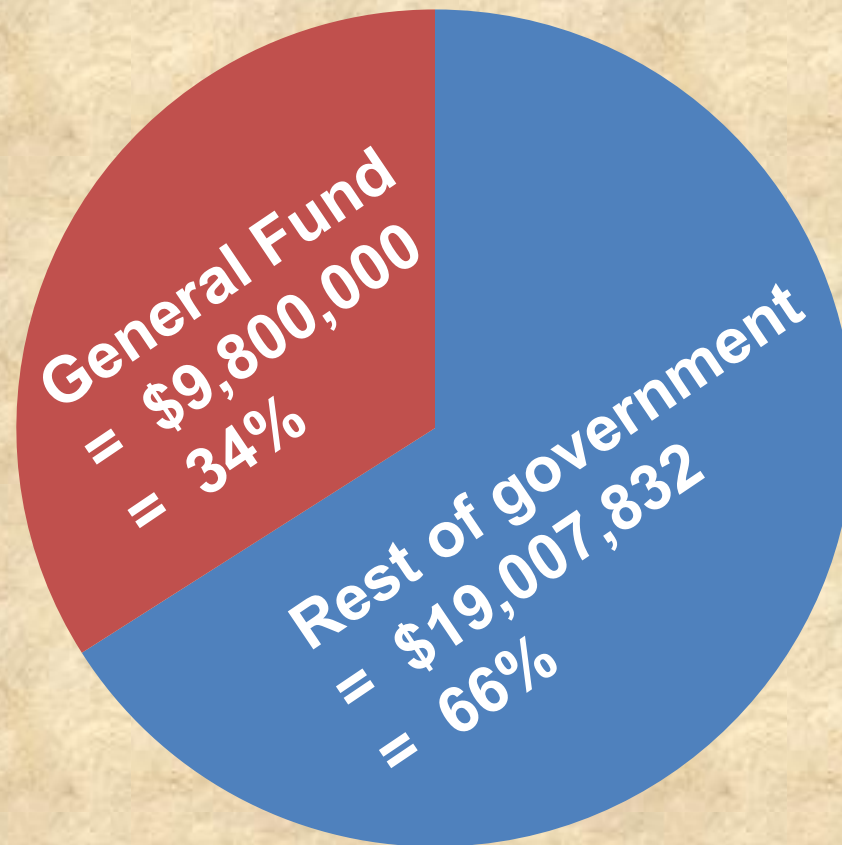
Source: Puerto Rico Planning Board, U.S. Bureau of Economic Analysis, and author's computations.

Puerto Rico's Fiscal Crisis: A Debt Problem?

Government Approved Budget: 2015-2016

(In thousands.)

Consolidated Budget = \$28,807,832

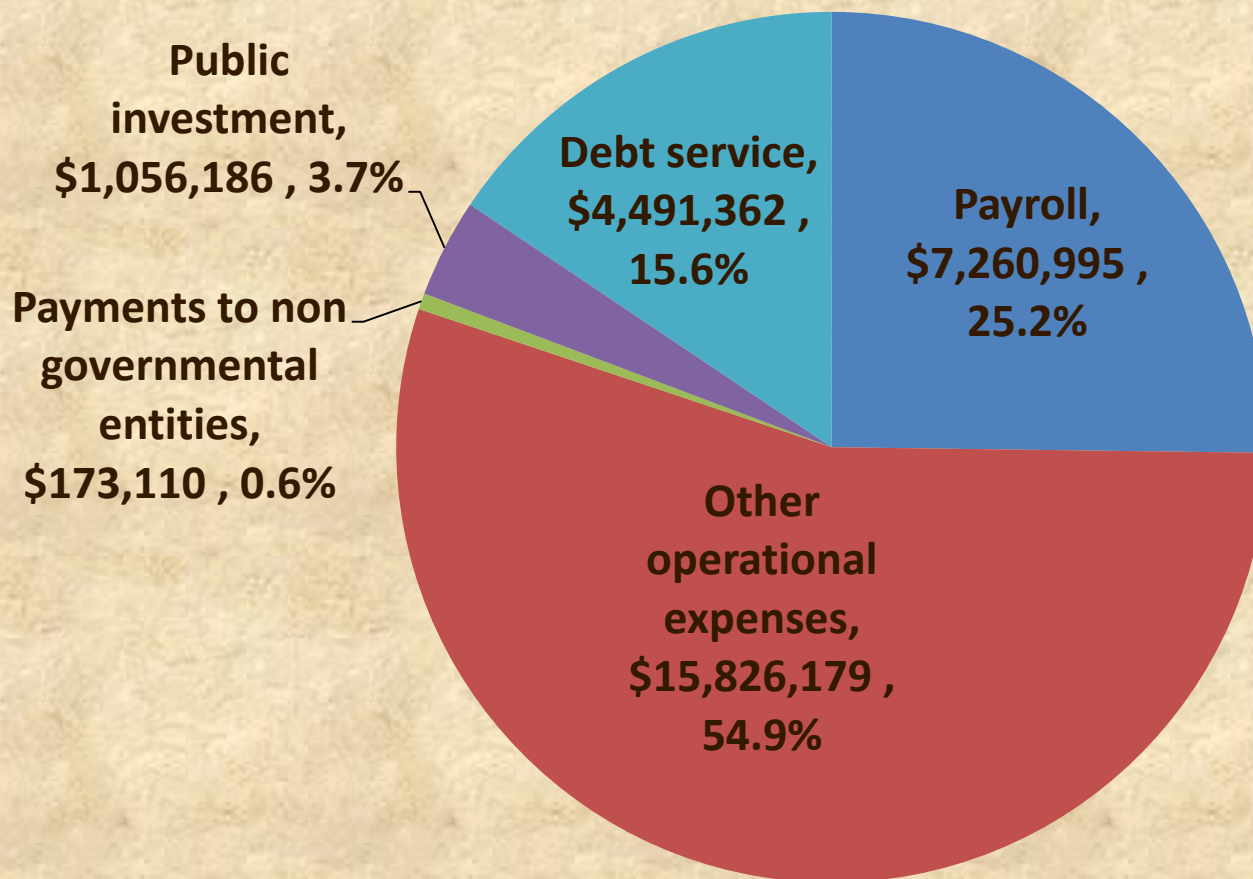


Source: Puerto Rico Office of Management and Budget

Government Approved Budget: 2015-2016

(In thousands.)

Consolidated Budget = \$28,807,832



Source: Puerto Rico Office of Management and Budget

Debt Service as a % of Total Resources (Working Group vs. Consolidated Budget)

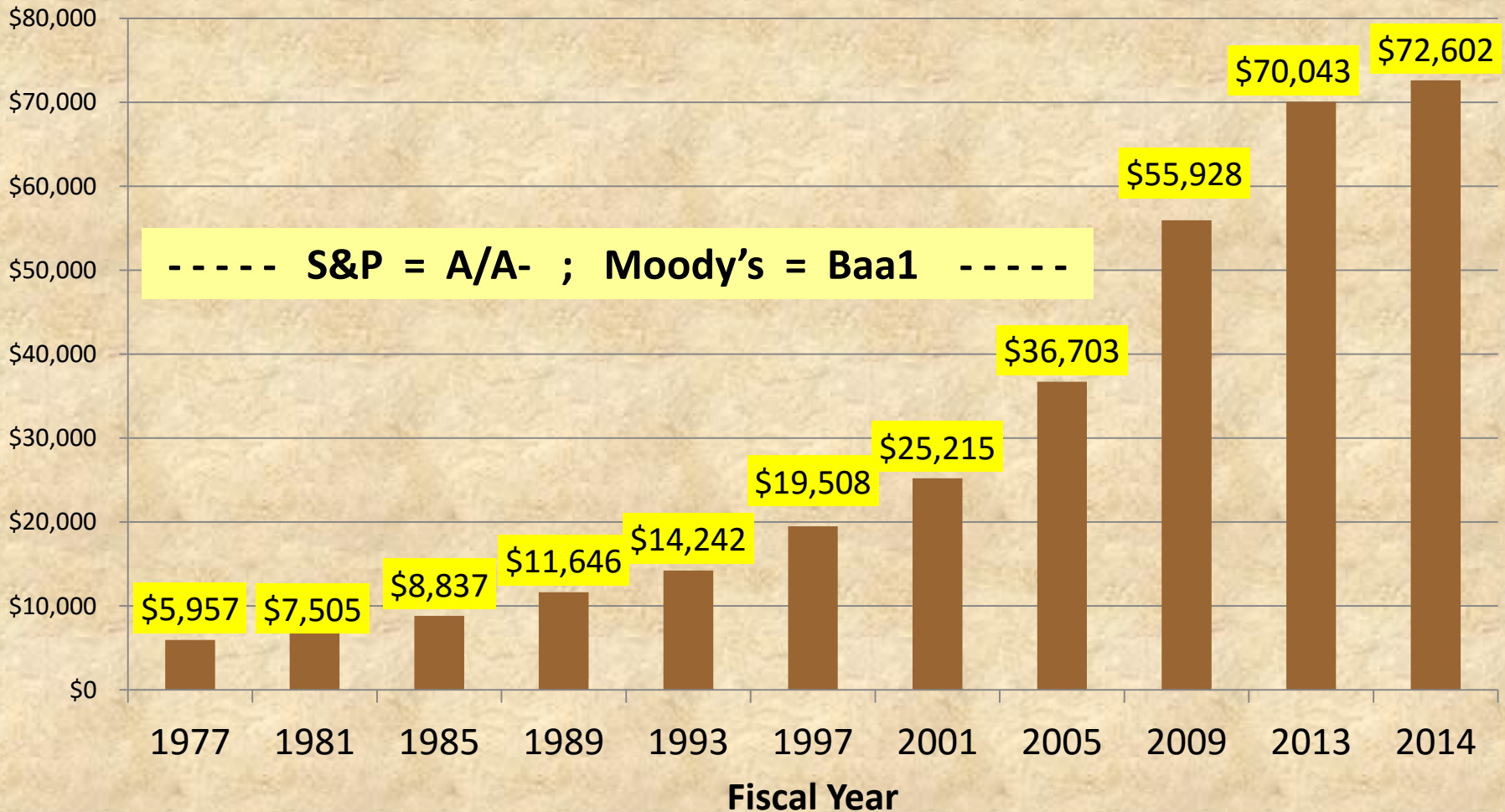
	Working Group	Consolidated Budget
Resources		
General Fund and other select revenues	\$8,503	\$8,503
GDB net operating revenue	(96)	(96)
COFINA	696	696
HTA revenues	677	677
Incremental SUT and VAT revenues		1,121
Other revenues ("plug")		10,535
Federal transfers		6,477
Loans and bond issues		895
Total resources	\$9,780	\$28,808
Debt service		
GOs and selected agencies	\$4,130	\$4,130
Other debt service ("plug")		361
Total debt service	\$4,130	\$4,491
Total debt service as a % of total resources	42%	16%

34%

92%

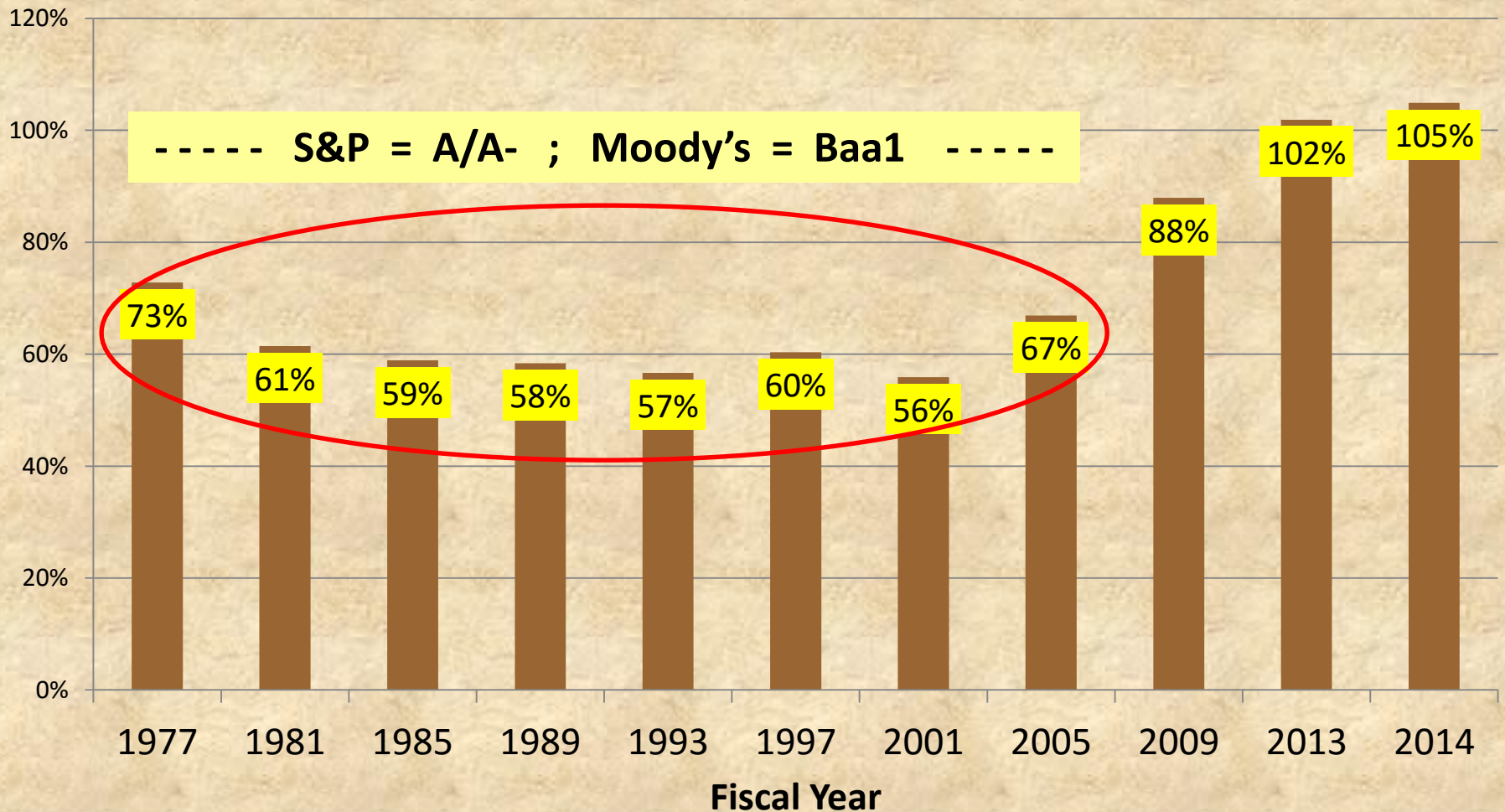
Puerto Rico's Public Debt

(In millions.)



Source: Government Development Bank for Puerto Rico.

Public Debt as a % of GNP

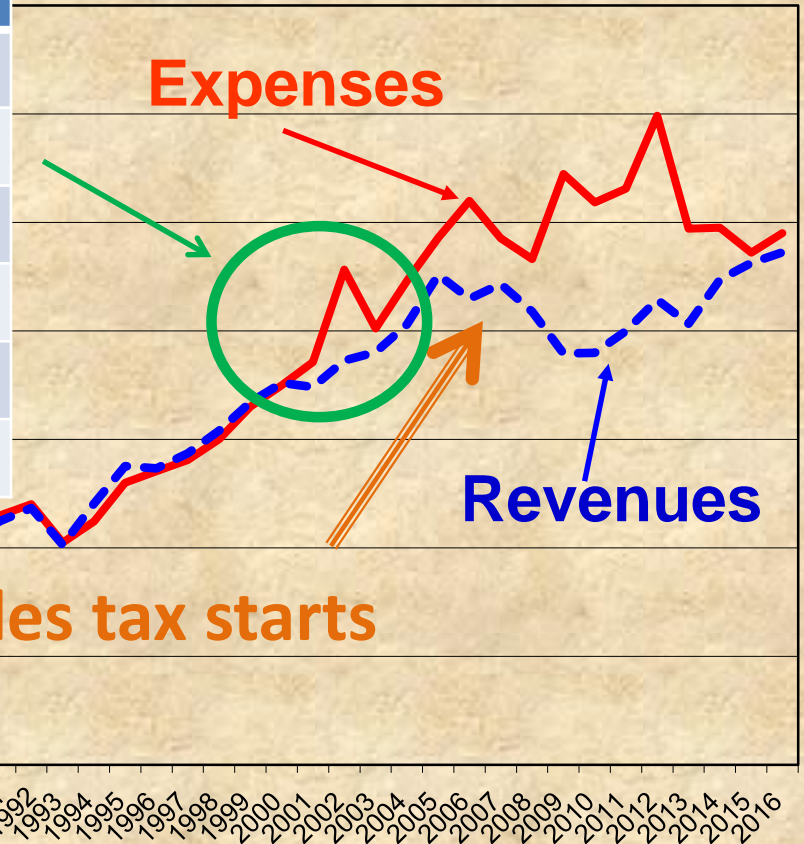


Source: Government Development Bank for Puerto Rico.

General Fund: Revenues vs. Expenses

(In \$ thousands.)

	Revenues	Revenues	Rev. – Exp.
2001	-1%	(78,718)	(464,032)
2002	+7%	+492,078	(1,674,106)
2003	+2%	+150,531	(438,299)
2004	+7%	+515,004	(802,849)
2005	+11%	+915,817	(681,467)
2006	-5%	(444,326)	(1,806,138)



Sources:

1970-2014: *Comprehensive Annual Financial Report (CAFR)* of the Government of Puerto Rico.
 2015-2016: Puerto Rico Office of Management and Budget.

General Fund Net Revenues

(In thousands)

	Revenues	Revenues			Estimate	Revenues	
	Fiscal Year	Fiscal Year			Fiscal Year	Fiscal Year	
	2014-2015	2015-2016	Difference		2015-2016	2015-2016	Difference
July	\$624,229	\$626,495	\$2,266		\$605,419	\$626,495	\$21,076
August	440,579	549,999	109,420		534,841	549,999	15,158
September	709,025	759,278	50,253		776,711	759,278	(17,433)
October	675,822	626,663	(49,159)		654,015	626,663	(27,352)
November	451,883	488,609	36,726		503,956	488,609	(15,347)
December	853,978	844,753	(9,225)		842,333	844,753	2,420
January	699,533	670,840	(28,693)		833,174	670,840	(162,334)
February	709,302	767,531	58,229		779,811	767,531	(12,280)
March	838,612	929,731	91,119		891,187	929,731	38,544
April	1,332,407	1,284,728	(47,679)		1,365,691	1,284,728	(80,963)
May	646,871	713,788	66,917		783,368	713,788	(69,580)
June	978,662	928,460	(50,202)		1,229,494	928,460	(301,034)
TOTAL	<u>\$8,960,903</u>	<u>\$9,190,875</u>	<u>\$229,972</u>		<u>\$9,800,000</u>	<u>\$9,190,875</u>	<u>(\$609,125)</u>

Source: Puerto Rico Department of Treasury.

Investment in Puerto Rico: 2003-2015

Public Spending vs. Public investing

- ➔ Defenders of deficit spending invoke Keynes.
- ➔ If deficit spending were good for the economy, Puerto Rico would be experiencing progress instead of facing crises.
- ➔ Keynes did not argue in favor of public spending, but in favor of public investment, and only in times of crises, not all the time.

Income, Expenses, and Investment in PR

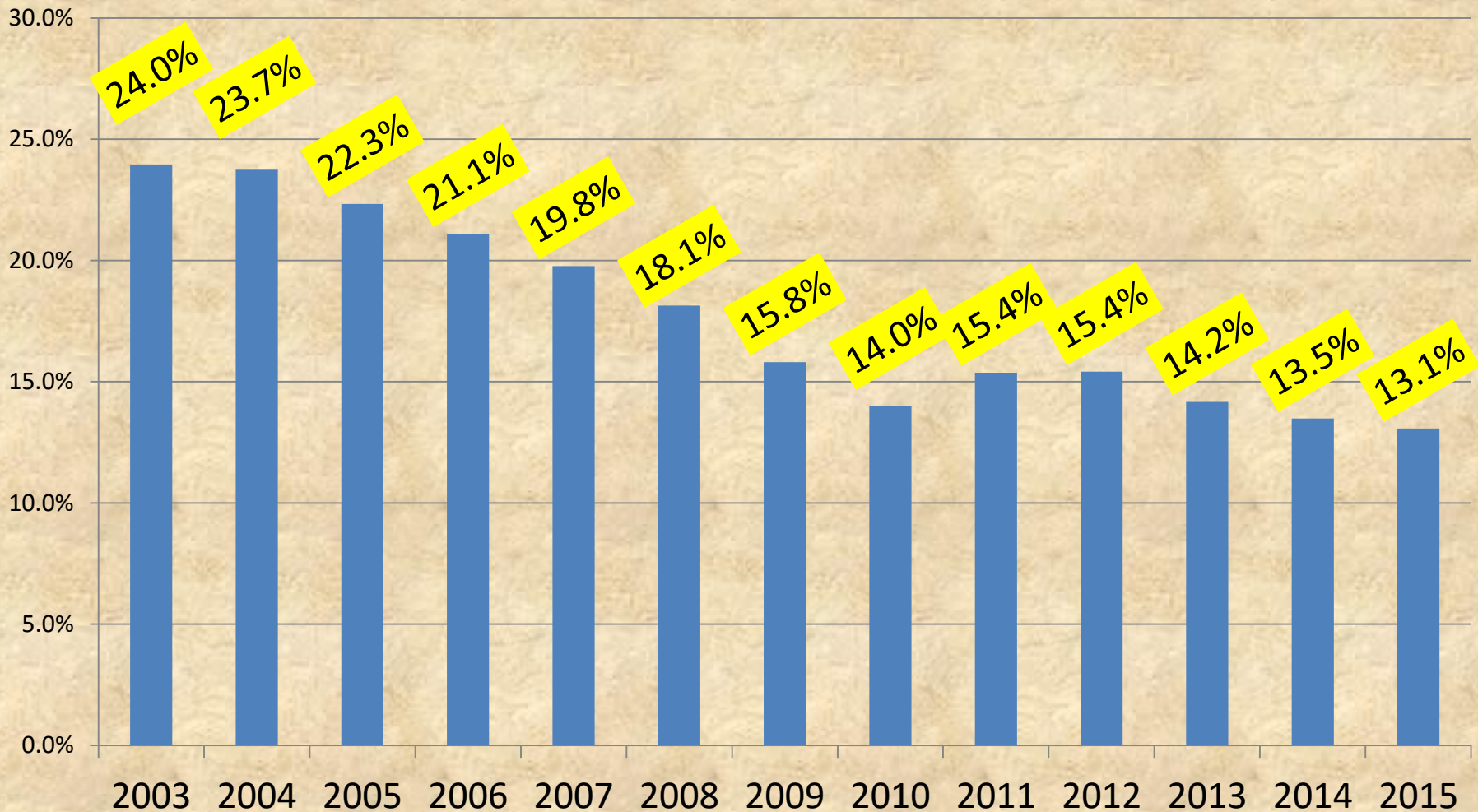
(In millions.)

	2003	2015	Cambio promedio anual
Disposable personal income			
At current dollars	\$42,132.6	\$61,789.1	+3.24%
At constant dollars	\$8,723.3	\$9,656.5	+0.85%
Personal consumption expenditures			
At current dollars	\$41,970.4	\$61,911.3	+3.29%
At constant dollars	\$8,832.2	\$9,675.6	+0.76%
Gross domestic investment			
At current dollars	\$11,619.1	\$8,956.0	-2.15%
At constant dollars	\$1,871.9	\$1,360.6	-2.62%

Source: Puerto Rico Planning Board, Statistical Appendix, Tables 1 and 2.

Investment as a % of GNP

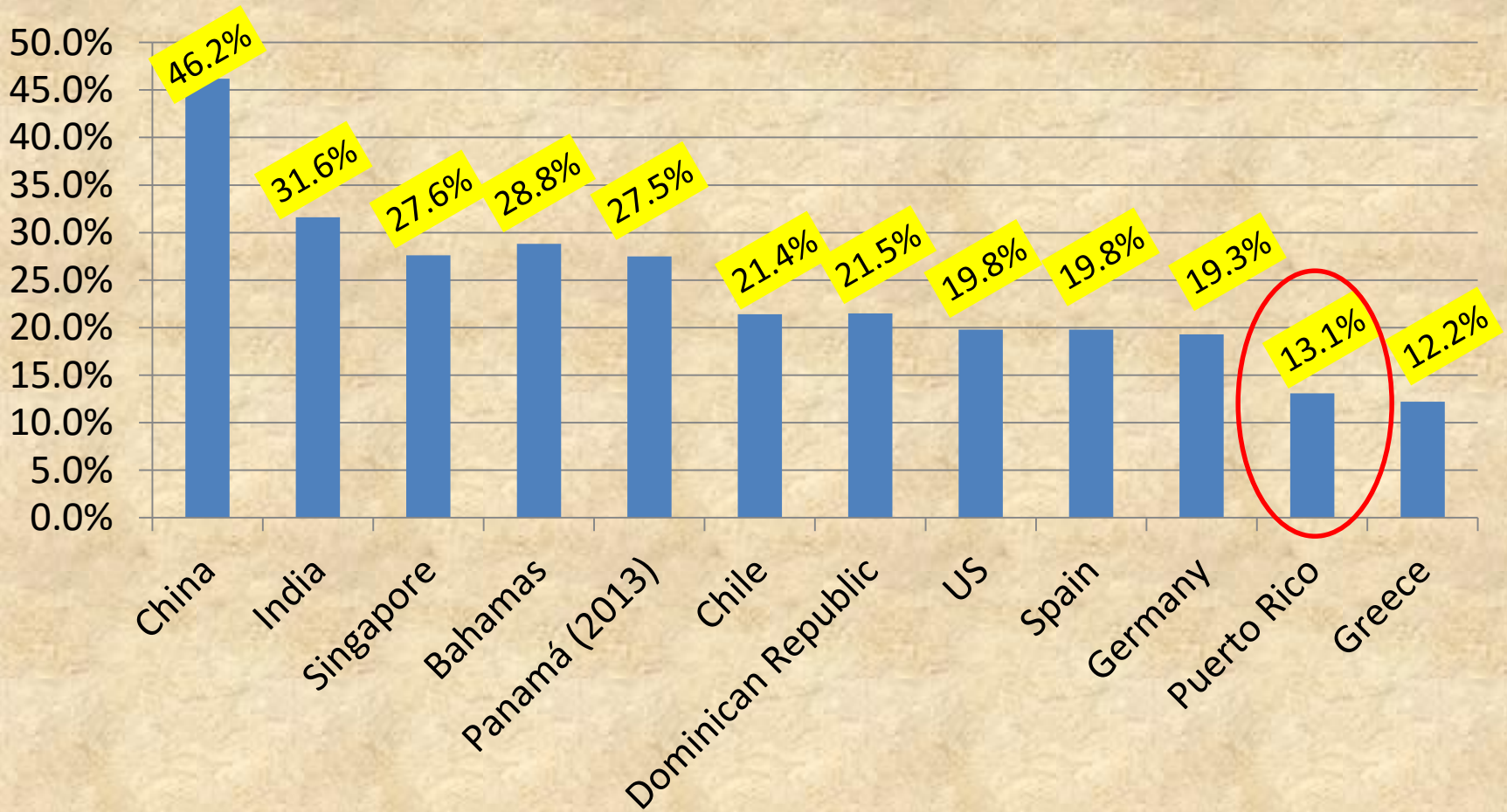
(Current dollars.)



Source: Puerto Rico Planning Board, Statistical Appendix, Table 2, and author's computations.

Investment as a % of GDP - 2014

(Current dollars.)



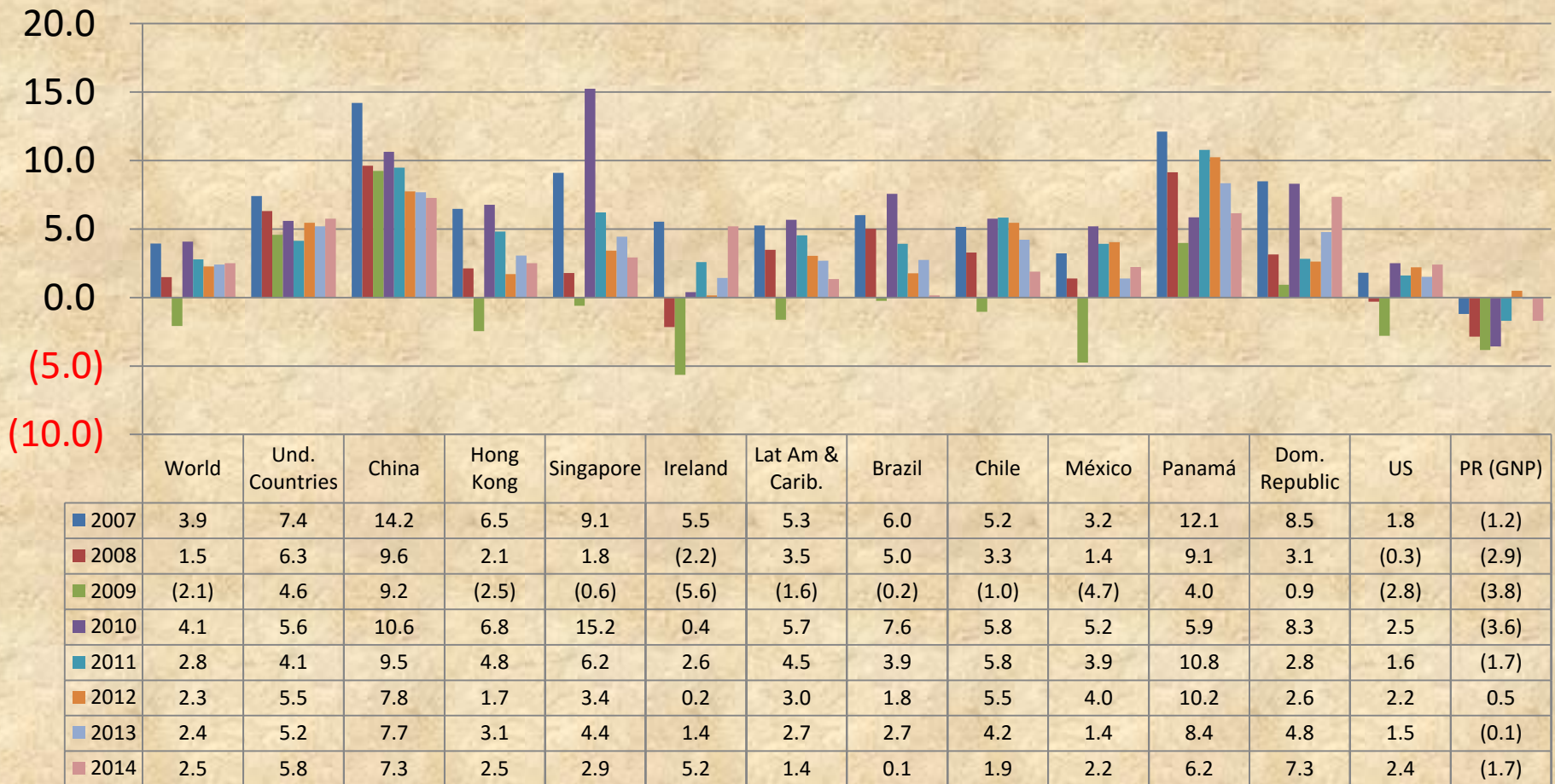
Source: World Bank.

Note: For Puerto Rico, GNP and 2015 data are used.

Puerto Rico in a Broader Context

Global Problem?

(Annual Growth in GDP, in constant prices and in %.)



Source: World Bank, Puerto Rico Planning Board, and U.S. Bureau of Economic Analysis.

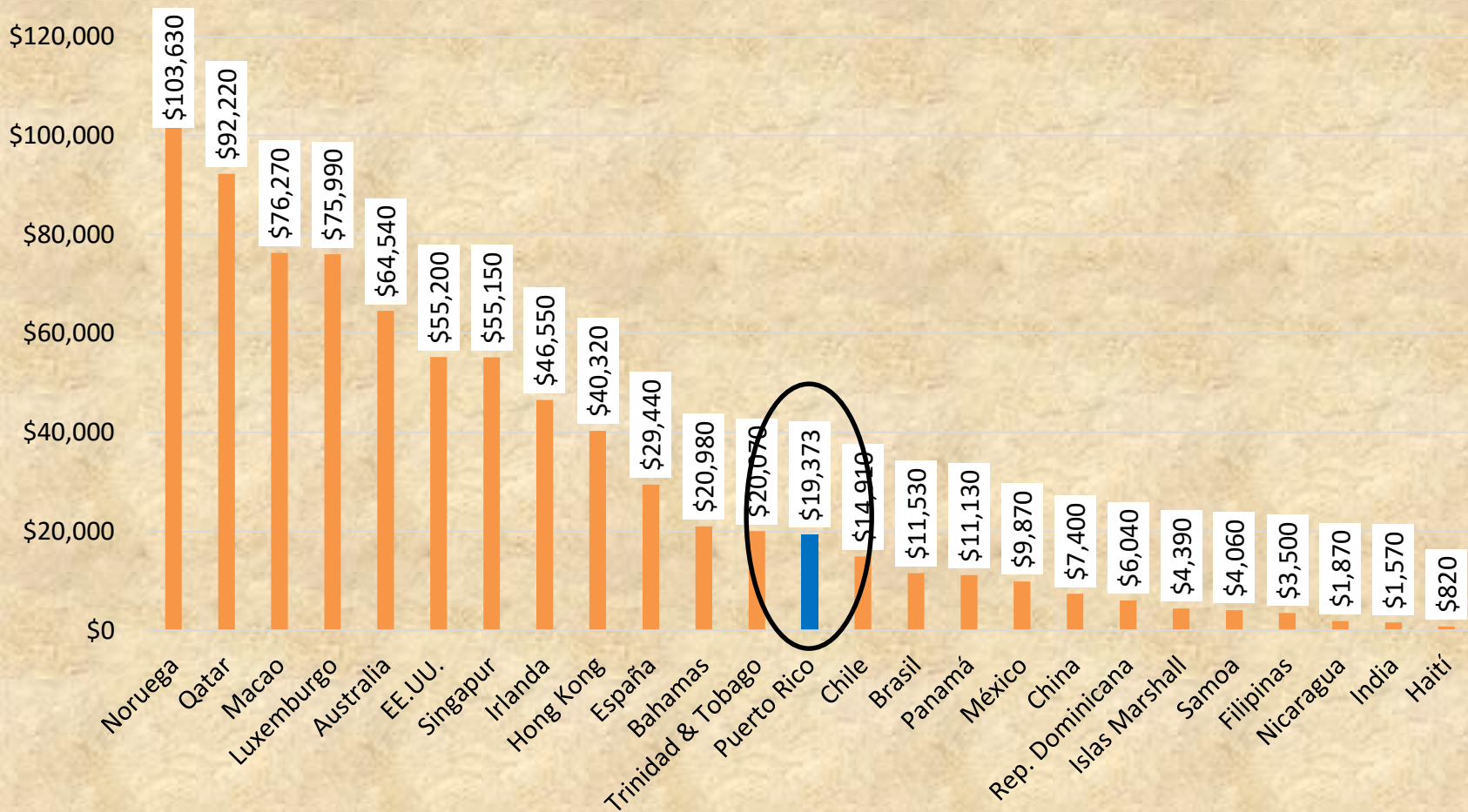
Personal Income: 2015 (Puerto Rico vs. US States)



Source: United States Bureau of Economic Analysis and Puerto Rico Planning Board.

GNP *per cápita*: 2014

(Puerto Rico vs. Selected Countries)



Source: World Bank and Puerto Rico Planning Board.

PROMESA

A New Act

- ➔ Public Law 114-187, enacted on June 30, 2016.
- ➔ Also known as the “Puerto Rico Oversight, Management, and Economic Stability Act” or “PROMESA”.

Applies to the “Territories”

- ➔ “The Congress enacts this Act pursuant to article IV, section 3 of the Constitution of the United States, which provides Congress the power to dispose of and make all needful rules and regulations for territories.” (Section 101.b.2)
- ➔ The term “territory” means (Section 5.20):
 - Puerto Rico;
 - Guam;
 - American Samoa;
 - Commonwealth of the Northern Mariana Islands; or
 - United States Virgin Islands.
- ➔ Established under the principle of supremacy:
 - “The provisions of this Act shall prevail over any general or specific provisions of territory law, State law, or regulation that is inconsistent with this Act.” (Section 4)

PROMESA: Table of Content

- ➔ Title I—Establishment and Organization of Oversight Board
- ➔ Title II—Responsibilities of Oversight Board
- ➔ Title III—Adjustments of Debts
- ➔ Title IV—Miscellaneous Provisions
- ➔ Title V—Puerto Rico Infrastructure Revitalization
- ➔ Title VI—Creditor Collective Action
- ➔ Title VII—Sense of Congress Regarding Permanent, Pro-Growth Fiscal Reforms

Title I—Establishment and Organization of Oversight Board

- Creates a 7-member Financial Oversight and Management Board (“Oversight Board”) for Puerto Rico, to be named by the President of the US according to the following recommendations:
 - One member should be selected from a list, of at least three individuals, submitted by the Speaker of the US House of Representatives.
 - One member should be selected from a separate non-overlapping list, of at least three individuals who maintain a primary residence in the territory or have a primary place of business in the territory, submitted by the Speaker of the US House of Representatives.
 - Two members should be selected from a list, of at least four individuals, submitted by the Majority Leader of the Senate.
 - One member should be selected from a list, of at least three individuals, submitted by the Minority Leader of the US House of Representatives.
 - One member should be selected from a list, of at least three individuals, submitted by the Minority Leader of the Senate.
 - One member may be selected in the US President’s sole discretion.
- The Governor, or the Governor’s designee, shall be an ex officio member of the Oversight Board without voting rights.

Title I—Establishment and Organization of Oversight Board *(cont.)*

- ➔ An individual is eligible for appointment as a member of the Oversight Board only if the individual:
 - Has knowledge and expertise in finance, municipal bond markets, management, law, or the organization or operation of business or government; and
 - Prior to appointment, an individual is not an officer, elected official, or employee of the territorial government, a candidate for elected office of the territorial government, or a former elected official of the territorial government.

Title I—Establishment and Organization of Oversight Board *(cont.)*

- ➔ Members of the Oversight Board shall serve without pay, but may receive reimbursement from the Oversight Board for any reasonable and necessary expenses incurred by reason of service on the Oversight Board. (Section 101.g)
- ➔ The Oversight Board shall have:
 - An Executive Director who shall be appointed by the Chair with the consent of the Oversight Board, and who shall be paid at a rate determined by the Oversight Board.
 - Paid staff, including a Revitalization Coordinator appointed pursuant to Title V of this Act.

Title I—Establishment and Organization of Oversight Board *(cont.)*

- ➔ Purpose of the Oversight Board:
 - To provide a method for a covered territory to achieve fiscal responsibility and access to the capital markets. (Section 101.a)
- ➔ The Oversight Board shall be created as an entity within the territorial government for which it is established and shall not be considered to be a department, agency, establishment, or instrumentality of the Federal Government. (Section 101.c)

Title I—Establishment and Organization of Oversight Board *(cont.)*

- ➔ Powers of the Oversight Board include:
 - In its sole discretion, may designate any territorial instrumentality as a covered territorial instrumentality that is subject to the requirements of this Act. (Section 101.d.1.A)
 - For such territorial instrumentality, the Oversight Board may require, in its sole discretion, the Governor:
 - To submit budgets and reports.
 - To include the instrumentality in the Territory's Fiscal Plan.
 - To submit a separate Fiscal Plan for the instrumentality.
 - Hold hearings and receive evidence.
 - Request data from the Federal and Territorial governments, including their respective agencies, and from creditors.

Title II—Responsibilities of Oversight Board

- Approve, certify, and assure compliance with Fiscal Plans of the Government of Puerto Rico and its covered instrumentalities.
 - Fiscal Plans should cover, at least, 5 fiscal years.
- Approve, certify, and assure compliance with budgets of the Government of Puerto Rico and its covered instrumentalities.
 - Governor may not submit a Territory Budget for the Legislature to approve unless it has been approved and certified by the Oversight Board.
 - Once approved by the Legislature, the budget must also be submitted to the Oversight Board for it to be certified and approved.
 - If not approved, the Oversight Board may prepare the budget.
- Restructure the debt of the Government of Puerto Rico and its covered instrumentalities.
- Approve any loan or debt to be issued by the Government of Puerto Rico and its covered instrumentalities.
- Analyze the fiscal condition of the pension systems of the Government of Puerto Rico and its covered instrumentalities.

Title II—Responsibilities of Oversight Board *(cont.)*

- ➔ An Oversight Board shall terminate upon certification by the Board that:
 - The applicable territorial government has adequate access to short-term and long-term credit markets at reasonable interest rates to meet the borrowing needs of the territorial government; and
 - For at least 4 consecutive fiscal years, the territorial government has operated with a proper and balanced budget. (Section 209)

Title III—Adjustments of Debts

- ➔ Establishes a unique process that, in the absence of access to the bankruptcy code, allows for the alteration or discharge of some contractual obligations of the Government of Puerto Rico under the direction of the Oversight Board and the supervision of the Bankruptcy Court.

Title IV—Miscellaneous Provisions

- ➔ The Governor of Puerto Rico, subject to the approval of the Oversight Board, may designate a time period, not to exceed four years, during which employees who are 25 years old or younger, and who are initially employed after the date of enactment of PROMESA, may be paid less than the federally mandated minimum wage. (Section 403)
- ➔ The regulations proposed by the Secretary of Labor relating to exemptions regarding the rates of pay for executive, administrative, professional, outside sales, and computer employees, and published in a notice in the Federal Register on July 6, 2015, and any final regulations issued related to such notice, shall have no force or effect in the Commonwealth of Puerto Rico until, among other things, the Secretary of Labor provides a written determination to Congress that applying such rule to Puerto Rico would not have a negative impact on the economy of the Island. (Section 404.a)

Title IV—Miscellaneous Provisions

(cont.)

- ➔ Upon the establishment of the Oversight Board, a stay goes into effect, until February 15, 2017, with respect to any act to collect, assess, or recover liability claims against the Government of Puerto Rico. (Section 405)
- ➔ “Not later than one year after the date of enactment of this subsection, the Comptroller General of the United States shall submit to the Committee on Small Business of the House of Representatives and the Committee on Small Business and Entrepreneurship of the Senate a report on the application and utilization of contracting activities of the Administration (including contracting activities relating to HUBZone small business concerns) in Puerto Rico. The report shall also identify any provisions of Federal law that may create an obstacle to the efficient implementation of such contracting activities.” (Section 408)

Title IV—Miscellaneous Provisions

(cont.)

- A Congressional Task Force on Economic Growth in Puerto Rico was established. (Section 409)
- The members of such Task Force have already been named:
 - Sen. Orrin Hatch, Chairman (R-Utah)
 - Sen. Marco Rubio (R-Florida)
 - Sen. Robert Menéndez (D-New Jersey)
 - Sen. Bill Nelson (D-Florida)
 - Rep. Sean Duffy (R-Wisconsin)
 - Rep. Tom MacArthur (R-Wisconsin)
 - Rep. Nydia Velázquez (D-New York)
 - Rep. Pedro Pierluisi (D-Puerto Rico)
- Not later than December 31, 2016, the Task Force shall issue a report of its findings to the House and Senate regarding, among other things:
 - Impediments in current Federal law and programs to economic growth in Puerto Rico including equitable access to Federal health care programs; and
 - Recommended changes to Federal law and programs that, if adopted, would serve to spur sustainable long-term economic growth, job creation, reduce child poverty, and attract investment in Puerto Rico.

Title IV—Miscellaneous Provisions

(cont.)

- ➔ Not later than 18 months after the date of the enactment of this Act, the Comptroller General shall submit a report to the Committee on Natural Resources of the House of Representatives and the Committee on Energy and Natural Resources of the Senate describing:
- The conditions which led to the level of debt, which should be analyzed, per capita and based upon overall economic activity;
 - How actions of the territorial government improved or impaired the territory's financial conditions; and
 - Recommendations on non-fiscal actions, or policies that would not imperil America's homeland and national security, that could be taken by Congress or the Administration to avert future indebtedness of territories, while respecting sovereignty and constitutional parameters. (Section 410)

Title IV—Miscellaneous Provisions

(cont.)

- ➔ Not later than one year after the date of the enactment of this Act, and thereafter not less than once every two years, the Comptroller General of the United States shall submit to Congress a report on the public debt of each territory, including:
- The historical levels of each territory's public debt, current amount and composition of each territory's public debt, and future projections of each territory's public debt;
 - The historical levels of each territory's revenue, current amount and composition of each territory's revenue, and future projections of each territory's revenue;
 - The drivers and composition of each territory's public debt;
 - The effect of Federal laws, mandates, rules, and regulations on each territory's public debt; and
 - The ability of each territory to repay its public debt.
- (Section 411)

Title V—Puerto Rico Infrastructure Revitalization

- ➔ Establishes the position of the Revitalization Coordinator, to be appointed by the Governor in consultation with the Oversight Board.
(Section 502)
- ➔ The purpose of the Revitalization Coordinator is to assist the Oversight Board in expediting the development of projects considered critical for the economic development of Puerto Rico.

Title VI—Creditor Collective Action

- ➔ Establishes the bases upon which the Government of Puerto Rico and its creditors may conduct voluntary negotiations to restructure debt claims.

Title VII—Sense of Congress Regarding Permanent, Pro-Growth Fiscal Reforms

- ➔ “It is the sense of the Congress that any durable solution for Puerto Rico’s fiscal and economic crisis should include permanent, pro-growth fiscal reforms that feature, among other elements, a free flow of capital between possessions of the United States and the rest of the United States.”

Conclusions and Recommendations

Puerto Rico's Agenda

- ➔ Fix the government's fiscal crisis.
- ➔ Solve the problem of the political status of Puerto Rico.
 - Among other things, this would put an end to the discussion of political positions camouflaged as economic arguments.
- ➔ Fix the economy.

To Fix The Government's Fiscal Crisis

- ➔ Reduce the government's operational expenses.
- ➔ Transfer resources to public investments.
- ➔ Solve the liquidity crisis with a 2-year loan for a maximum of \$2,000 million.
- ➔ Link the repayment of that loan to the reduction in the operational expenses of the government.

Loan strategy

(In millions.)

General Fund	2017	2018
Revenues	\$9,100	\$9,200
Expenses	<u>(8,000)</u>	<u>(7,500)</u>
Excess of revenues minus expenses	\$1,100	\$1,700
Loan payment (1)	<u>(1,100)</u>	<u>(1,050)</u>
Available for investments (2)	\$0	\$650

Notes:

- 1) Assuming a negotiated interest cost of 5%.
- 2) Could be higher if some debt service is allocated to the different issuers including the public corporations.

To Solve the Political Status Problem

- ➔ Puerto Rico's current status:
 - Represents major drawbacks in terms of human and civil rights.
 - Has not worked economically.
 - Should no longer be an option
- ➔ Decide among the only two other options left:
 - Statehood
 - Independence

To Fix The Economy

- ➔ Start a process leading to the increase of investments on the Island, spearheaded by the government.
- ➔ Develop a new economic strategy that is not tied to the current status and that promotes economic growth and wealth creation.
 - Stop favoring capital from outside the Island.
 - Create a level playing field in which all businesses, local and from outside Puerto Rico, can prosper.
- ➔ Develop a public policy that leads local businesses to produce, and export, quality goods and services that are competitive in global markets.

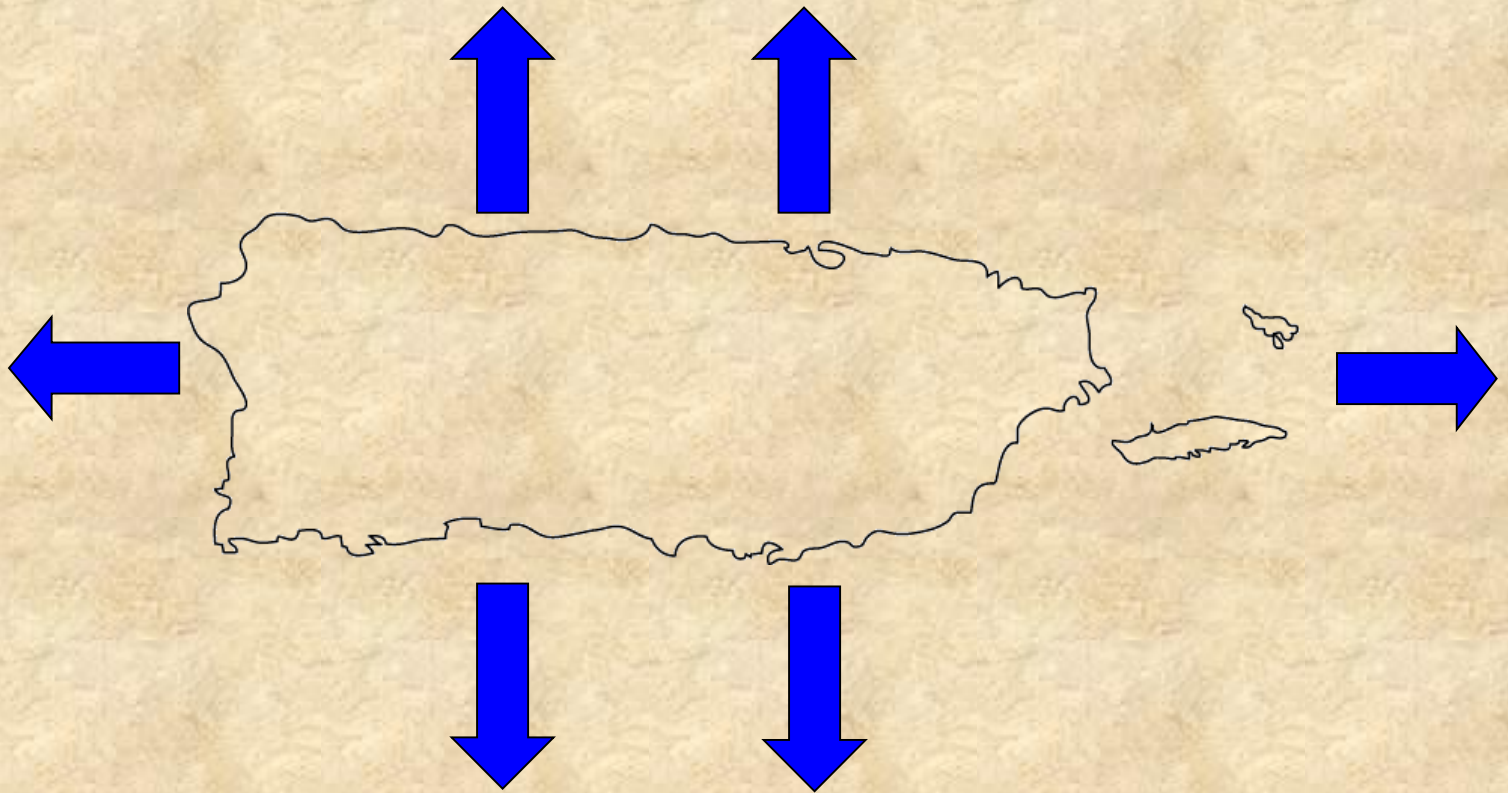
“Competitiveness is a meaningless word when applied to national economies. And the obsession with competitiveness is both wrong and dangerous”.

Krugman, Paul. (March/April 1994).
“Competitiveness: A Dangerous
Obsession.” *Foreign Affairs*, 73(2), p. 44.

“The only meaningful concept of competitiveness at the national level is productivity. The principal goal of a nation is to produce a high and rising standard of living for its citizens. The ability to do so depends on the **productivity** with which a nation’s labor and capital are employed ... Seeking to explain “competitiveness” at the national level, then, is to answer the wrong question ... What a **new theory must explain is why a nation provides a favorable home base for companies that compete internationally.**“

Porter, Michael E. (March/April 1990).
“What is National Competitiveness?”
Harvard Business Review, 68(2), p. 84-85.

A New Vision of Competitiveness: The Competitiveness of the Businesses Located in Puerto Rico



The Economic Implications of the Political Status of Puerto Rico

By

Carlos A. Colón De Armas, Ph.D.

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