

Governmental policies in the right direction

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As we enter into 2006, I sense governmental economic and fiscal policies are pointing in the right direction and important steps were taken during 2005 that will bear fruit this year and the following years. The just-ended 2005 was, for other reasons, what the Queen of England once called an *annus horribilis*, a year of horrors. The challenge that divided government was compounded by the leadership crisis in the NPP, which threw a monkey wrench into the workings of the legislative branch and stymied the initiatives for reform within the Legislature.

During 2005, we witnessed continuous battles between the Executive Branch and the Legislature. The most serious casualties of this process of accommodation were our credit rating, the budget, and the appointment of Marisara Pont as secretary of State. However, as the year ended, Gov. Aníbal Acevedo Vilá, who used this time to put in place important reforms in the Executive Branch, appeared to be asserting his leadership through compromise and dialogue.

The factors that indicate to me we have turned the corner in making divided government work are the basic agreement between the governor and the Legislature on how to deal with the budgetary structural imbalance through tax and fiscal reforms and the new program for economic development set out by the administration.

House Joint Resolution No. 321 and the Governors' Executive Order, issued Nov. 21, 2005, impose governmentwide expenditure controls and set forth the basic principles and parameters that will govern the reform of the Commonwealth's tax system and the reduction and management of government debt.

This Joint Resolution and Executive Order represent a landmark in the operation of our divided government. It wasn't easy to achieve this agreement. Alfredo Salazar, the president of the Government Development Bank, played a key role in negotiating the agreement with the legislative leadership. It didn't come about in the regular session. Up to that moment, there was a deadlock with the president of the House, but finally, he came through and an extraordinary session was called back to back with the regular session to approve the Joint Resolution. The process of negotiations leading to the agreement on such complicated matters as tax and fiscal reform was to me a process of political maturation that will serve us well in the three years that remain of the current term of government.

The Joint Resolution and the Executive Order averted a second downgrading of our bonds. But, the rating agencies will be watching the implementation of their provisions to determine if the objective of resolving the budgetary structural balance will be met according to a schedule which sets achievement of that goal for fiscal 2008.

The proposed tax reform will broaden the tax base through the implementation of a consumption tax. It also will reduce individual income-tax rates and simplify administration of the tax system. It will replace the current excise tax, include compensatory income-tax credits, eliminate the marriage penalty, establish an earned income-tax credit, increase the deduction for charitable contributions, restructure the estate-tax system, and provide incentives for investments in technological infrastructure and research and development activities. It must be approved by June 2006, the end of the next regular session of the Legislature.

The devil as to this legislation is in the details, which will require much more dialogue and compromise. A political minefield lays ahead for both parties in terms of handling this legislation. We should expect relapses into political bickering, but I think at the end of the day a sense of responsibility will prevail and a meeting of the minds will be reached. This is to me the lesson behind the approval of the Joint Resolution and the Executive Order.

If we look beyond the operations of the governmental power centers to the operations of our economy, 2005 wasn't so bad. From fiscal 2000 to fiscal 2005, annual employment grew from 1,150,291 to 1,237,593, an increase of 7.6%. The increase between 2004 and 2005 was 2.7%. The Planning Board's current real gross national product for fiscal year 2006 projects an increase of 2.5%.

This inner strength of our economy won't be missed by the rating agencies, although they will be looking also at the rise in oil prices and short-term interest rates, which may affect us in the coming year.

Within this context of a growing economy, the administration will be implementing its economic-development program aimed at producing a more diversified and sustainable economic development. This program will promote foreign investment focused on life sciences and communication technologies; local entrepreneurial investment that builds upon the Commonwealth's competitive advantages in life sciences, tourism, commerce, and services, and investment in infrastructure and human capital.

In previous columns, I have discussed in detail the administration's plan to enhance our competitiveness in knowledge-based economic sectors. The leadership of Jorge Silva Puras, secretary of Economic Development & Commerce, with the governor's full support is a factor that bolsters confidence in the successful further implantation of this strategy during 2006.

Finally, the administration is intent on reducing the cost of doing business in Puerto Rico during 2006. Toward that aim, it will promote the creation of more cogeneration power plants to diversify energy fuel sources and reduce oil imports. It also is streamlining the permitting process and expediting critical projects in the life sciences sector.

There emerges from all of these actions a coherent plan to deal with the structural deficit of the government and to set it on a sound fiscal basis. There emerges also a program for sustainable economic development, which responds to the resources we have at hand, our pharmaceutical and information-technology industries, and our human capital. There is no doubt in my mind we are heading in the right direction. Getting us further to where we are going is the challenge our divided government must meet in 2006.

