

# 1<sup>st</sup> PROMESA Conference

**August 31, 2016**

**Recommendations to the  
Board and the Task Force**

**By**

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# Competitiveness?

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# “A Country Is Not a Company.”

Krugman, Paul. (Jan/Feb 1996). “A Country Is Not a Company.” *Harvard Business Review*, 74(1), 40-53.





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“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.







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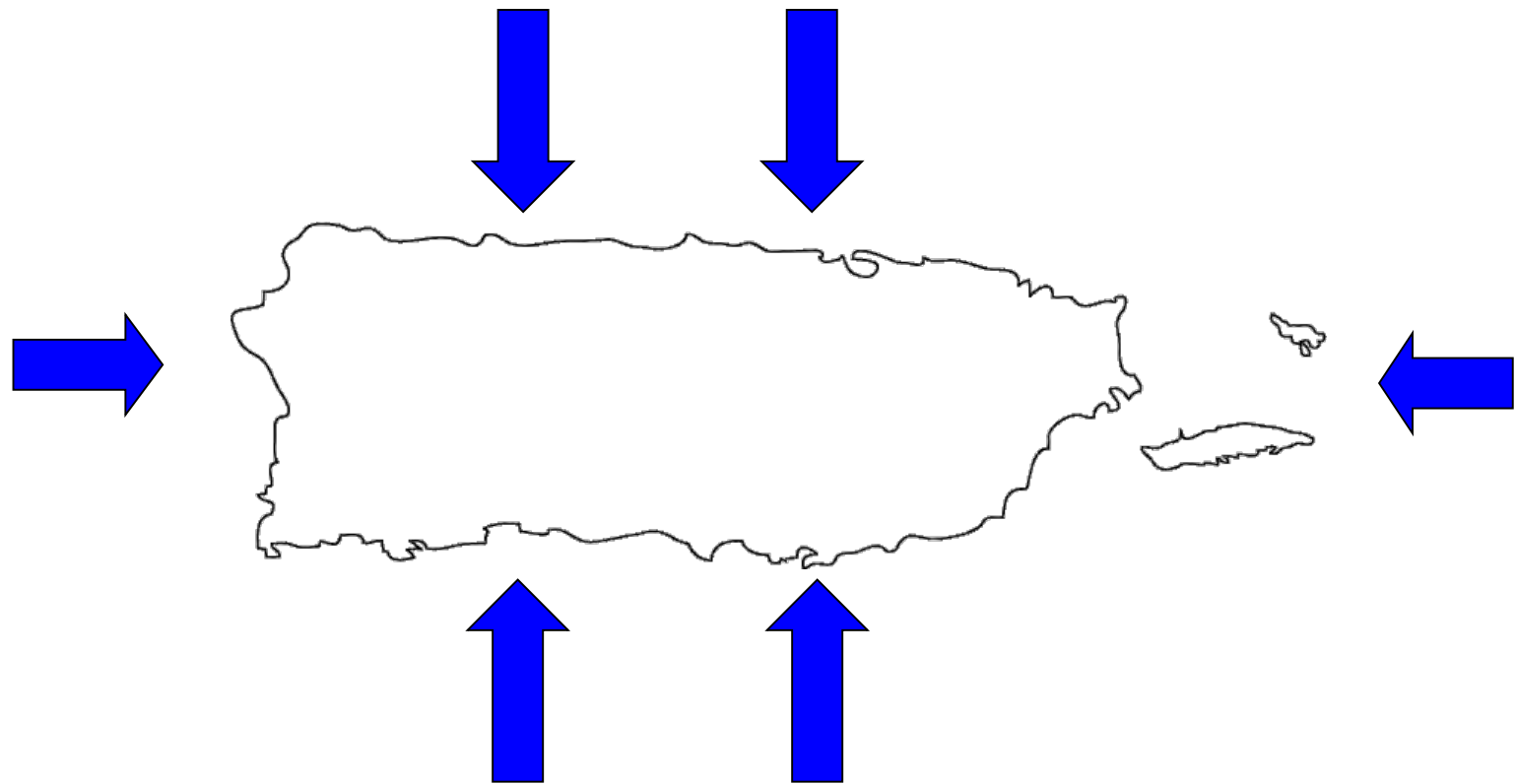
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**“The only meaningful concept of competitiveness at the national level is productivity.** The principal goal of a nation is to produce a high and rising standard of living for its citizens. The ability to do so depends on the **productivity** with 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.

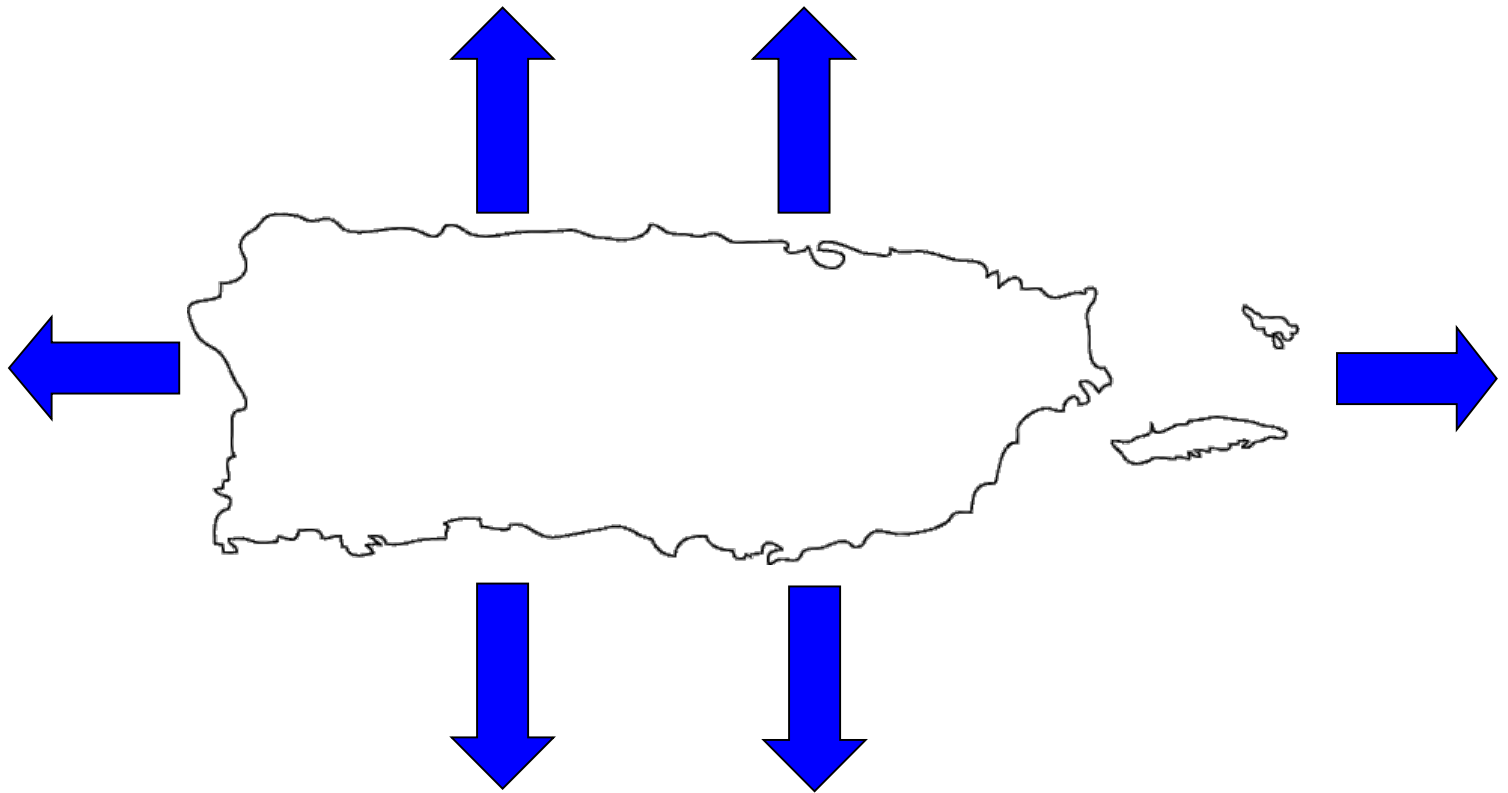
# This Is Not the Correct Vision ...

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

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# Target Market

*(In millions, except per cápita figures.)*



<b>Aggregate GDP</b>	<b>\$24,720,707</b>
% Captured	0.518611%
GDP captured	\$128,204
PR population	3,474,182
<b><i>Per cápita</i></b>	<b>\$36,902</b>

<b><i>GNP per cápita</i></b>	
PR	\$19,549
Increase	36,902
<b>PR = US</b>	<b>\$56,451</b>





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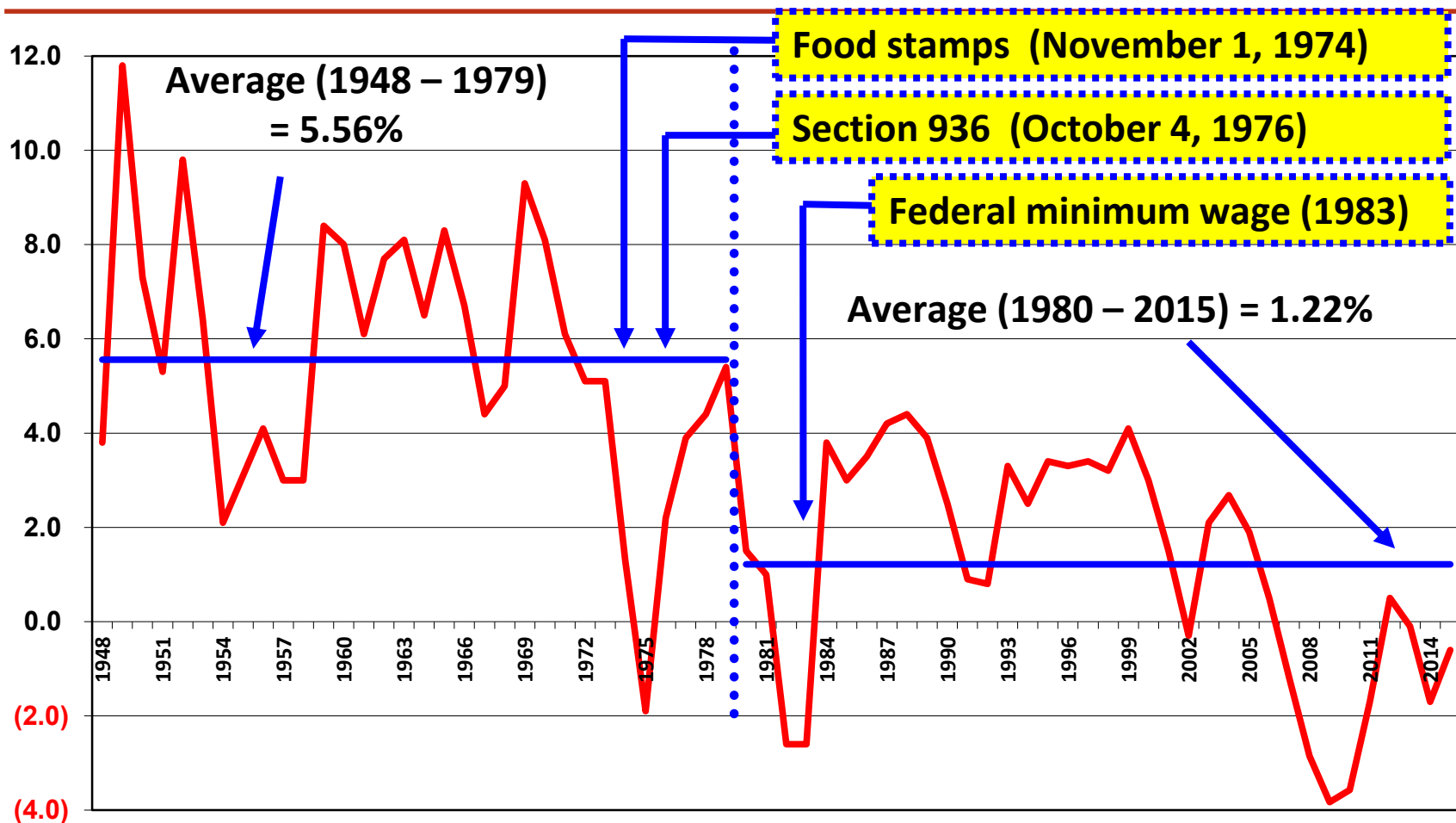
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- ➡ **Examine carefully the available evidence.**
  - **Tax incentives helped American MNCs and food stamps helped feed needy persons, but they did not help the economy of Puerto Rico.**
  - **The Federal minimum wage did not hurt the economy of Puerto Rico.**
  - **Cabotage law (Jones Act of 1920) is irrelevant in relation to the fiscal and economic crises.**



# Puerto Rico: GNP Annual Growth

*(In real terms and in %.)*



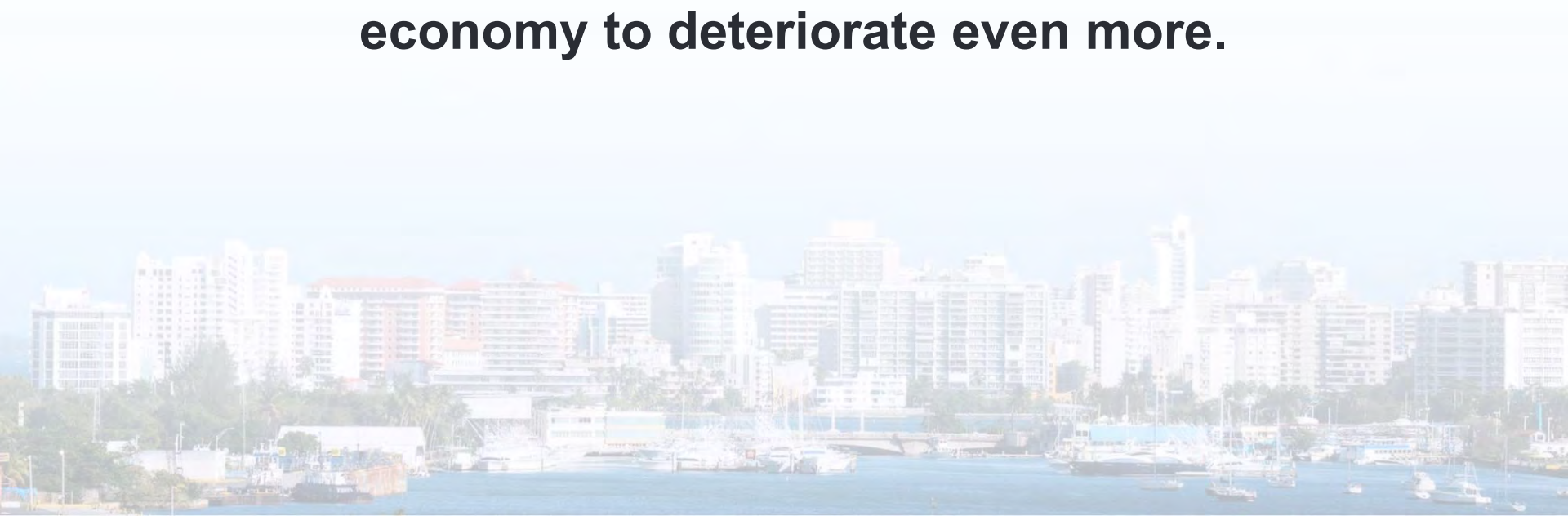
Source: Puerto Rico Planning Board, Statistical Appendix, Table 1, and author's computations.



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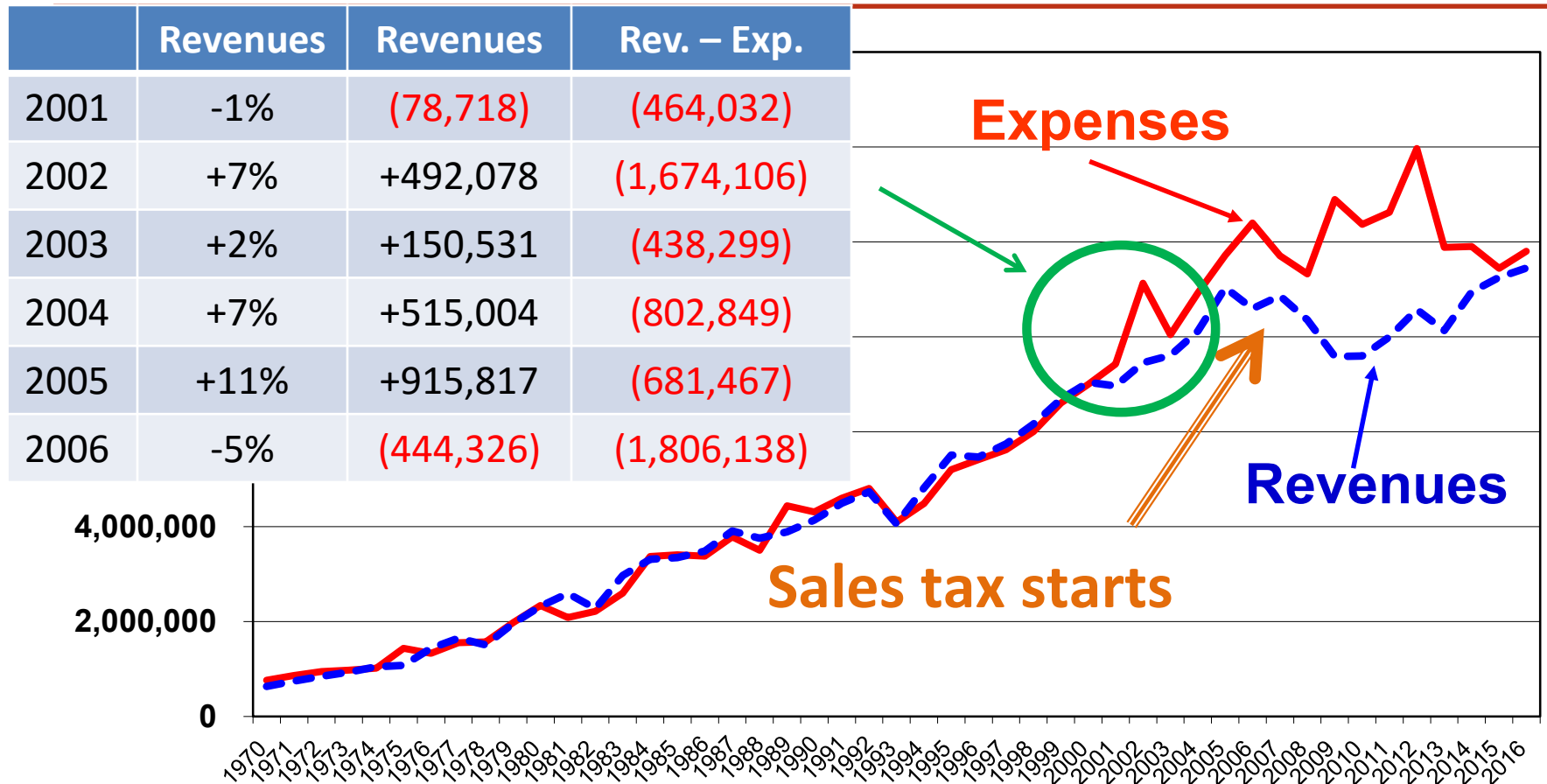
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- ➡ **Do not follow the herd in the determination of causality.**
  - **A weakening economy did not cause the fiscal crisis.**
  - **The fiscal crisis caused an already fragile economy to deteriorate even more.**



# General Fund: Revenues vs. Expenses

(In \$ thousands.)



Sources:

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



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- ➡ **The fiscal crisis was caused by government overspending.**
  - **To be able to spend in excess of revenues, the government used its limited borrowing capacity to finance expenses.**
  - **By doing so, it took away resources from investments and dedicated them to spending.**
  - **The resulting reduction in investments, and not the termination of Section 936, is what caused the recession that started in 2006.**



# Income, Expenses, and Investment in PR

*(In millions.)*

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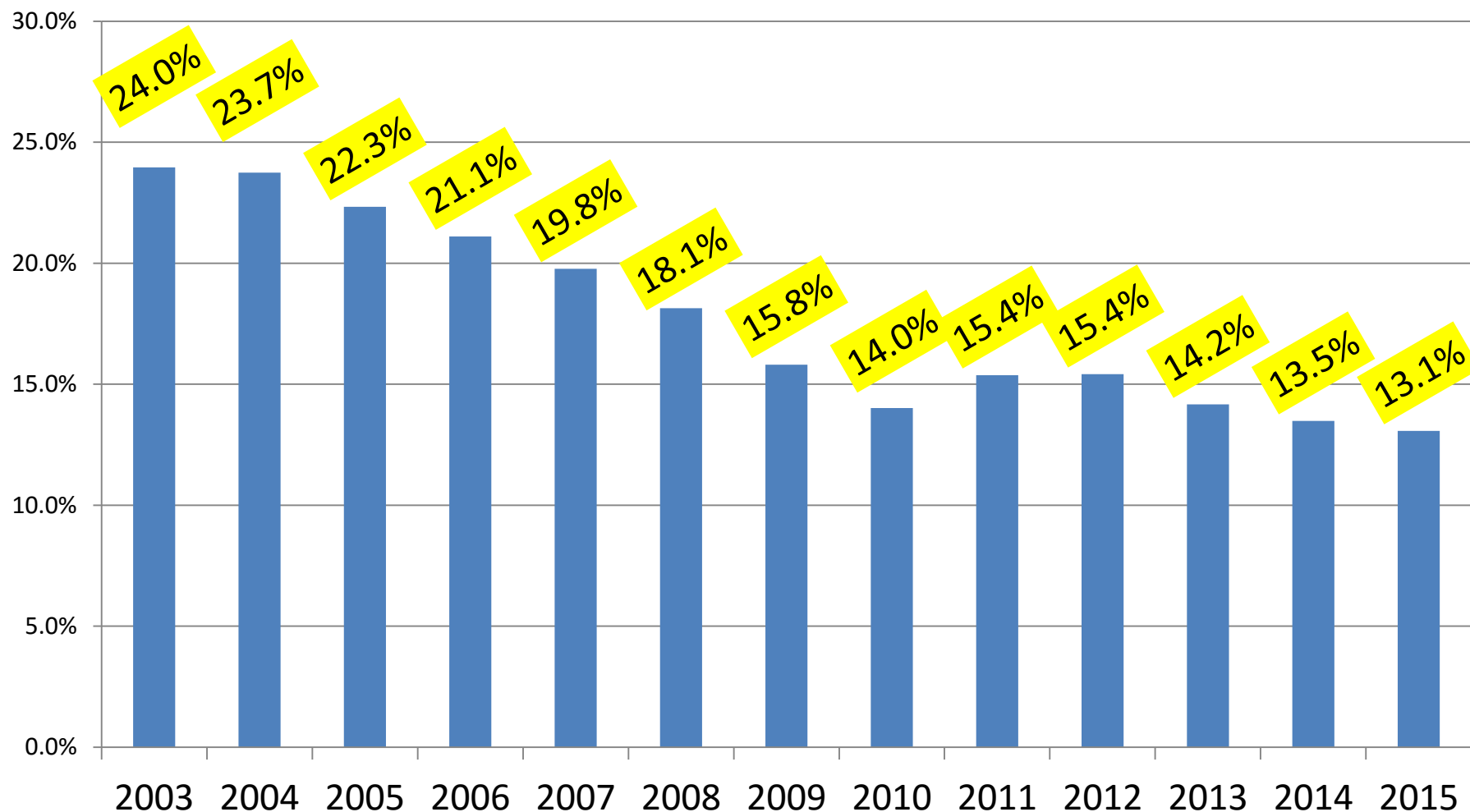
	2003	2015	Average Annual Growth
Disposable personal income			
At current dollars	\$42,132.6	\$61,789.1	+3.24%
At constant dollars	\$8,723.3	\$9,656.5	+0.85%
Personal consumption expenditures			
At current dollars	\$41,970.4	\$61,911.3	+3.29%
At constant dollars	\$8,832.2	\$9,675.6	+0.76%
Gross domestic 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.



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- ➡ **To revive the economy the first order of business is to increase investments.**
  - **To increase investments financing is required.**
  - **To obtain financing, access to financial markets needs to be protected.**
  - **The best way to protect this access is to honor debt commitments**
  - **Therefore, debts should be paid and not negotiated nor restructured.**



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- ➡ **Do not fall into the trap of believing political myths camouflaged as economic arguments.**
- **Economic development measures must be status neutral.**



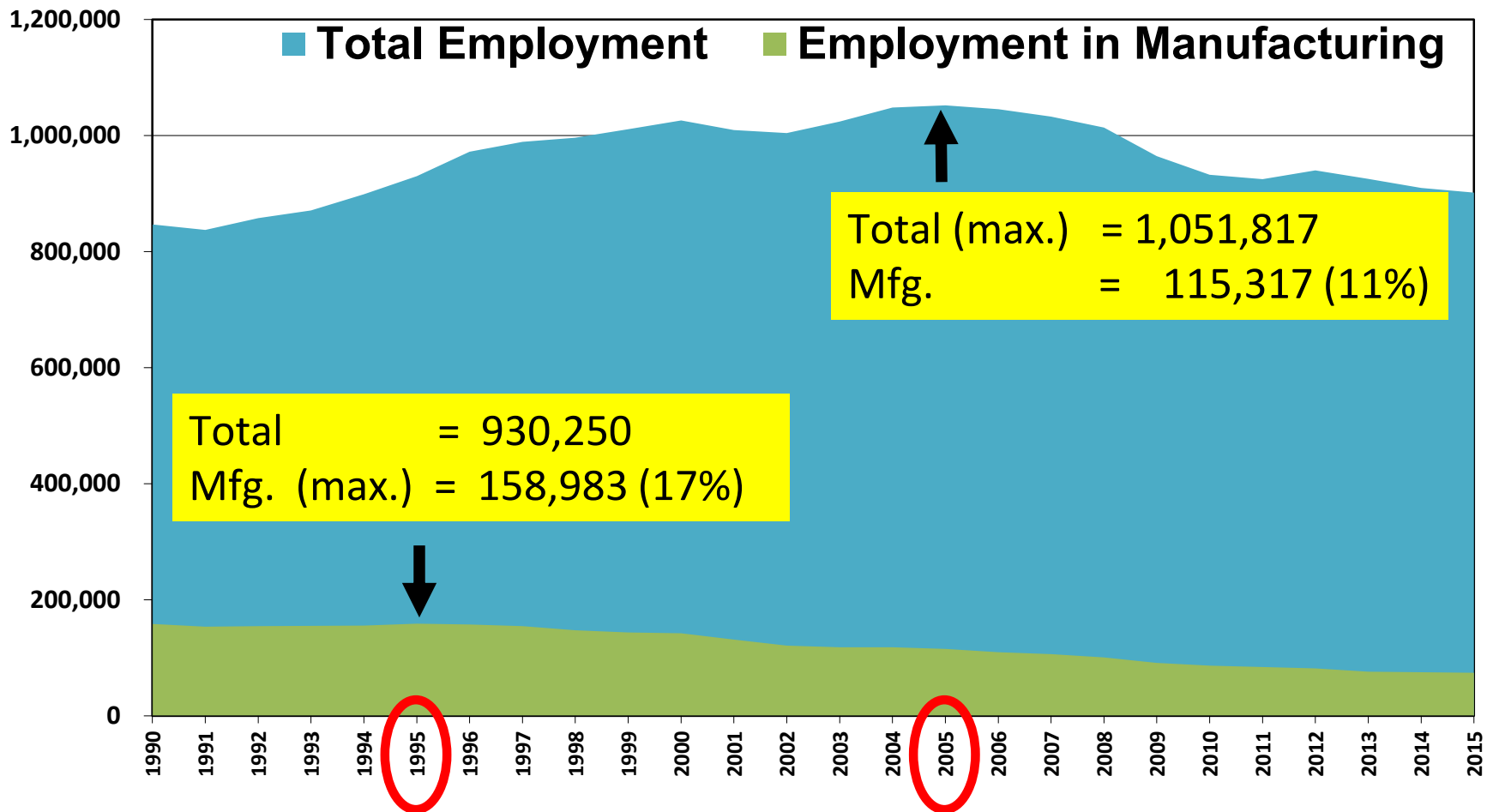
# Contributing Factors for Puerto Rico's GDP Growth *(In real terms and in %.)*

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	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.

# Employment in Puerto Rico: Total vs. Manufacturing



Source: Department of Labor and Human Resources, Non-Farm Seasonally Adjusted Historic Series.



## Puerto Rico's Agenda

- ➔ **Fix the government's fiscal crisis.**
- ➔ **Solve the problem of the political status of Puerto Rico.**
- ➔ **Fix the economy.**



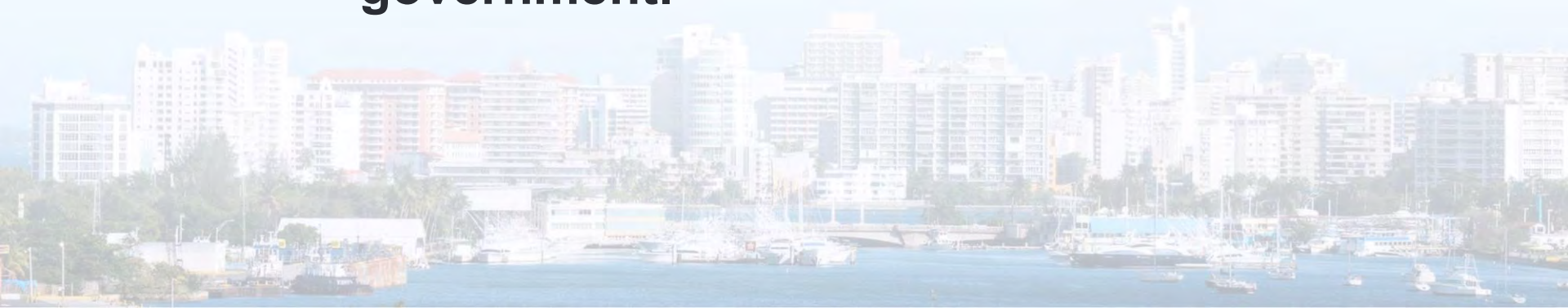




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- ➡ **To fix the government's fiscal crisis:**
  - **Reduce the government's operational expenses.**
  - **Transfer resources to public investments.**
  - **Solve the liquidity crisis with a 2-year loan for a maximum of \$2,000 million.**
  - **Link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

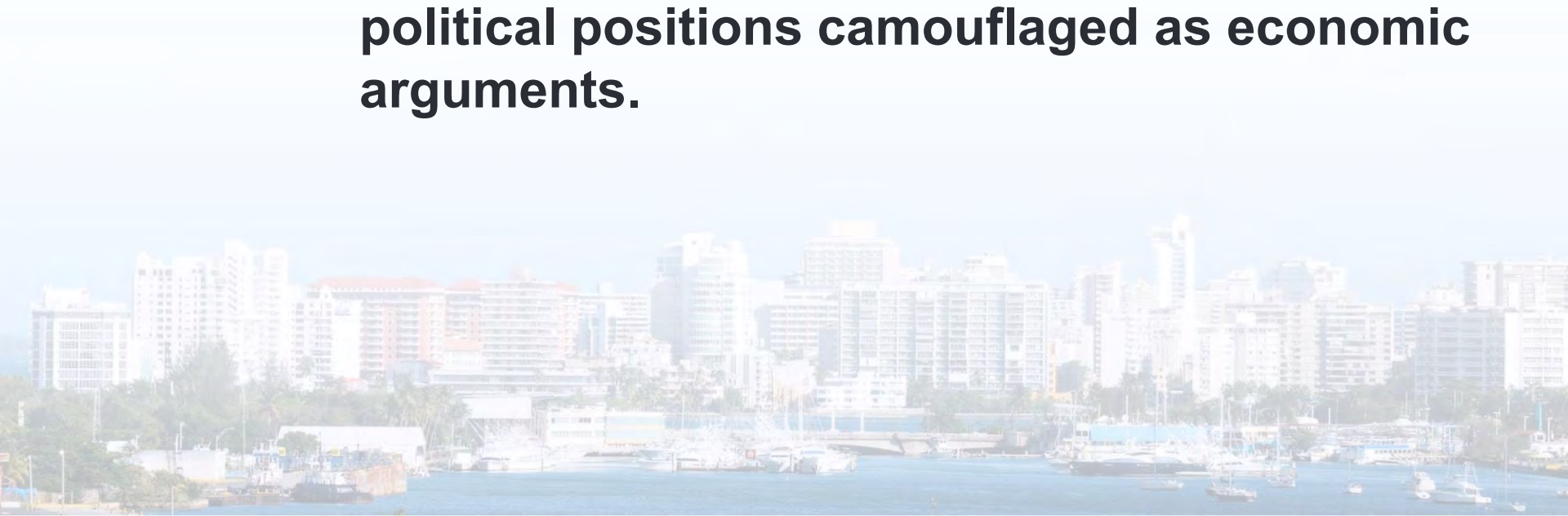




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- ➡ **Why solve the problem of the political status of Puerto Rico?**
  - **Puerto Rico's current political status represents major drawbacks in terms of human and civil rights.**
  - **This would put an end to the discussion of political positions camouflaged as economic arguments.**





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## ➡ To fix the economy:

- **Start a process leading to the increase of investments on the Island, spearheaded by the government.**
- **Develop a new status-neutral economic strategy 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.**



# Thank You

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