



# Prepare for landing: The effects of the Fiscal Oversight Board

by Francisco Rodriguez-Castro, President & CEO Birling Capital LLC

How the fiscal oversight board would initiate its efforts is no longer a secret. The board has acted swiftly, taking control of the central government and more than 20 public corporations and agencies.

The oversight board has asked the governor to submit the administration's fiscal adjustment plan to steady the island's finances by October 14<sup>th</sup> and will next meet in in NY on October 14 and in Puerto Rico in mid-November.

I have always been an advocate for the reduction of government and for less government involvement in those needs that may be adequately met by the private sector.

In the present fiscal situation the government has no other choice but to cut expenses strategically and reduce its size and focus. Doing this would liberate enormous amounts of capital that could be utilized in other economic development endeavors and/or to comply with the obligations to creditors, bondholders and the provision of essential services.

Puerto Rico's policies historically have created a very unique manufacturing intensive economy that today directly and indirectly represents one-half of our GDP and serves as our primary taxpayer. We must diversify our economy while keeping these important contributors to our GDP.

Puerto Rico has been suffering economic contraction for more than a decade and even though the country has made several efforts to revamp our economy, these efforts have not worked. Now, after two decades of fiscal imprudence, excessive spending, salary and benefit increases to all public employees without metrics to justify them, we are faced with a liquidity crisis and no access to the capital markets. Puerto Rico, USA has been and continues to face a crisis of a magnitude no other US State or territory has faced.



A recurrent topic in the analysis of Puerto Rico's Economy has been its weak performance for the past three decades during which our economy grew at the paltry pace of 2%. A rate well below that of our peer group.

Joseph Schumpeter, the famous Austrian economist, used the term "creative destruction" to describe the market forces that promote constant innovation. We must accept these forces when our economic reality changes and re-adjust our focus towards new industries and initiatives that reactivate the economic engine.

For these reasons and more, we as a people must agree on long-term goals, goals that are understood respected and supported by every citizen. I call them Supra-National Goals. These are goals that will endure longer than any administration or political party and that everyone in Puerto Rico should understand, protect and preserve.

#### Supra-National Goals

- Increase the growth rate of GDP within two years to 4% by transforming Puerto Rico into a high-growth, increased development area.
- Create 150,000 new jobs within six years.
- Increase our labor participation rate to 55% within six years.
- Reduce our unemployment rate to less than 7% within six years
- Transfer those activities that are being performed by the government that would be better performed by the private sector using the Public Private Partnership Model.
- Transform our educational system from PK-12 into a system focused on entrepreneurship, trade schooling and aptitude development.
- Measure Puerto Rico's progress using all available peer group comparison ratings from the WEF, World Bank and others.

Now that the Fiscal Oversight Board has begun its work, we have seen opinions in favor and against the board as well as other forms of demonstrations. While the detractors of the Board protest against the board's existence, they seem to forget that the board exists because our government spent almost a year requesting that Puerto Rico be included in Chapter 9 of the Federal Bankruptcy code. After months of public hearings, reports and studies from all relevant sectors of the economy, the response from Congress is the creation of the Fiscal Oversight board and with it, its plans and their execution. It is for this specific reason that it's very hard for me to understand why our leaders are opposing the board.



Life has taught me that when one asks for help, it may not always come as you had envisioned it. This support in your time of need comes with a large responsibility and commitment. Now is our time to act, to improve all that we need to improve and to place Puerto Rico on a path that will rebuild our economy, our credit, our credibility and our pride.

General Douglas MacArthur is reputed to have said: "True leaders have the confidence to stand alone, the courage to make tough decisions, the character to face the truth and the compassion to listen to the needs of others. A leader does not set out to be a leader, but he becomes one by the equality of his actions and the integrity of his intent".

This is our time to act, unite and transform Puerto Rico into the country we all envision. We must provide future generations with a better country than the one we have now.