

Going forward facing reality

By : RAFAEL HERNANDEZ COLON

Volume: 37 | No: 3

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Issued : 01/22/2009

The Obama and Fortuño administrations have hit the ground running. The dire economic situation in the U.S. and Puerto Rico requires no less.

To go forward, Obama has spoken clearly about the gravity of the situation and stressed the theme of “we are one.” Fortuño’s inaugural speech apprised us of the gravity of the situation we are facing in Puerto Rico. Just as important, it was a speech directed to bring us—the people of Puerto Rico—together to face the situation. No mention of divisive statehood or status initiatives was made.

This was critical. When we are all affected one way or the other by this protracted economic downturn, when sacrifices are required from all of us to surmount the challenges we all face, it is no time for ideological conflict or partisan bickering. It is time for all of us to row together to surmount the economic tidal wave that engulfs us.

Puerto Rico’s fiscal problems compound our situation. They don’t afford us much room for fiscal maneuvers to surmount the contraction of our economy, which we have been suffering for the past three years. Indeed, they force us to take measures contrary to countercyclical policies needed to jump-start the economy.

It is time to face the music. The music started with our inability to finance the megaprojects of the Rosselló administration. The *tarjetita*, or healthcare reform, has weighed down our budget like an albatross. The *tren urbano*, or urban train, and the *supertubo*, or North Coast Aqueduct, destabilized the finances of the agencies charged with their development. Contrary to the practice that had been followed by all administrations up to the Rosselló administration, public corporations such as the Puerto Rico Aqueduct & Sewer Authority or the Puerto Rico Electric Power Authority weren’t allowed to increase the tariffs they charged consumers. We were taken to a level of spending way above our means.

Thus began a fiscal deficit that continued to accumulate during the Calderón and Acevedo Vilá administrations. This deficit amounts to \$3.2 billion for the current fiscal year. Since it is structural in nature, it will reflect itself in the budgets for the forthcoming fiscal years. We must address this structural deficit, lest our credit rating fall into the junk-bond category. Should this happen, we would be running the risk of not being able to market our bonds for capital improvements. This would have catastrophic consequences for our economy.

The determination of the size of the deficit was a major contribution of the Economic & Fiscal Reconstruction Advisory Council (Caref by its Spanish acronym) appointed by Gov. Fortuño right after

winning the election. This determination hasn't been challenged by any serious economist. The work undertaken by this private-sector Blue Ribbon Panel—diagnosing our fiscal problems and pointing to numerous solutions that form part of an integral package for economic recovery—enabled Fortuño to set a course as soon as he took office.

Had this not been done, Fortuño wouldn't have been able to present the bills, which have already been approved, to the Legislature that are necessary to overcome the deficit in the current budget and jump-start the economy. The Legislature would have been involved at this point in a major political battle to determine the size of the deficit. Serious credibility questions would have arisen as to the real amount of the deficit when the dust settled. Caref's determination gives the government—executive, legislative, judiciary—and public opinion, a credible benchmark from which we can measure the need and extent of the sacrifices we all have to make.

It becomes clear that we must bite the bullet. There is no room for argument. The question is how to distribute the bites or how the burden should be distributed. But bite the bullet we must. Caref recommended increasing government revenue by \$1.2 billion, a reduction of government expenses by another \$1.2 billion, securing assistance from the federal government related to Medicaid funds to attend to the ballooning costs of healthcare's La Reforma and fiscal stability measures including the issuance of \$4 billion in bonds to quickly jump-start the economy by paying outstanding debts to government contractors and suppliers and for a local economic stimulus plan.

Gov. Fortuño has already taken action to reduce government spending and the Legislature has approved the measures to jump-start the economy.

Caref also recommended a systemwide restructuring of the tax system in the income-producing sector so work and productive investments are stimulated, and the approval of a law to regulate and stimulate public-private partnerships. These recommendations, which will require much study and debate, will bring about greater tax equity and induce economic development. They will be supplemented by additional recommendations from Caref. By the time they translate into economic activity, the effects of the Obama reforms will have been felt in Puerto Rico. According to Resident Commissioner Pierluisi, within the first months of 2009, we stand to receive \$5 billion in federal funds as part of the Obama effort to jump-start the U.S. economy, of which we are an integral part.

Should all this work out as planned, there is good reason for hope. The Obama package and Caref's report will be an outstanding contribution toward putting our government and economy back on track. Caref's recommendations to increase government revenue must be carefully analyzed. On reading them, I get the impression that although an effort has been made toward equitable distribution of the burdens among individuals and corporations, the right balance hasn't been struck. This is more apparent when we compare those who are to share the permanent burdens—individuals—and those corporations that are to share the temporary burdens.

There will be no easy solutions. There still is a great deal of work to be done. Obviously, Caref's recommendations aren't the only ones the governor or the Legislature must consider. There is plenty of room for refinement of Caref's recommendations or for broader creativity. However, at the end of the day, we must arrive at an integral package just as Caref presented to get rid of the deficit on a permanent basis.

The tough decisions lie ahead. The Fortuño administration and the Legislature know what must be done. This is no time for denial. They must figure out just how to do what needs to be done. Now is the time to do it. They will be judged by the results.

