

Heads-up call



BY RAFAEL HERNÁNDEZ COLÓN

Gabriel García Márquez would have a feast writing about the programmatic positions of Puerto Rico's statehood party going forward to the 2012 election. Macondo, the town of his bestseller, "Cien años de soledad," doesn't enjoy a monopoly of

magical realism. It is written all over the New Progressive Party (NPP) proposals. Salvador Dalí would also have a good time in his paintings with the surreal propositions that abound in the statehooders' discourse.

There is no way we can get through to the NPP leadership about this ethereal posturing, but it is high time we all wake up to this dysfunctional aspect of our politics. This time they are going for broke, and if we end up in their magic world, it is going to hurt.

CARIBBEAN BUSINESS wrote a Top Story two weeks ago by Carlos Márquez, which began as follows:

"Irrespective of which political party wins the November general election, there are a number of objective and subjective factors that point to a possible turn for the worse in Puerto Rico's fiscal picture.

"After nearly six years of austerity measures—two in the administration of former Gov. Aníbal Acevedo Vilá and nearly four during Gov. Luis G. Fortuño's term—there has been a significant shrinking of the structural fiscal deficit, but the revenue-spending gap isn't completely closed," said Juan Lara, chief economist at Advantage Business Consulting.

"Future progress requires economic growth, the only reliable source of healthy recurrent revenue, but this still isn't happening. The economy bottomed out about a year ago, but thus far has failed to start growing from the recession's bottom," Lara added.

No economist or government official I know of will quarrel with these concerns. The most recent fiscal gymnastics to "balance" our budget for 2012-2013 attest to the serious problems we still have with Puerto Rico's fiscal picture. Estimates of nonrecurring revenue, included in the 2012-2013 budget, range from \$1 billion to \$300 million. The budget is the ultimate test of reality. Programmatic proposals must be in accordance with this reality. If they aren't, we are dealing on the surreal level, and this makes our politics dysfunctional.

Economic and fiscal proposals aren't the only areas that can have an effect on our economy. Political proposals can also be beneficial or damaging. There has to be coherence between economic,

fiscal and political proposals; otherwise, our discourse isn't serious. If they aren't coherent, they operate at Macondo's level.

Standard & Poor's Ratings Services (S&P) has revised to negative from stable its outlook on the commonwealth of Puerto Rico's general-obligation bonds (GO) and appropriation debt ratings. Our economic and fiscal environment has the potential to delay a transition to structurally balanced budgets beyond fiscal 2013. Structural balance by the end of fiscal 2013 remains critical to reducing growth in the commonwealth's tax-supported debt, which has increased nearly 44% over the past three years, primarily because of deficit financing.

Our voters believe statehooders can be brought back into power and nothing would happen related to statehood since it didn't occur under former NPP Govs. Ferré, Romero or Rosselló. Not this time.

S&P understands a steady economic recovery has failed to take hold. This limits the government's ability to implement additional expenditure cuts and revenue-enhancement measures in the near term.

S&P could revise its outlook for Puerto Rico back to stable if the economy gains positive momentum, the commonwealth maintains fiscal discipline through fiscal 2013, and officials adopt and implement a credible solution to the government's unfunded pension and retirement liabilities.

It could lower the rating by one notch if the economy deteriorates, the projected deficit for fiscal 2013 widens or decisive action on pension reform is delayed beyond fiscal 2013.

One would expect the NPP's political proposal for the November election would be one that facilitates economic growth, which is what Puerto Rico needs to surmount its current economic and fiscal problems. We can't continue to borrow and spend. Current spending doesn't build lasting assets that will help future generations pay off the debts they will be saddled with. We must begin long-term sustainable growth.

Economic growth requires investment, private investment, in manufacturing, tourism, agriculture, services and education. Public and private investment is also necessary in infrastructure, roads, ports, power, water, sewage and waste disposal. To gain positive momentum, our economy must operate with well-defined, business-friendly, long-term rules of the game so investment takes place.

Magical realism holds otherwise. The NPP seeks a mandate from the people of Puerto Rico to procure statehood from the U.S., which means a radical change in the rules of the game. The problem isn't that statehood will be granted, and federal taxes will crush our economy and our government's capacity to provide needed services. This won't happen. What will happen, though, is that the media, public opinion, the business community, Wall Street and the U.S. government will perceive Puerto Rico charting a course toward statehood. Federal taxes on the horizon would severely curtail corporate and financial investment from the 50 states or foreign countries into Puerto Rico.

It could be worse than this. Faced with a petition from the majority of the people of Puerto Rico to become a state of the Union, Congress may decide to take the first step toward that end, which is incorporation. By becoming an incorporated territory, we would pay federal taxes and receive equal treatment in federal programs—as we already do in more than 90% of these programs. We wouldn't vote for members of Congress, the president or vice president. We would remain under this status until Congress decides to admit us into the Union. Hawaii and Alaska waited more than 60 years for this to happen.

The contradiction between the statehooders' political platform and their economic and fiscal platforms is profound. Seriously pursuing statehood and economic growth at the same time for Puerto Rico is working at cross-purposes. Yet in the surreal world of statehood politics, the NPP blithely carries on in denial of the realities they would face if they achieve their goal at the polls.

I have titled this column "Heads-up call" because our voters believe statehooders can be brought back into power and nothing would happen related to statehood since it didn't occur under former NPP Govs. Ferré, Romero or Rosselló. Not this time. They will now have a mandate not only to govern but also to procure statehood. Such a mandate will have a serious negative impact on the economic growth we need, lest we sink deeper into our economic malaise and fiscal problems.

To continue the commonwealth relationship and maintain the rules of the game necessary to promote investment and resume economic growth, we must vote "yes" on the first plebiscite ballot, independent of the ways the NPP Legislature has chosen to define it. ■

Rafael Hernández Colón is a three-term (12-year) former governor of Puerto Rico (1973-76 and 1985-92). He served as Justice secretary (1965-67) and Senate president (1969-72). He was president of the Popular Democratic Party for 19 years. Comments on this article are welcome at caribbeanbusiness.pr. Go to the "Sign in" link on the homepage to participate. Emails also may be sent to column@caribbeanbusiness.pr.