



**EMPRESARIOS
POR PUERTO RICO**

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**Congressional Task Force Members
United States Congress**

Honorable members:

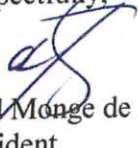
Entrepreneurs for Puerto Rico is an organization that groups together companies and associations of businesses in Puerto Rico. The charter of this organization is to defend fair competition and educate consumers about the impact that our local enterprises have on Puerto Rico's economy. We represent more than a thousand local capital businesses throughout the island, which represents \$6 billion in market sales.


Local businesses hire 90% of workers in Puerto Rico and their investments are vital to the economic development of the island. For each dollar that is earned by local businesses, almost the half is reinvested in our local economy. As you well know, at the historic juncture that we are living in Puerto Rico, there is an urgent need to implement innovative public policy to provide proper tools that support and strengthen new business growth and the sustainability of our existing enterprises.

Entrepreneurs for Puerto Rico recognizes the critical role that the Congressional Task Force will undertake for the Economic Development of Puerto Rico. Our group is committed to offer you viable solutions to address the crisis we are living. Attached to this letter we provide for your review and analysis, the list of proposals for Puerto Rico's economic development that we, as a collegiate group have developed along with our team of economic experts.

We look forward to the opportunity to meet with the task force to present our proposals and have constructive dialogue as we work together to address the many challenges and opportunities faced by our economy.

Respectfully,


Enid Monge de Pastrana
President
Board of Directors


Elliot Pacheco-Beauchamp
Vice President
Board of Directors

Summary of Proposals for Congressional Task Force on Puerto Rico¹

A weak economy that is not able to grow would impede certainty for investors and would enhance migration and economic problems in the Island. Thus, economic development emerges as the only win-win solution for the current Puerto Rican crisis: increases government revenues (securing income for investors) and increases incomes to Puerto Ricans, benefiting U.S. companies and U.S. regions that export to Puerto Rico as well.

- 1) The first proposal is to relax visa requirements for international tourists and for students to stimulate Puerto Rican tourism and help internationalize universities. A similar relaxation is currently given to Guam, which is also another U.S. territory. Bringing tourists and students from Asia and Latin America would significantly help this economy. In particular, it can potentially increase visitors to Puerto Rico by 10-20% (500 thousands to 1 million of additional visitors). According to the Planning Board, total average expenditures of visitors was \$757 in 2015. If we increase the number of visitors by 15%, direct economic activity would represent \$568 millions and the indirect economic activity (using 2013 input output matrix) represent \$477 millions. Using input output, we find that total employment generated in Puerto Rico would be 8,520.

Economic Impact in the U.S.: \$369 millions (higher output in Puerto Rico increase imports from the U.S.)

Economic Impact in Puerto Rico: \$1.05 billions

Cost to U.S. taxpayers: \$0.

Tax Revenues for U.S. government: \$16.6 million²

¹ This work was made in partnership with Empresarios por Puerto Rico and Selectos Supermarkets.

² Tax revenues for U.S. government were calculated by assuming 30% of profit rate and 15% of corporate tax rate.

- 2) The second proposal is removing navigation acts, a regulation disliked by the vast majority, including some labor unions. A small economy needs to export in order to grow and transportation costs can severely affect the competitiveness of those exports. Removing these navigation acts do not cost anything for U.S. taxpayers, increases imports from the U.S. (by the price effect) and reduces the cost of living in Puerto Rico (therefore, reduce the current 46% poverty rate mentioned in PROMESA). This would also help import more goods from the U.S. that are now imported directly from other countries. According to Herrero et al., removing navigation acts would imply a reduction in direct import cost of \$426 million at the current GDP levels. Knowing that about 80% of total consumption in Puerto Rico comes from imports, this would represent a direct increase in imports of about \$341 million. Those \$341 million would imply that companies in the U.S. would have higher sales and, thus, would have to pay more taxes in the U.S. It is important to point out that our figures are conservative estimates since lower transportation costs would enhance bilateral trade between Puerto Rico and the U.S. to even higher levels. Puerto Rico is one of the most important partners for farmers in states such as Pennsylvania and for other businesses across the U.S. Furthermore, U.S. tax revenues increase given higher sales from U.S. companies in U.S. soil.

Economic Impact in the U.S.: \$300 million.

Economic Impact in Puerto Rico: \$426 million

Cost for U.S. taxpayers: \$0

Tax Revenues for U.S. government: \$13.5 million

- 3) The third one is increasing to 30 the amount of hours that one can work to receive welfare benefits such as HUD Section 8. One of every five workers in Puerto Rico is poor (ICDH, 2016). Instead of choosing between working a few hours more or

receiving welfare benefits, working poor should be allowed to work more and to complement their incomes with welfare benefits. From a dynamic perspective, this proposal does not impose costs for U.S. taxpayers because would keep U.S. transfers in the current level: current Puerto Ricans that are receiving those transfers are the same that will search for a formal job. There are about 900,000 individuals receiving at least one type of benefits. Let us suppose that 25% of them would take advantage of this proposal and will work 20 hours every week at minimum wage. That would increase the wage bill (and consumption) in this economy by \$1.7 billion. The increase in consumption imply, again, a higher demand of goods and services from the U.S. (80% of goods are imported), ultimately increasing U.S. tax revenues. Finally, this proposal can put 180,000 adults out of poverty, thus reducing poverty in their children as well (infant poverty reduction is one of the recommendation contained in PROMESA).

Economic Impact in the U.S.: \$544 million

Economic Impact in Puerto Rico: \$1.7 billion

Cost for U.S. taxpayers: \$0

Tax Revenues for U.S. government: \$24.5 million

- 4) The fourth is to allow Puerto Rico strengthen its infant companies, as done in New York City and San Francisco (among others cities where there are large protections for small and medium size businesses), to help this under-developed economy. According to Caraballo (2016), if half of the sales would have taken place in small and medium size enterprises (SMEs) in 2012 in the retail sector, total net direct employment in 2012 would have been 24,000 higher. According to the Economic Census, the average salary of SMEs was \$16,000 in the retail sector. Thus, 24,000 new employees would represent an additional \$384 million circulating in the economy in the form of payroll (and consumption). Those \$384 million in

consumption would represent an additional 3,072 in indirect and induced employment (using input output matrix). Those \$384 million in consumption can imply that Puerto Rico would import \$129 million from the U.S. One exception can be in terms of taxation, letting the Puerto Rican government to tax corporations in a progressive way (based on their level of income).

Economic Impact in the U.S.: \$129 million

Economic Impact in Puerto Rico: \$384 million

Cost for U.S. taxpayers: \$0

Tax Revenues for U.S. government: \$5.8 million

- 5) Similarly, the fifth proposal is to help Puerto Rico to create transfer pricing regulations for multinational retailers to reduce tax “avoidance” and tax inequality with domestic competitors. This proposal does not cost anything to U.S. taxpayers. In fact, it can increase U.S. revenues by reducing needs for federal transfers to Puerto Rican government and it can provide higher stability to the government of Puerto Rico, thus benefiting U.S. bondholders. Furthermore, the economic boost that this can generate in SMEs can be large since that would level tax inequality between local and multinational retailers.

Economic Impact in the U.S.: \$0

Economic Impact in Puerto Rico: \$46 million

Cost for U.S. taxpayers: \$0

Tax Revenues for U.S. government: \$5 million

- 6) The sixth is extending Chapter 9 to future Puerto Ricans bonds. This would match Puerto Rico bonds with other bonds negotiated in the U.S. municipal bond market, can prevent excessive lending in the future, and can provide a timely and organized response to future fiscal crisis. This proposal also does not cost a single penny to taxpayers; it is just a rule that applies in every state.

Economic Impact in the U.S.: \$0

Economic Impact in Puerto Rico: prevent unfolding future crisis.

Cost for U.S. taxpayers: \$0, though save future intervention of U.S. authorities.

- 7) Expand funding for SBA Puerto Rico and USDA, and include State Chartered Credit Unions and Economic Development bank as eligible participants for the programs 7a and 504 from the SBA. Letting State Chartered Credit Unions in Puerto Rico had access to special funding (e.g., seasonal credit) from the Federal Reserve to provide liquidity and lower requirements to stimulate credit and boost demand. Further policies that can enhance credit in Puerto Rico is to include State Chartered Credit Unions in the **Community Development Financial Institutions Fund and in the programs of the Federal Housing Administration**. Current commercial loans in State Chartered Credit Unions in Puerto Rico are close to \$200 million (see report of loans from COSSEC). If these proposals raised commercial loans by 20%, that would represent \$40 million circulating in the economy through small and medium size enterprises, which are the preferred customers in these State Chartered Credit Unions. It is well-known that new loans can generate a larger economic impact because of the multiplier effect of money creation. But, to keep conservative figures we only refer to the primary effect. There will be a positive economic effect in the U.S. because, again, new economic activity in the Island also implies higher demand for U.S. goods and services.

Economic Impact in the U.S.: \$10 million

Economic Impact in Puerto Rico: \$40 million

Cost for U.S. taxpayers: \$0

Tax Revenues for U.S. government: \$450,000

These proposals are perfect complement (not substitute) to the proposals given by the Coalition of the Private Sector such as amendments to section 245a and other groups such as those demanding parity in Medicaid and Medicare funding. In terms of parity in Medicare, we especially ask for **Low-Income Subsidy** that is given for the 50 states but not for U.S. citizens in Puerto Rico. According to members of Congress³, this could inject up to \$400 million to the health system of Puerto Rico and prevent that the elderly population migrate to the states searching for parity, what could actually cost more to the states.

Without economic development Puerto Rico would unfold even further with the austerity policies of the fiscal control board: there will be even more migration and greater losses in the tax base, which ultimately represent more uncertainty to investors. Looking at Table 1, we can see the permanent losses in tax revenues that were suffered by the Puerto Rican government in a single year. Puerto Rican migration is mainly caused by factors related to the labor market (Caraballo-Cueto, 2015). According to the Census Information Center, about 45% of the Puerto Rican migrants are poor. Poor migrants will also demand more public services in the states, affecting U.S. taxpayers.

Table 1. Tax Revenues Losses Caused by Migration, 2014

Net Migration	68,099
Income subject to consumption tax	
Income per migrant	\$12,514
Estimated losses in consumption tax revenues, supposing an average saving rate of 0% (close to long term trend)	\$59,653,362
Income subject to income taxes	
Persons earning more than \$15,000	18,315
Losses in income supposing an income tax rate of 10%	\$27,472,500
Total estimated losses in tax revenues	\$87,125,862

Source: Note 18 from the Census Information Center of Puerto Rico (2016).

³

https://pierluisi.house.gov/sites/pierluisi.house.gov/files/3.17.15%20Joint%20Letter%20to%20HHS%20and%20CMS%20Regarding%20the%20Medicare%20Advantage%20Program%20in%20Puerto%20Rico_0.pdf

An improvement in the labor market caused by these proposals would significantly reduce this migration, thus helping the local government to have more revenues to pay debt, helping states to provide lower benefits to poor migrants, and reducing poverty in the Island. In Table 2 we show the total economic impact our seven proposals.

Table 2. Total Economic Impact of the Seven Proposals (figures are in millions)

Economic Impact in the U.S.	\$1352
Economic Impact in Puerto Rico	3646
Cost for U.S. taxpayers	0
Tax Revenues for U.S. government	65.85

Extraordinary situations deserved extraordinary policies.

References:

- 1) Caraballo-Cueto, José (2015). "Some Determinants of the Puerto Rican Migration to the US in 1950-2014". CIDE Digital, April, 6(1), 22-30
- 2) Caraballo, José (2016). "News from 2012 Economic Census: Deindustrialization with Higher Productivity, Higher Tax Compliance, and Jobless Growth in Megastores". Perspectivas. Febrero, No. 5
- 3) Herrero, José, A. Soriano & J. Valentín-Mari (2003), found an additional cost of \$426 million in fiscal year 2000.
- 4) ICADH (2016). Deuda Pública, Política Fiscal y Pobreza en Puerto Rico. Recuperado en: <https://noticiasmicrojuris.files.wordpress.com/2016/04/final-informe-audiencia-pucc81blica-pr-4-de-abril-2016-2.pdf>