



Fiscal Plan's Austerity Measures Come With Huge Social Costs; Portugal Experience Suggests Better Route With Austerity & Stimulus

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Peer to Peer Conversations: José J. Villamil of Estudios Técnicos Talks Juntaeconomics

Peer-to-Peer Conversations: True leadership
As we present our newest Peer to Peer Conversations series, we want to discover what makes a great leader. How can leadership be developed into a force for true achievement? We will explore successful leadership through the choices of the most



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influential people in the business.

Our Peer-to-Peer Conversations with CEOs in other companies will discuss their views on a variety of issues. This week, we formulated five essential questions with José J. Villamil (JJV), chairman, CEO & president of Estudios Tecnicos Inc. (ETI), Puerto Rico's leading economic, market strategies and planning consulting firm, with more than 30 years of experience.

FRC: You have analyzed Puerto Rico's certified fiscal plan. What are the areas of significant concern?

JJV: There is an increasing consensus among economists that austerity measures by themselves won't do the trick and, if they do, the social costs are enormous. This was the case in places such as Greece, Spain and other jurisdictions. This is something the International Monetary Fund has even recognized. The recent experience in Portugal, where the stimulus complemented such measures, suggests the route should be a combination of both austerity and stimulus.

The main impact of austerity measures relates not so much to their impact on growth, but instead on

their impact on institutions. Austerity can weaken institutions to the point that their recovery may become extremely difficult or impossible. This may be happening with the University of Puerto Rico. The UPR needs to improve its management, and there is a need to increase tuition, but the fiscal measures seek remedies by substantially weakening the academic side of the equation. This means the UPR will lose qualified staff, will not be able to recruit new academic staff and, in short, will be a shadow of its former self. This impact on institutions will have a lasting negative impact on development perspectives.

The other dimension of the issue is that economic growth not only comes from government investment in large infrastructure projects, which seems to be the underlying assumption in the fiscal plan. If one continues to assume economic growth is government-driven through either expenses or investment, the role of the private sector, local governments and civil society organizations falls by the wayside.

FRC: We have started to see the Financial Oversight & Management Board is beginning Title IV

restructurings, how do you see it unfolding?

JJV: Recent events related to Cofina [Sales Tax Financing Corp.] suggest there will be progress reasonably soon in dealing with the debt issue. Of course, even the Cofina agreement is still not a done deal, and many details have to be ironed out. There will probably be some litigation before it is a final agreement. The GO [general obligation] and POB debt are yet to be resolved. One would have expected a decision on Cofina bonds to also be linked to a solution for the GO debt using the [IVU, or sales & use tax] as a source of payment for both, but it didn't happen. In any case, it would have been the general fund that would have come up short.

FRC: You have been a big part of Puerto Rico's economic development. How do you envision our next chapter of growth?

JJV: Even in the short run, there is still a great deal of uncertainty concerning how much federal funding will be disbursed, over what extended period and how the funds will be used. However, the medium and long terms are a concern and where we should be placing emphasis.



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—Economist José J. Villamil

Sure, the federal funds will have a positive impact, but they are temporary and contribute little to establishing a solid foundation for future sustainable growth.

The answer to your question is pretty much the same that Alice in Wonderland was given when she asked about which of two routes to take. The solution was, it depends on where you want to go. A first step we need to bring is precisely to reach agreement on where we want the economy, and in a broader sense the society, to be in five, 10, 15 years. If we, as a society, do not have a clear vision about our objectives, it will be challenging to frame a coherent, agreed-upon route to take.

What is very clear is that we have to downsize not only expectations but also current infrastructure investment decisions in recognition that Puerto Rico will have a smaller population and a smaller economy for many years. Previous migration losses (in the 1950s, for example) were eventually compensated through higher birth rates, but this will not happen this time around. The loss of population and

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Continued from page 25

contraction in the economy have meant we are now in an excess-capacity mode in physical and social infrastructure, for example, Prepa [P.R. Electric Power Authority] and the Department of Education. This should redirect planning in these excess-capacity situations to improvements of quality rather than expansions of capacity.

The future development of Puerto Rico will require profound changes in economic culture, and the roles of government and local capital. It will not be government-driven and will expect a global outlook that we have foregone because the global economy will intrude into ours much more so than at present. Both the DMO [destination marketing organization for tourism] and Invest Puerto Rico initiatives [by the nonpolitical, nonprofit government corporation] are positive and should help in overcoming the lack of continuity in economic development programs. Hopefully, whoever is the governor as of 2021 will keep both of them.

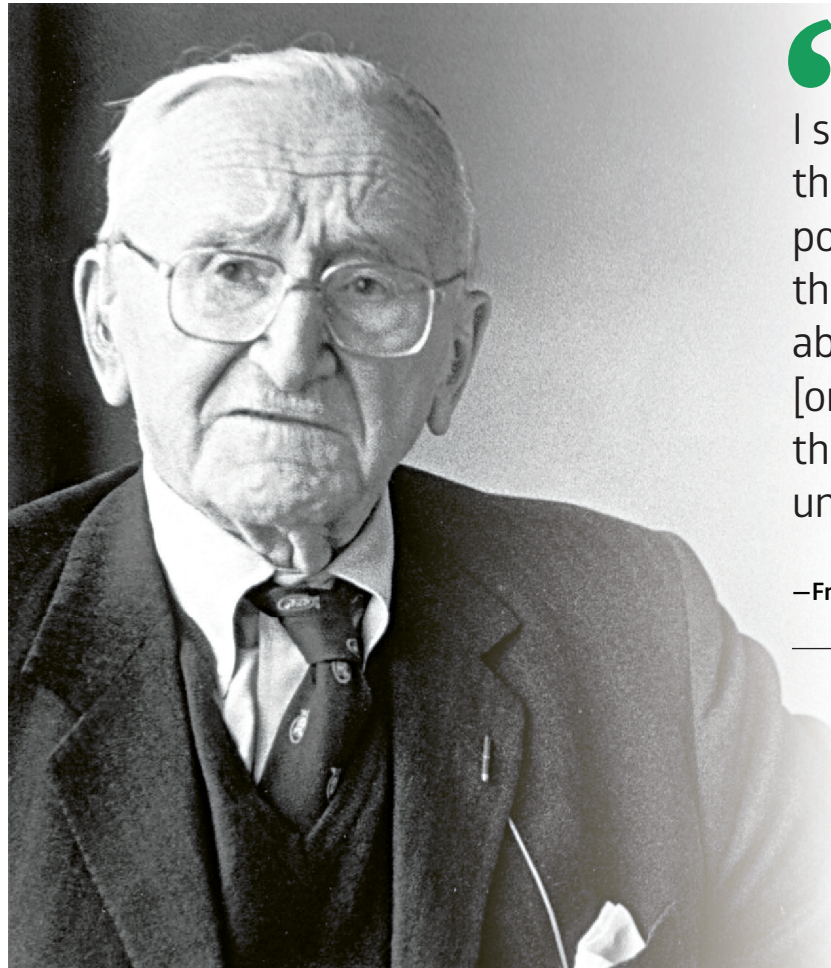
FRC: The big elephant in the room is Statehood vs. Commonwealth.

Does Puerto Rico's economic model allow for statehood?

JJV: If, by economic model, you mean the tax-driven promotion of economic activity, one could argue that there is a contradiction. There could not be Section 936 or CFC [controlled foreign corporation] firms in Puerto Rico under statehood. What the recently approved Tax Cuts & Jobs Act makes clear, however, is that Puerto Rico, even with the present status, cannot depend on federal tax incentives and even local tax exemptions now face more limiting conditions regarding investment attraction.

This will force us to move to an economic strategy less dependent on federal tax incentives that are not necessarily in conflict with statehood. However, moving in either direction regarding status will require reasonably long transition periods to incorporate the significant changes in government, and specifically in the financing of the public sector. Analyzing what this transition means is something that should be done, not to argue for or against a particular status, but to have an idea of what is entailed.

FRC: How will Puerto Rico accomplish economic growth?



I seriously believe that such striving for popularity...is fatal to the economist and, above anything, he [or she] must have the courage to be unpopular.”

—Friedrich Hayek

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As mentioned earlier, we need to develop a vision of a future Puerto Rico that can drive the implementing of specific development or growth objectives and strategies consistent with that vision. There are, of course, some initiatives that could be implemented that could jumpstart the economy in the immediate short term, but this is a very different matter from long-term sustained growth as part of a development strategy. These short-term measures include a more straightforward and investment-oriented tax system, improving government efficiency, decentralizing central-government functions to municipalities and community-based organizations, more agile and effective permitting and licensing procedures, privatizing some government activities and many others.

The tax system is the essential instrument that the island has at the moment, and how it's structured will play a major role in growth prospects. Should we go ahead and approve a tax reform that emphasizes consumption, Puerto Rico will have lost an opportunity for turning the economy around. Unfortunately, tax systems have been treated as financial tools and not as instruments of economic and social policy.

Development is a complicated process that requires integrating what we have

designated as the six development infrastructures into a coherent set of actions. These six infrastructures include Physical (power, water, roads, etc.); Social (health, education, etc.); Institutional (laws, regulations, government procedures); Cultural (values, approaches to economic issues, etc.); Environmental (air and water quality, urban issues); and Knowledge (university programs, S&T infrastructure, tech transfer).

In [summary], economic growth is achievable in the short term with different policy initiatives. Sustained economic development is a more complex process and will take longer since it requires careful integration of these six infrastructures.

FRC: What is true leadership for you?

JJV: Leadership is one of those characteristics frequently mentioned as needed in politics and business, and even more regularly confused with self-promotion and popularity. True leadership has to do, obviously, with personal characteristics, but more importantly, it has to do with ideas and their execution. Immediate impacts on a firm or a nation can be achieved by a strong personality and the clever use of the media, but the strength of ideas is what leads to long-lasting impacts. We so frequently see the press extolling the virtues of a "leader,"

who shortly after that falls from favor and disappears. Fleeting prominence is no guarantee of leadership, although frequently confused as such. True leadership involves a commitment to ideas and values, whether these are popular or not, whether they conform to the conventional wisdom of the time, and whether they produce that sudden prominence that so many confuse with true leadership.

In my field, Economics, Friedrich Hayek said it best in a lecture to London School of Economics students in 1944: "The reason why I think that too deliberate striving for immediate usefulness is so likely to corrupt the intellectual integrity of the economist is that immediate usefulness depends almost entirely on influence, and influence is gained most easily by concessions to popular prejudice and adherence to existing political groups. I seriously believe that such striving for popularity...is fatal to the economist and, above anything, he [or she] must have the courage to be unpopular."

Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.

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The U.S. Virgin Islands Port Authority is soliciting proposals for the **ITB 08-18 GATE 5 APRON PAVEMENT RECONSTRUCTION PROJECT AT THE CYRIL E. KING AIRPORT (STT)**. The complete invitation to bid including specifications, drawings, and proposal forms may be obtained by bona fide bidders from the office of the Division of Purchasing, Administration Building P.O. Box 301707, St. Thomas, USVI 00803-1707 (340) 714-6636, Monday through Thursday, 7:30 a.m. to 4:30 p.m. or from the U.S. Virgin Islands Port Authority website at: <http://www.viport.com>. Contact Division of Purchasing, at (340) 714-6636, for further information.

A mandatory pre-bid meeting is scheduled for 2:00 P.M. local time, at the U.S. Virgin Islands Port Authority Administration Building, at 8074 Lindberg Bay St. Thomas, VI 00802-5922, on **Thursday, August 30, 2018**. Failure to attend the mandatory pre-bid meeting shall result in rejection of your bid.

Sealed proposals shall include one (1) original and three (3) copies of the sealed Proposal along with an electronic copy (flash drive or CD) to the following address: Virgin Islands Port Authority, Administration Building, Attn.: Executive Director c/o Engineering Department, P.O. Box 301707, St. Thomas, USVI 00803-1707 **until 2:00 p.m., local time, on Monday, September 17, 2018**, at which time they will be opened and recorded. Proposals received after this time will be returned unopened.

Proposal(s) shall be due and delivered no later than 2:00 P.M., September 17, 2018. Each Proposal should be marked on the outside of the envelope with **"GATE 5 APRON PAVEMENT RECONSTRUCTION RFP RESPONSE"**.

- Clearly mark the envelope with Respondent's name and address.
- Direct procurement questions regarding the RFP to Damian Cartwright, P.E., Asst. Executive Director / Director of Engineering at VIPA's address or e-mail dcartwright@viport.com

The Authority reserves the right to waive any informality, to reject any and all Proposals, to evaluate all Proposals, or any portion thereof and to accept the proposal/s which in its opinion may be in the best interest of the Authority. The Authority reserves the right to modify the contract after its award and further reserves the right to make multiple contract awards under this RFP.

***Bidders may not contact any Department Managers or Supervisors to discuss the bid process or bid opportunities except: 1.) through the Engineering Director named herein. This policy shall be strictly enforced and the VIPA reserves the right to reject the submittal of any bidder violating this provision.**