

ECONOMY

Puerto Rico's paradigm shift commences in earnest



Think Strategically: 'The Dogs May Bark, but the Caravan Goes on'

BY FRANCISCO RODRÍGUEZ-CASTRO
frc@birlingcapital.org

Trump-cation: 'The dogs may bark, but the caravan goes on!'

Former Bank of England Governor Montagu Norman used to quote this old Arabian proverb "The dogs may bark, but the caravan goes on." With the U.S. president currently on a 17-day "working vacation" and his approval ratings at a historic low of 33%, this period may be used to rethink all strategies and allow new Chief of Staff John Kelly to create a robust structure for the White House. With the president often easily distracted, who has enabled any aide to pop into the Oval Office to give him clippings he might love or hate, and/or to suggest new tweets, this structure needs changes. For any president to be successful, they need a stable structure with well-thought-out reporting lines and an accountable staff. One of the first instructions Kelly gave everyone at the White House was that no one is to see the president without his approval. The former four-star general will implement much-needed discipline in a White House that is composed of people from the campaign trail who

are both outsiders and Washington insiders; all U.S. Americans need their president to succeed, and this cannot be the exception.

U.S. job growth: Where are jobs being created?

The U.S. Bureau of Labor Statistics reported nonfarm payroll employment increased by 209,000 in July, with unemployment at 4.3%, virtually unchanged. Job growth has averaged 184,000 per month thus far this year, in line with the average monthly gain in 2016.

In July, the sectors that created job were:

- Food services & bars +53,000
 - Professional & business services +49,000
 - Healthcare employment +39,000; with job gains in ambulatory care services +30,000 & hospitals +7,000
- Most major industries, such as

construction, wholesale, retail, transportation, financial services and government, showed little change, with the hourly employee earnings increasing by 9 cents to \$26.36 in July.

P.R. Update: The paradigm shift

Since 2006, Puerto Rico has decreased its labor force by more than 283,000 and saw its total labor-force participation decrease from 1,277,560 in 2006 to less than 994,000.

While the private sector was suffering this economic impact, we witnessed a different scenario in public-sector salaries, which from 2000 to 2009 increased a whopping 63%, or 6% or more every year; we saw the government payroll increase from \$3.38 billion to \$5.50 billion, a \$2.12 billion increase. In addition, we experienced most government labor unions negotiating sizable increases,

and every time a threat occurred, they either protested or went on strike.

In short, in Puerto Rico we live as if there were two separate islands, the Island of the Private Sector and the Island of the Public Sector. While the private sector suffered job losses, closures and unemployment of 13%, the island of the public sector saw increased bonuses, salaries and benefits, plus many perks. On Aug. 4 last week, the FOMB made strides toward a Paradigm Shift and informed that the right-sizing in the certified Fiscal Plan had targeted savings of \$880 million in fiscal year 2018 while the government made progress by submitting \$662 million in right-sizing measures. The FOMB was faced with a shortfall of \$218 million, which led to the determination to implement a reduced furlough program included in the commonwealth's certified fiscal plan. The government must plan for and execute a furlough program, commencing Sept. 1, 2017. The furlough is expected to be two days per month for all executive branch employees, with the exclusion of front-line police, for fiscal year 2018.

It took exactly 11 years for the crisis, which the private sector has been facing since 2006, to reach the

government and its employees, while it has been a sad reality many families have faced during this period.

Gov. Ricardo Rosselló publicly expressed his opposition to the furloughs and insisted his government would not implement them, stating the government is in compliance and, if the FOMB sees it differently, to take this matter to court.

Final word: Attila the Hun

The mentioning of the FOMB in some circles in Puerto Rico gets the sort of reaction that Attila the Hun must have provoked in Rome. We think they are not using all their powers to their fullest extent. In our view, the powers granted to the FOMB in Title V are absolute and can drive important economic development projects at a rapid pace. We would recommend the creation of an advisory board to support the FOMB in implementing public-private partnerships at an aggressive pace.

Francisco Rodríguez-Castro, president & CEO of Birling Capital, has over 25 years of experience working with government, multinational and public companies.

IPO Calendar (Trade Date Estimate: Week of Aug. 7, 2017)

Company	Ticker	Deal Size
Cuntura Energy	CTRA	\$150 million
Ranger Energy Services	RNGR	\$85 million
Zealand Pharma	ZEAL	\$75 million