

Momentum and the economy

By : RAFAEL HERNANDEZ COLON

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We are amid a recession that is seriously affecting the livelihoods of thousands of Puerto Ricans. The economy has come to the forefront of the concerns of our people.

Beatriz Castro, Gaither International research analyst, commenting about a recent CARIBBEAN BUSINESS, Radio WOSO, Gaither International poll, said: "It's about the economy, stupid! That is, for the first time we see issues related to the economy in all tiers of concern and, by the time you get to the third tier, that's all voters seem to have on their minds. This is unprecedented in terms of research we have seen in this area in Puerto Rico."

Within this context, we must be very careful as to actions that may negatively affect the momentum of economic activity throughout the island. Or, to put it another way, we must be wary of decisions that affect the quantity of motion in our economy by reducing the mass of economic activity or lowering its speed.

Our tax incentives law has been an essential tool for the economic development of Puerto Rico during the past six decades. The law has been invariably extended by PDP and NPP administrations thus creating investors' confidence in our promotional efforts and in our economy. As the years go by, refinements and amendments have been made and will continue to be necessary to be made to the law. But it has never expired.

We now face such a possibility and this will be most harmful in the middle of the recession affecting us because it will not only affect projects that are in the pipeline but, worse than that, will affect investors' confidence for a long time to come. This will undoubtedly affect the momentum of our economic activity with dire consequences for all of us.

The importance of this law to our economy can't be sufficiently stressed. There exist more than 1,400 manufacturing plants promoted by the Puerto Rico Industrial Development Co. (Fomento) under this law throughout the island. Seventy percent of these are of local capital. Eighty-five percent are small or midsize, that is, with 100 or fewer jobs. The economic activity generated by these plants creates 113,000 direct jobs and 273,000 indirect jobs. The jobs generated by the Tax Incentives Law represent 40% of our labor force.

The indirect jobs generated by the Tax Incentives Law are measured in hundreds of Puerto Rican companies providing raw materials, construction and engineering services, transportation, logistics,

product distribution, banking and insurance, tourism, commerce, financial and legal consulting, maintenance, security and others.

There is an imperative need to extend the life of the law at this point. Fomento has 24 major industrial projects pending, representing 4,700 new jobs and \$560 million in investments. Within the next three years, 313 tax-exemption decrees will expire, putting 15,000 jobs at risk if there is no law under which new decrees can be provided.

To make matters worse, we are in a globalized, very competitive environment. Our highly skilled human capital in sciences, engineering and services, our technical and management expertise in U.S. regulatory compliance and validation, our telecommunications capabilities and our relationship to the U.S. are advantages that serve us well in this environment. But our tax incentives have given us an edge. Other countries such as Ireland and Singapore are now offering these incentives so competition has become much harder. It doesn't allow for uncertainties in our tax incentives policies.

Local, stateside or foreign investors don't make decisions when the investment climate is uncertain, when the rules of the game aren't clear. A prolonged period of uncertainty as to what will happen with the Tax Incentives Law will compound the problems we already have trying to emerge from the recession. It can have effects lasting longer than November 2008.

The Tax Incentives Law has not been extended because of differences between the House of Representatives and the administration as to whether the current law should be extended or whether the law should be rewritten to adapt it to the present competitive environment and fine-tuned to the type of economic activity we wish to pursue. Furthermore, I can fully understand the House speaker's concern as to the weight corporate tax exemption puts on the individual taxpayer.

Undoubtedly, a close re-examination of the law must be done so it can better serve its essential purpose. But, amid the polarized and bruising atmosphere prevailing in our divided government, it is highly unlikely this can be done as well as it needs to be done or even if it can be done at all.

So, to reach our objective of emerging from the recession and regaining our stride in economic development, which is foremost in the minds of the Puerto Rican people, we have to settle for second best, which is to extend the current law and thereby remove the uncertainty about our tax incentive policies.

The expiration of our Tax Incentives Law will produce a slowdown in our economy just as the government shutdown did in 2006. Its effects will reduce our economic momentum, eroding the confidence we need to surmount the recession. Momentum, once lost, takes a long time to be recuperated.

When the people have elected a divided government such as the one we now have, our leaders have to work through compromise. There is no other way. To do so today is essential. The people are hurting and relief should not wait until the next election.