

**PUERTO RICO:
INSIGHTS INTO ECONOMIC DEVELOPMENT POLICY
Volume V
Action from San Juan**

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Development Discussion Paper: 2016-15

ABSTRACT

Puerto Rico presents a grand opportunity for tourism. Today, thousands of hotel rooms, condominiums, and houses are vacant. These facilities allow a quick expansion of the tourist industry; visitors and local business will be able to take full advantage of the island's wonderful natural resources. This volume presents two submissions to the Bipartisan Congressional Task Force on Economic Growth in Puerto Rico regarding "Actions from San Juan". Firstly, Juan-Carlos Puig, who has served as a federal government employee for 32.5 years, 28.5 of which were served in Puerto Rico, in his submission suggests that a well-focused government action can lay the foundation for a burgeoning of private activity in tourism. He further states that success will come with the Puerto Rican government allocating more funds to promote tourism and the federal government (particularly the PROMESA-created Task Force) backing ways that the Puerto Rican government can obtain these necessary funds. Secondly, Arthur MacEwan and J. Tomas Hexner, made a submission titled "Establishing Reliable Economic Data for Puerto Rico." It emphasizes the need to integrate Puerto Rican data collection and presentation with federal agencies—especially, but not only, the Treasury Department, the Bureau of the Census, the Bureau of Labor Statistics, and the Bureau of Economic Analysis. Data collection and reporting requirements for Puerto Rico should be the same as for the fifty states. This reform of the Puerto Rican economic data systems is a foundation for the implementation and effectiveness of PROMESA.

Key Words: Puerto Rico, Tourism, PROMESA, Economic Data

JEL classification: O1, O2, Z32

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**A. Submission to the Bipartisan Congressional Task on
Puerto Rico Tourism: An Opportunity Waiting for Action**

**By:
Juan-Carlos Puig**

Dear Members of the PROMESA Task Force:

First of all, I want to express my appreciation to the U.S. Congress and Mr. Barack Obama, President of the United States of America, for enacting a law to provide Puerto Rico the opportunity to restructure our economy, which will have a positive impact among the 3.4 million U.S. citizens residing on the island, and to you for accepting this challenge. I am positive the objective will be achieved. This will not be an easy task and will require some sacrifices, but at the end of the day we all will have a much better place to live, and everybody will be satisfied with the achieved results.

In my case, I am a U.S. citizen, born and raised in Puerto Rico, and am not planning to move another place. Therefore, I feel it is my obligation to provide the Task Force with some ideas of initiatives that should be implemented to improve our finances and quality of life.

I served as a Federal Government employee for 32.5 years, 28.5 of which were served in Puerto Rico. I worked for the U.S. Internal Revenue Service. I had the opportunity to occupy several positions, mainly in the compliance area, and for 10.5 years was assigned to the Government of Puerto Rico, mainly to the Departamento de Hacienda, where I served in different positions within the Internal Revenue Area. As a Tax Administration Advisor for four former Secretaries of the P.R. Treasury, I actively participated in the implementation of the first Collection Division, an Automated Call Site, as well as many compliance initiatives, which resulted in successful implementations. In addition, I directed a change management process for the entire Internal Revenue Area. I was also the Project Manager for the implementation of a computerized master file, which is the system Hacienda still uses to run their tax system.

I was also honored to serve as the Puerto Rico Secretary of Treasury for two years. During my tenure I implemented free electronic filing of individual income tax returns, expediting processing of income tax returns and refunds as well. I was later on appointed by the Governor as the First Inspector General for the Government of Puerto Rico. In addition, I

was the Governor's Personal Representative in the Morales Feliciano Case (a class act case at the U.S. Federal Court). During my tenure we were able to, after over 30 years, to take initial steps to finally close the case at the satisfaction of the U.S. District Court. I also served as an Advisor to the President of the P.R. Senate for two years, conducting analysis and making recommendations for proposed legislation, mainly in the economic arena.

While I served as Secretary of Hacienda, I was also a member of the Tourism Board. I had first-hand exposure to the tourism related activities. I had the opportunity to evaluate the potential our island has to present a very attractive opportunity for both, investors, and tourists.

Today, our island is faced with many challenges, therefore we have to evaluate all potential opportunities to revamp the economy. Tourism is an industry which should be closely evaluated to explore the possibilities our island has to offer.

The following is related to the tourism industry, which should be one of the main areas of economic development on the island.

ABSTRACT

Climate, beaches, an enticing natural environment, culture, and proximity to population centers—Puerto Rico presents a grand opportunity for tourism. Today, thousands of hotel rooms, condominiums, and houses are vacant. These facilities allow a quick expansion of the tourist industry; visitors and local business will be able to take full advantage of the island's wonderful natural resources. This existing capacity, along with established tax-based incentives, means that high returns can be obtained quickly. It is a grand opportunity that cannot be passed up.

In the development of tourism, Puerto Rico has long lagged behind its neighbors and the rest of the world. Yet, while the opportunity presented by tourism has been missed in the past, the opportunity still exists. Expansion of the tourism industry can make a significant contribution to Puerto Rico's economic growth.

in the past. Puerto Rico is a most convenient vacation site for perhaps half the U.S. population, closer and more readily accessible than other sites in the Caribbean and Central American and, for that matter, Hawaii. Yet, among the U.S. population there is limited awareness of the island's attractions. The potential demand needs to be transformed to an actual demand, which will require an all-out effort.

Now is an especially advantageous time to build up the tourist industry because returns can be quickly achieved through a rapid expansion that can be achieved with relatively little investment. While existing tourist facilities are by no means empty, neither are they under constraints of near-full capacity. As to hotels, according to the Puerto Rico Tourism Company, the average hotel occupancy rate in the first eleven months of FY2016 was 70%. (Along with the small rise in tourist arrivals, this figure was slightly higher than in recent years.) This figure is lower than those for several U.S. cities. For example, in Florida, Orlando had a 77% hotel occupancy rate in 2015 and Miami's rate was 78%. In New York City and Boston the 2015 occupancy rates were 89% and 82%, respectively.

Hotels, however, are only one category of available tourist facilities. As is well known, the long-lasting recession has generated a large exodus—some ten percent reduction of the population in the last decade—leaving many homes, houses and condominiums, vacant. Real

estate prices have plummeted. A February 2016 *CNN Money* article titled “There's a big sale on Puerto Rican homes” underscores the point: “And it's a buyer's market right now. You can get a 3-bedroom home near the beach for under \$100,000.” Other examples abound. Two particular cases illustrate the phenomenon: the asking price for a penthouse condominium in San Juan’s Mirador del Parque, which had a pre-construction price of \$890 thousand, is on the market for half that; a home purchased for \$177 thousand in 2009, well below its assessed value at the time of \$215 thousand, is on the market for \$100 thousand.

The combination of under-utilization of hotel rooms and extensive low-cost availability of condominiums and houses in Puerto Rico means that tourist facilities are available without extensive investment. Supply does not present a constraint in building up the island’s tourism industry. The existing facilities (the empty condominiums and houses) could be prepared for tourists quickly, in a matter of a few months, and the preparation could be accomplished at relatively low cost. (Construction of new facilities could take three years or more and require large investments.) Government initiatives are needed, however, to facilitate the organization of a marketing and management system that will allow the condominiums and houses to be readily available to tourists (regarding which, see below).

Furthermore, in recent years the government has taken some steps to reduce costs for the tourism industry. In particular, Act 74 of 2012, “The Tourism Development Act,” established several tax-based incentives for investments in tourism. The most substantial of these is a tax credit equal to 10% of the total project costs, or 50% of the cash investment made by investors (whichever is less). There are also exemptions (to various extents) from excise taxes, sales and use taxes, income taxes, and property taxes. This form of incentives has long been used in Puerto Rico to support traditional industrial activities—i.e., manufacturing. Since the burst of activity in the 1950s and 1960s, however, it has not produced much success.

With tourism, there is as yet no indication that these tax-based incentives are having a significant impact. The weakness of tourism was apparent before the onset of the current recession, as growth in the pre-2006 years was slow in Puerto Rico compared to other sites. And the level and rate of growth in subsequent years—including the years since the adoption of Act 74 in 2012—has been poor.

The expansion of tourism, as with other sectors of the economy, is not only affected by costs, though costs are important, but also by demand. As is the case with low interest rates in the states, without an anticipation of sufficient demand, low costs alone—whether because of low taxes or low-cost facilities (as described above)—will not generate strong increase of economic activity.¹ Tax-based incentives might be a useful part of an industry-promotion program, but without sufficient demand they are likely to have little impact. The demand for tourism on a world-wide basis and in parts of the Caribbean is strong, poor economic growth in many countries notwithstanding. Yet, in spite of the opportunity presented by the current circumstances on the island, demand for Puerto Rico tourism remains anemic.

Government Action

Although individual firms and associations of firms can act to generate demand for their services, in the tourism industry there is an important role for government support in raising demand for a particular site—a country, territory, or region. The data on government spending for more successful sites suggests government spending—on various forms of tourism promotion and visitor information services, for example—makes a substantial difference in the growth of the tourism industry. By comparison with other sites—the Dominican Republic stands out—the Puerto Rican government’s spending in support of tourism has been relatively low. This relatively low level of government spending in the past shows up in the very limited advertising campaigns in the states for Puerto Rican tourism (to say nothing of the quality of those campaigns) and other forms of demand promotion.

The implication for Puerto Rican government policy is clear: more funds must be allocated to support the expansion of tourism. These funds can be used to support an intensive and sustained advertising campaign, especially along the east coast of the states and at least as far west as Chicago (which is virtually as close to Puerto Rico by plane as is New York City). However, advertising is a relatively passive form of promotion—based on the idea that “if we show it to them, they will come.”

¹ In the jargon of economics, to expand the tourism industry in Puerto Rico, it is necessary to shift the demand curve outward as well as to shift the supply curve downward.

To obtain quick results, to take full advantage of the current opportunities, more active tourism promotion is needed. Puerto Rican government officials along with representatives of the tourism industry—from large and small types of enterprises—should meet with airlines firms, tourist agencies, Airbnb, and others to boost demand for the island's tourism. Combined with a well-designed advertising campaign, strong connections with these groups can fill out a promotion effort.

This effort must be forceful and extensive to be the game-changer that is needed for tourism in Puerto Rico. It cannot be smothered by existing bureaucracy, but would best be organized and directed by a special commission (as noted earlier), which would be given adequate funding and allowed to act relatively independently.

With the existing availability of hotel rooms and the potential offered by empty condominiums and houses, promotion funds, if spent effectively, can yield relatively quick results in terms of an increase in demand for Puerto Rican tourist accommodations. This increase of demand will lay the foundation for a surge private activity.

Yet, while the capacity in terms of hotel rooms, condominiums, and houses exists, there is no effective system in place to market and manage the condominiums and houses for tourists—either through rental or purchase. The government must facilitate the creation of a means to place the marketing and management of these facilities under the auspices of firms—e.g., hotels or Airbnb—with tourism experience and capabilities. For example, control of a few hundred available condominiums and houses could be transferred by sale or lease to a large hotel firm, which would then market and manage them. Establishing such a system of marketing and management will require some government resources, funds in addition to those needed for promotion of tourism.

Government funds, however, are not readily available, to support tourism or other new activity in Puerto Rico. Without funds, the Puerto Rican government cannot build on tourism opportunities or take other actions—a general infrastructure investment program, in particular—that generate economic expansion. A recognition of this need for funds is apparent in PROMESA, and the Congressional Task Force on Economic Growth in Puerto Rico is addressing the general point. The tourism issue does not explicitly appear in

PROMESA or in the PROMESA charge to the Task Force. Yet, the opportunity for tourism expansion, which can make a significant contribution to Puerto Rico's economic expansion, needs to be addressed. It needs to be explicitly addressed.

In finding ways for Puerto Rico to raise the availability of funds, the Task Force should recommend and the PROMESA Oversight Board should assure that a significant share of funds are set aside for tourism support. In a sense, government support of tourism promotion is an element of the economy's infrastructure, a foundation for private sector activity, and it is justified by the same principles as developing the funding for physical and social infrastructure. Also, as the PROMESA-created Revitalization Coordinator will oversee investments, this coordinator would have a major role in the use of funds for tourism, for assuring that Puerto Rico takes full advantage of its marvelous natural resources.

There are a variety of ways that funds can be obtained for the initiation of economic expansion in Puerto Rico—through securing guarantees for new borrowing, raising the effectiveness of tax collections, obtaining equitable provision for Puerto Rico in federal programs, or other means. Whatever proposals the Task Force makes to assure the availability of new funds, it should emphasize that an appropriate portion is to be directed to support the tourist industry.

Thus, putting Puerto Rican tourism on a path to expansion will involve action by both the Puerto Rican and federal governments.

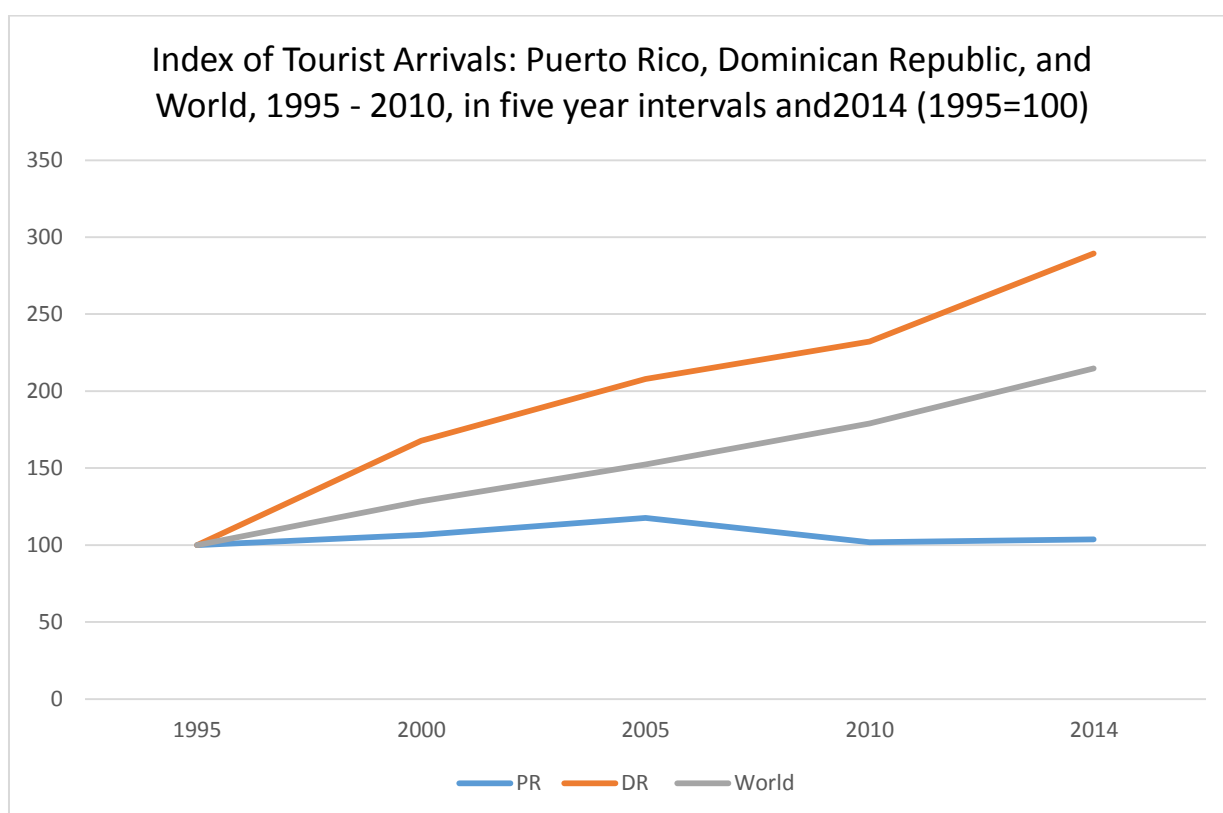
Historical Context

The analysis that has been presented here and the action proposals that have been offered will be persuasive only if the up-to-now weak performance of the Puerto Rican tourism industry is understood, which requires information on the background context of the current situation.

In the last twenty years, international tourism has grown rapidly, in spite of the problems in many parts of the world economy. Measured in terms of tourist arrivals, world tourism grew by 115% between 1995 and 2014, an annual average growth rate of 4.1%. In Puerto Rico's

neighbor, the Dominican Republic, tourist arrivals increased by 189% in this period, an average rate of 5.75% per year. (See the graph below.)

In Puerto Rico, tourist arrivals in 2014 were virtually no higher than in 1995, having risen by less than 4%. There were some better years for Puerto Rican tourism in this period. In the peak year of 2006, arrivals were almost 19% above the 1995 level. Nonetheless, even in this pre-recession period, Puerto Rico was doing poorly relative to the Dominican Republic, where arrivals had grown by 123% between 1995 and 2006, and relative to the world, with arrivals growing by 61%.



Source: World Tourism Organization, Yearbook of Tourism Statistics, Compendium of Tourism Statistics and data files as reported by the World Bank, <http://data.worldbank.org/indicator/ST.INT.ARVL>.

The numbers on tourist arrivals translate to economic impacts. Data on “inbound tourism expenditures” for 2008 and 2014 are reported by the World Bank. These data show that for the Dominican Republic the figure rose from \$4.2 billion in 2008 to \$5.6 billion in 2014, while for Puerto Rico the figure fell in these years from \$3.5 billion to \$3.4 billion.

Hawaii provides another and especially relevant comparison with Puerto Rico. Although a third-again as far by plane from the closest U.S. population centers than is Puerto Rico and more expensive (beyond transport costs), Hawaii receives tourist expenditures three times as great as those of Puerto Rico. Perhaps the beaches and other aspects of Hawaii's geography are more attractive than those of Puerto Rico. Yet it is hard to believe that these factors, if real, explain the large difference in economic gains from tourism.² Also, the experience of Hawaii indicates that the cost disadvantage of Puerto Rico compared to its Caribbean competitors is by no means a decisive issue. Hawaii, in addition to the plane fare, is substantially more expensive than Puerto Rico, to say nothing of its cost comparison with other Caribbean sites.

The relatively poor tourism performance of Puerto Rico has its origin in various factors, but the limited government support for the industry is surely a leading limitation.

In recent years, during the severe recession, government spending (inflation adjusted) on tourism dropped by 5.3% between 2010 and 2015, following a 7.3% drop between 2009 and 2010.³ However, the weakness of the Puerto Rican government's support for tourism, measured in terms of spending, pre-dates the recession. A comparison with the Dominican Republic is especially instructive. In 1995, the Puerto Rican and Dominican Republic governments were spending virtually the same amount in support of tourism. By 2005, spending in the Dominican Republic was 20% higher than in Puerto Rico, and by 2010 it was 75% higher. In subsequent years, while (as just noted) Puerto Rican government spending on tourism declined, spending in the Dominican Republic rose by 36% between 2010 and 2015. For the Caribbean area as a whole (including both Puerto Rico and the Dominican Republic), governments' spending to support tourism rose by 19% in this same period.

² Surely one aspect of Hawaii's advantage over Puerto Rico is that it is a state, while Puerto Rico is widely perceived as foreign. Illustrating the point, at the beginning of July, 2011, the Young Republicans held their national convention in Puerto Rico. On the website for the convention, a brightly colored announcement informed potential participants: "Guess What? No U.S. Passport Required." In assuming that their members were ignorant of Puerto Rico's status, that they were likely to view it as a foreign place, the organizers of the conference were simply recognizing the widely held perception—or misperception—about Puerto Rico among people in the states. The impact of this misperception is not trivial.

³ The figures are from the World Travel and Tourism Council, and the 2015 figure is an estimate and is virtually the same as for 2014. The spending data are for "Government Collective Spending," which is spending in support of general tourism activity. This can include national as well as regional and local government spending. For example, it includes tourism promotion, visitor information services, administrative services, and other public services.

The relative lack of Puerto Rican government support for tourism has its origins in a failure to escape from the economic development ideas that guided the island's era of success in the 1950s and 1960s, in particular the idea that industrialization—that is, manufacturing—was the *sine qua non* of economic progress. The extreme emphasis on manufacturing was a common theme in ideas about economic progress throughout the low-income countries of the world in the era following World War II, and in Puerto Rico these ideas were put into practice by “Operation Bootstrap” (*Operación Manos a la Obra*). Operation Bootstrap did attract considerable manufacturing investment by U.S. firms, based on the low Puerto Rican wages, unrestricted access to the U.S. market, and extensive tax incentives by both the U.S. and Puerto Rican governments. This manufacturing investment led to a rapid rise of income from the late 1940s to the early 1970s, and transformed the economy from its rural, agricultural base to an urban, manufacturing foundation.

The Puerto Rican Industrial Development Company (PRIDCO), established as a government corporation in 1942, played a significant role in the buildup of the economy in this early period. PRIDCO today defines its mission as “foster[ing] economic development by attracting investment and the creation of jobs within the manufacturing, life sciences, information technology, aerospace, export services, among others.” Tourism, while not explicitly excluded from areas of support, does not appear on PRIDCO's website in the list of industries of focus. Tourism, from the beginning of Puerto Rico's post-World War II development policies, has simply not been an area of substantial concern, not part of “modern industrialization.” (There is, of course, the government's Tourism Company of Puerto Rico, among several government agencies. But PRIDCO is at the center of industrial development, and tourism, apparently, has not been viewed as an “industry.”)

Puerto Rico, however, has no particular advantage in manufacturing. The conditions that made the 1950s and 1960s so successful are long gone. Other parts of the world have much lower wages and virtually the same access to the U.S. market. Tax incentives alone have done little to induce development based on manufacturing. In any case, tax incentives do not alter a country's or territory's natural economic advantages. Building an economy on the basis of tax incentives is a poor, costly, and ultimately very limited path to progress.

Worse yet, in Puerto Rico, the focus on tax incentive induced manufacturing has diverted attention and resources away from activities where the island does have natural advantages—tourism, in particular.

B. Establishing Reliable Economic Data for Puerto Rico

By:

Arthur MacEwan and J. Tomas Hexner

Puerto Rican official economic data are seriously deficient. The inflation adjusted aggregate data—figures on GNP, GDP, Personal Consumption, etc.— are so poor as to be virtually meaningless. Reliable data on the large informal economy are non-existent. The data problem makes it difficult to gain knowledge of the condition of the economy, undermines the formulation of policy, and creates a degree of uncertainty that inhibits private investment. It is necessary to integrate Puerto Rican data collection and presentation with federal agencies—especially, but not only, the Treasury Department, the Bureau of the Census, the Bureau of Labor Statistics, and the Bureau of Economic Analysis. Data collection and reporting requirements for Puerto Rico should be the same as for the fifty states. This reform of the Puerto Rican economic data systems is a foundation for the implementation and effectiveness of PROMESA.

In the congressional discussion prior to the passage of PROMESA, the availability and quality of the Puerto Rican government’s financial data was a recurring issue of concern. Only in February 2016, almost two years after the end of Fiscal Year 2014, did the Puerto Rican government release its comprehensive annual financial report (CAFR) for FY2014—and this release was a “draft” and unaudited. Most states have their CAFR’s prepared within five to twelve months after the end of a fiscal year.

Ultimately, of course, PROMESA was enacted in spite of the limitations of the available data. This experience with Puerto Rico’s financial data, however, was only a particular example of a much broader problem with Puerto Rico’s economic data, which are seriously deficient as a foundation for understanding the territory’s situation and for formulating appropriate policy—including policies for unraveling the debt crisis. Also, the unreliable data, by obscuring information about the economy, inhibit private investment.

Measuring Performance of the Puerto Rican Economy

A standard measure of the performance of a country's or territory's economy is the change in aggregate output from year to year adjusted for inflation—either real Gross National Product (GNP) or real Gross Domestic Product (GDP). For Puerto Rico, the appropriate measure is real GNP.⁴

For determining Puerto Rico's real GNP and its components, 1954 prices are ostensibly⁵ used. That is, all real economic aggregates are presented in 1954 prices. This procedure makes the figures virtually meaningless. Over a sixty year period, goods and services change dramatically, the “market basket” of goods that is consumed becomes very different, completely new products are introduced, and many old products are no longer produced. Thus the “real” (i.e., inflation adjusted) figures for today based on 1954 prices are not real at all.

An example of the problematic consequences of using 1954 prices to determine “real” aggregate figures appears in the data for 2014 (the most recent available). In that year, according to official data, real personal consumption expenditures were one-and-a-half times as large as real GNP, and the real excess of imports over exports was virtually equal to real GNP. In current prices, however, personal consumption was 90% of GNP, and the excess of imports over exports was 20% of GNP. While the strange “real” figures may represent an accurate mathematical application of 1954 prices to 2014 conditions, they clearly provide nothing useful about the actual condition of economic relationships in the 2014 economy.⁶

⁴ GDP growth, not GNP growth, is the standard by which a country's or a region's economic expansion is usually gauged. However, in Puerto Rico since the 1970s, GDP has grown more rapidly than GNP because GDP, unlike GNP, includes the profits of U.S. based firms (and other off-island based firms). Section 936 was a major factor accounting for this more rapid growth of GDP, and by 2000 and in subsequent years GDP has been roughly fifty percent higher than GNP. The growth of GNP, however, is a much better measure of the improvement of the Puerto Rican economy—of the activity and the condition of the Puerto Rican people and of firms based in Puerto Rico— than is the growth of GDP. This is especially the case because much of the earnings of the firms based outside of Puerto Rico has been a result of the ownership of their patents being located in Puerto Rico and of transfer pricing, both designed to locate profits, but not real activity, in Puerto Rico.

⁵ “Ostensibly” because it is alleged by people who have worked with the data that, in fact, other methods are used to determine real aggregates. Even if correct, this is hardly reassuring, as it suggests that no one outside of the Junta de Planificación knows how the computations are actually accomplished which, in itself, makes the data virtually useless.

⁶ Data are from *Informe Económico al Gobernador Puerto Rico, 2015*, Apéndice Estadístico, Tabla 2 and Tabla 3,

A related problem was revealed by the very large revision of the Puerto Rican Consumer Price Index (CPI) in 2010. The new CPI presented a radically reduced and more plausible rate of inflation, as compared to the old CPI. Although the new CPI represented a positive step, the sharp change of these figures, which underlay judgments about what had been happening to the island's economy, increase general concern about the official data. Furthermore, although the CPI figures for 2010 forward were revised, it appears that none of the figures for the preceding several years have been altered.

The Informal Sector

An additional, but somewhat separate issue concerning data problems in Puerto Rico is the lack of systematic examination of the so-called "informal" sector (or, alternatively, the "underground" economy). It is widely assumed that at least 25% of economic activity in Puerto Rico is "off the books" and is not measured by official data. The existence of this large informal sector has the practical impact of substantially reducing tax collections (and, of course, one of the reasons for the existence of this activity is businesses' and individuals' efforts to avoid taxes).

The collection of data on the informal sector would be a first step in raising taxes from this activity. But also of importance, data on this activity is needed to gain an accurate understanding of the status and change of the economy. For example, as the economy has declined in recent years, it is likely that many people have moved into the informal sector. Insofar as this is the case, official data overstate the decline of total output, provide insufficient information on the composition of output, and understate the labor force participation rate. Without reliable data on this substantial part of the Puerto Rican economy, it is difficult to obtain a clear picture of what is happening and to formulate effective policy.

Implications

The issue, however, is not simply that there is little reason for confidence in the picture of the Puerto Rican economy that can be obtained from the official data—though of course this hampers efforts to develop accurate analyses. In addition, as emphasized here, the poor quality of official data (to say nothing of the delays in their availability) undermines the government’s ability to formulate effective economic policy, the ability of rating agencies to know what is going on in Puerto Rico, and the confidence that private investors (internal or external) have in Puerto Rican conditions.

The President of the Federal Reserve Bank of New York, William C. Dudley, speaking in Puerto Rico in 2010, both commented on the importance of good economic data and noted the existence of Puerto Rico’s shortcomings:

“The private and public sectors both need accurate, timely and comprehensive economic statistics to perform effectively. It is impossible to make good decisions without a solid factual basis for those decisions. For example, the government needs good economic information to develop effective fiscal, economic development and regulatory policy. Likewise, to make the best production, investment and prices decisions, businesses need accurate and timely information on things such as wages, income and prices. Poor quality information increase uncertainty and uncertainty inhibits well-considered risk-taking and investment decisions.”

“Although Puerto Rico’s statistical system was once a model for other countries, now there are major opportunities for improvement in comparison with the mainland and other countries.”⁷

What Can Be Done?

Ultimately, the reasons for the poor economic data in Puerto Rico lie in the lack of priority that Puerto Rican governments have given to providing widely available accurate economic

⁷ William C. Dudley, “The Challenges Ahead,” Remarks as the Center for the New Economy 2010 Conference, San Juan, Puerto Rico, February 10, 2010, <http://www.newyorkfed.org/newsevents/speeches/2010/dud100219.html>

information. For example, the agencies responsible for gathering price data, the foundation for the CPI, have not been provided with sufficient funding (a problem existing before the current economic crisis). Also, there appears to be a reticence on the part of officials in various government agencies to be transparent about the processes involved in data calculations and presentation, and data in some agencies are not readily available or are available only with long delays. There seems to be little pressure, either from government authorities or the private sector, on agency officials to change their practices.

The only action that is likely to alter this situation will be to thoroughly integrate the collection and presentation of Puerto Rican economic data with federal agencies—especially, but not only, the Treasury Department, the Bureau of the Census, the Bureau of Labor Statistics, and the Bureau of Economic Analysis. At the least, data collection and reporting requirements for Puerto Rico should be the same as for the fifty states. It may be necessary, further, for federal agencies to directly oversee the data processes in Puerto Rico until they have been put on a sound footing, both in terms of collection and presentation. Moreover, the availability and timeliness of availability are essential, as is transparency of the processes behind the data.

Reform of the economic data systems in Puerto Rico is necessary for the Oversight Board and the Revitalization Coordinator to understand the situation; to make judgments about appropriate fiscal, financial, and investment policies; and to evaluate the impacts of their decisions. There will be no way to appraise the impact of PROMESA without better data.

Accordingly, data reform should be given high and immediate priority.