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FEATURED Q&A

Does Puerto Rico's New Governor Have the Right Debt Plan?



Ricardo Rosselló, who took office in January as governor of Puerto Rico, recently released his plan to improve the U.S. territory's finances. // File Photo: Commonwealth of Puerto Rico.

Q Puerto Rico's new governor, Ricardo Rosselló, recently released his plan to shore up the U.S. commonwealth's finances by overhauling its tax system and scraping together money through cost savings. The plan avoids deep budget cuts, which he has said would be disastrous to the island's economy. Will Rosselló's plan steady Puerto Rico's economy and effectively address its more than \$70 billion in debt? What else should Rosselló, the son of former governor Pedro Rosselló, prioritize instead? To what extent will the governor be able to work cooperatively with the federal oversight board that was established to end the commonwealth's debt crisis?

A Emilio Pantojas García, senior researcher and professor of sociology at the Center for Social Research at the University of Puerto Rico: "At first sight, Governor Rosselló's fiscal plan puts his administration on a collision course with the junta (the fiscal control board). The junta specifically requested budget cuts of \$3 billion in two years and revenue increases of the same amount. The specific targets cuts were: \$1 billion in public health, \$300 million from the University of Puerto Rico, 10 percent in pensions and reducing government by 22 percent. The governor proposed cuts of \$550 million in health, appears to be willing to settle for lower cuts to UPR and cuts to higher income pensions. The plan includes cuts in subsidies to municipalities, tax hikes, extending the tax on controlled foreign corporations and continuing to demand federal parity for Medicaid, against the 'advice' of the junta. Under the junta's scenario, the projected contraction in GDP was 17.5 percent, while the projection under Rosselló's plan is 1.6 percent. The

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TODAY'S NEWS

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At Least 22 Girls Killed in Fire at Guatemala Shelter

The blaze tore through the government-run Virgen de Asunción home for abused children and teenagers after residents set fire to a mattress following an escape attempt.

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Regulator Imposes Tougher Rules on América Móvil

Mexico's Federal Telecommunications imposed requirements including one for the company to separate out part of its fixed-line infrastructure.

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Yellow Fever Could Spread From Brazil to U.S.: Health Officials

The disease could spread much in the same way that the Zika virus did last year, said researchers including Dr. Anthony Fauci of the National Institute of Allergy and Infectious Diseases.

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Fauci // File Photo: National Institutes of Health.

POLITICAL NEWS

At Least 22 Girls Killed in Fire at Guatemala Shelter

At least 22 girls were killed Wednesday when a fire tore through a home for abused children and teenagers southeast of Guatemala City, Reuters reported. The blaze at the government-run Virgen de Asunción home in the town of San José Pinula began when a group

“This should never have happened.”

— Anabella Morfin

of youths set fire to a mattress following a riot and an escape attempt, according to Nery Ramos, the head of Guatemala's national police force. Ramos added that authorities were probing whether the youths who started the fire were the same ones who had attempted to escape. Photos posted to Twitter showed burnt bodies, partially covered with blankets, strewn across the floor of a blackened room at the home, Reuters reported. In addition to those killed, dozens more were injured, many with second- and third-degree burns, the Associated Press reported. “What happened is extremely serious, and even more so for the fact that it could have been avoided,” Guatemalan Solicitor General Anabella Morfin said at a press conference, Reuters reported. “This should never have happened.” President Jimmy Morales declared three days of national mourning. “We will fully support the institutions responsible for investigating, and we will contribute to finding the truth,” he said in a televised statement late Wednesday. Mayra Veliz, the secretary general of the attorney general's office, vowed that the investigation will be transparent. During the Tuesday night riot that preceded the fire, dozens of residents fled the home,

but 54 were recaptured, according to Ramos of the national police. The Virgen de Asunción home has long been overcrowded, Guatemalan media reported. More than 500 people were living in the facility, which was designed to hold 400. Heinz Heimann, a presidential spokesman, criticized what he said were open living arrangements at the shelter, which is run by the government's Ministry for Social Welfare. “It shouldn't be possible that girls who simply were suffering, that didn't have any problems with the law, are mixed with young people who have committed crimes,” he said. “This can't be allowed to continue.”

ECONOMIC NEWS

Brazilian President Launches Program for Infrastructure

Brazilian President Michel Temer on Tuesday launched an infrastructure concessions program that he believes will raise 45 billion reais, or about \$14.43 billion, in investment to build and operate power transmission lines, as well as roads, port terminals and railways, Reuters reported. “There will be 45 billion reais



Temer // File Photo: Brazilian Government.

in new investment in the energy, transport and sanitation sectors, which will lead to the creation of 200,000 new direct and indirect jobs,” he said, adding the program would be key to lifting the economy out of its worst-ever recession. At the inaugural meeting of the Program for Partnerships and Investments, which will oversee the tendering of the concessions, Temer said he hopes to launch 55 new projects

NEWS BRIEFS

Yellow Fever Could Spread From Brazil to U.S.: Health Officials

An outbreak of yellow fever in rural Brazil is causing U.S. officials to worry that the mosquito-borne disease could spread to the United States, much in the same way that Zika did last year, two health experts said in an essay in the New England Journal of Medicine, CNN reported today. Though a yellow fever outbreak in the United States is unlikely, “travel-related cases of yellow fever could occur, with brief periods of local transmission in warmer regions such as the Gulf Coast states,” said Dr. Anthony Fauci, the director of National Institute of Allergy and Infectious Diseases, and his colleague, Dr. Catharine Paules.

Peru, India to Begin Trade Talks Soon

Negotiations for a trade agreement between Peru and India are set to begin soon, Peru's vice minister of foreign trade, Edgar Vásquez, said, The Hindu reported today. The two countries completed a joint feasibility study for the accord in trade of goods, services, investment and cooperation in September, according to industry body the Federation of Indian Chambers of Commerce and Industry. Ashok Das, India's joint secretary of the Ministry of External Affairs, said the two countries would also explore the possibility of joint projects.

Royal Bank of Canada Closes Accounts Linked to Panama Papers

Royal Bank of Canada has closed the accounts of approximately 40 clients and boosted its tax compliance measures following a review after last year's massive leak of documents related to Panama-based law firm Mossack Fonseca, Bloomberg News reported Tuesday. The leak detailed how the firm helped conceal money through offshore accounts.

with private-sector partnerships. “We are leaving behind a deep recession and entering in a phase of prosperity where private investment will be decisive,” he said. Official data released Tuesday showed that Brazil’s economy shrank even further in the final quarter of last year, with a greater-than-expected decline of 0.9 percent in the fourth quarter, down from a 0.7 percent drop in the previous quarter.

BUSINESS NEWS

Regulator Imposes Tougher Rules on América Móvil

América Móvil, which is controlled by Mexican billionaire Carlos Slim, said Wednesday that the Federal Telecommunications Institute telecommunications regulator, or IFT, has implemented tougher antitrust rules against the company, including ordering it to separate out part of its fixed-line infrastructure, Reuters



Slim // File Photo: Agência Brasil.

reported. The company has been subject to stronger antitrust rules since 2014 as part of a wider reform of the telecommunications sector aimed at making the market more competitive. The company said the IFT has ordered it to create an independent entity for its fixed-line unit Telmex, in order to offer its competitors access to infrastructure. A spokesperson for the IFT did not immediately respond to requests for comment on the matter. América Móvil said the separation ordered by the IFT would be based on a plan submitted by Telmex to the regulator for its approval. The company criticized the

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plan will increase projected revenues and the cuts will work in a three- to five-year period, not two years. The projected cut to bondholders is at least 66 percent. But everyone is convinced that the conflict between the governor and the junta is like a wrestling match—staged and choreographed. The Puerto Rican members of the junta are either members of the governor’s party or former Government Development Bank presidents linked to Santander Securities, one of the parties responsible for the debt. The junta has no legitimacy. The missing link in the plan is a development strategy that could reposition the island in the global economy. Investment and growth are the keys to recovery.”

A Rafael Cox Alomar, assistant professor of law at the David A. Clarke School of Law at the University of the District of Columbia: “Pursuant to the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), Governor Rosselló unveiled on March 1 a far-reaching fiscal plan for stabilizing the island’s sagging finances. The governor’s plan, moreover, must now pass the strict review of the (unelected) federal oversight board (appointed by former President Obama at the behest of the congressional leadership as required by the PROMESA statute). As things stand right now, the board can either certify the governor’s plan or reject it, in which case it could certify its own fiscal plan instead—while commandeering the local legislature to pass a budget for fiscal year 2017-18 consistent with its fiscal plan without regard to any of the initiatives presented by the governor. Whether the board will adopt a consensual

resolution the IFT requires of América Móvil, saying that “the modifications and additions to the measures ... confirm the lack of legal certainty and regulatory predictability in the sector.” Alexander Elbittar, a researcher with Mexico’s CIDE university who specializes in regulation and competition, said the overar-

or a confrontational approach, with respect to the island’s political branches, remains to be seen. A closer look at the governor’s proposal, however, brings to the surface the striking similarities between his suggested approach and the board’s. The governor

“**The governor’s initiative, if unaccompanied by measures with which to boost the island’s economic competitiveness, will drive Puerto Rico deeper into the hole.”**

— Rafael Cox Alomar

is calling for significant savings in public pensions (with cuts ranging from 6 percent to 24 percent); for annual cuts of around \$300 million to the island’s public healthcare system; for the elimination of annual tax subsidies of around \$100 million to the private sector; and for doing away with yearly subsidies of around \$350 million to the island’s 78 municipalities while terminating the government’s \$300 million subsidy to the University of Puerto Rico. The governor’s austerity recipe also brings forth new taxes; a significant increase in property taxes and a sharp reduction of 66 percent in debt service payments. Contrary to the board, however, he refuses to reduce the local government’s payroll by 30 percent (45,000 jobs). Far from jumpstarting the economy, the governor’s initiative, if unaccompanied by measures with which to boost the island’s economic competitiveness, will drive Puerto Rico deeper into the hole.”

Continued on page 4

ching resolution presented by the IFT appears to be sound, though it remains to be seen how Telmex will decide upon a proposal for separation. “This is a drastic measure but one that has had to be taken in markets that have featured very strong concentration [of market power] for many years,” he said.

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A Luis Martínez-Fernández, professor of history at the University of Central Florida: “It took decades, bipartisan corruption, crass financial irresponsibility and thousands of mainland-U.S. and island-based speculators to bring Puerto Rico to the deep financial hole in which it is sinking: a \$70 billion debt, a \$7 billion annual budget deficit and a public employee retirement system on the brink of insolvency. The idea that one governor, Ricky Rosselló, will straighten out Puerto Rico’s finances within two years with minimal federal support is almost comical. As Bartolomé de las Casas once said, ‘I don’t know whether to laugh or cry.’ The previous administration of Alejandro García Padilla was disastrous and turned out to be the most fiscally irresponsible ever. He simply kicked the can down the road, and with his characteristic lack of imagination, sought to increase revenues on the backs of working Puerto Ricans, who saw their water, electricity and road toll bills skyrocket. Now that Puerto Rico has exhausted all possible forms of moratoria and debt payment extensions, the federal oversight board has issued an ultimatum: either you come up with a viable plan to shore up the commonwealth’s finances or we will have to impose our plan. The board is threatening draconian measures that include cutting the state payroll by 30 percent, raising taxes and service fees, and holding a fire sale on public properties, including land and public buildings. Like

his predecessor, Rosselló is avoiding tough decisions—offering a plan that does not include tax increases. He proposes cutting the number of government agencies but not the number of employees and wants to go

“The idea that one governor, Ricky Rosselló, will straighten out Puerto Rico’s finances within two years with minimal federal support is almost comical.”

— Luis Martínez-Fernández

after the budget of his party’s traditional punching bag, the University of Puerto Rico. Worse yet, like his father Pedro Rosselló, he seeks to capitalize on the financial and political bankruptcy of the commonwealth by pushing for yet another status referendum, with the hope that the statehood option will do better this time. The math does not add up; the mathematicians have no credibility, and more importantly, the calculator, the red pen and the scissors are in the hand of the United States Congress.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org.

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