

# ECONOMY

Tax reform creates wealth; infrastructure on the agenda



## Think Strategically: The Lessons of History

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### Buffett's annual letter: Tax reform, acquisitions

This week, the much-expected and -analyzed letter to Warren Buffett's Berkshire Hathaway stockholders was published. Buffett, considered the most successful investor in the U.S., with a unique folksy manner and down-to-earth persona, is not only impactful but also uncommon. Buffett opens the letter stating that Berkshire Hathaway's gain in net worth for 2017 was \$65.3 billion, which increased the per share value of both Class A and B stock by 23%. Over 53 years, per share book value has grown from \$19 to \$211,750, or at a rate of 19.1%. However, he stated that \$29 billion, or 44.4%, of the \$65.3 billion increase, was given to Berkshire by the new federal tax reform, so only \$36 billion came from Berkshire's operations. On acquisitions, Buffett states his four building blocks that add value to his business: 1. Sizable stand-alone acquisitions; 2. Bolt-on acquisitions that fit the businesses owned; 3. Internal sales growth and margin improvement; and 4. Investment earnings from the company's vast portfolio of stocks and bonds. Buffett states that in the search for new stand-alone businesses with a sensible purchase price, this last requirement proved a barrier to virtually all deals Berkshire reviewed in 2017, as prices hit an all-time high. Thus, the company was not able to make a significant deal and is on the lookout for one in 2018.

Regarding the market, the view of both Warren Buffett and his partner, Charlie Munger, is that they own interests in a business, not as ticker symbols that are bought or sold, but

based on price targets or analyst recommendations. Their strategy is simple: They believe if the businesses in which they invest are successful, their returns would be successful; in dividends alone, Berkshire received \$3.7 billion in 2017.

As he has often expressed in the past, in the U.S., equity investors have the wind at their back. If you want to read the letter, you can access it here: <http://www.berkshirehathaway.com/letters/2017ltr.pdf>.

### Puerto Rico Update: Infrastructure funding needed

We all agree that infrastructure is the backbone of any economy. All evidence and research have shown that a robust and balanced investment in infrastructure will augment

long-term economic growth, productivity levels and surrounding land values, while sparking increased economic development in areas such as retail, hospitality, healthcare facilities and manufacturing. Improving our infrastructure will not only create economic opportunity for thousands of workers but also improves the standard of living.

As time has passed, infrastructure improvement is long overdue, and the U.S. must invest more than \$4.5 trillion to improve the nation's infrastructure conditions. Taking a closer look at the conditions of Puerto Rico's infrastructure, the evidence is clear. The Puerto Rico Highways & Transportation Authority (HTA) for years has mostly been unable to implement a capital expenditure plan due to lack of liquidity, and we must improve every major

road and most bridges; just fixing the potholes in the bill must be in the billions. The Puerto Rico Electric Power Authority's (Prepa) electric grid, which before the hurricanes was fragile, was devastated and needs billions of dollars to repair or replace its obsolete electrical grid. The Puerto Rico Aqueduct & Sewer Authority (Prasa), which was able to make a quick turnaround after the hurricanes, is also in need of significant investment in its overall water infrastructure.

The billions of dollars Congress has earmarked for Puerto Rico are intended to improve infrastructure and implement a capital expenditure program across the island.

Puerto Rico has seen its investment in public and private construction come down from a high of 17.1 percent of gross national product (GNP) to a

low of 4.6 percent GNP for 2015, or 73 percent less (see graph).

### The common meaning of poor infrastructure

- Bad roads mean traffic jams and increased travel times.
- Fragile and obsolete electrical grids and inadequate water distribution make our utilities unreliable.
- Fewer jobs and opportunities.
- Lower income from restructured economy in technology/export sectors and lower pay.
- We pay for all increased costs, with salaried workers and low-income families facing the worst of it.

Our need to upgrade is felt in every community and is known by every mayor. We all know what we need to do. All we need is the money and an effective implementation plan.

### Final Word: The lessons of history 1948

The lessons of history take us back to 1948, when very little looked as we now see it. The Puerto Rico we all know was mostly sugarcane fields, coffee plantations or other agricultural endeavors that were worked by the *jibaros*. But along came a new generation of political figures, who wanted to implement change. Among them was Luis A. Muñoz Marín, who, in November 1948, became the first Puerto Rican elected as governor of Puerto Rico; it was an exciting time. He talked of all that needed to be done, so much mattered, he engineered profound economic, political and social reforms; accomplishments that were internationally lauded by many leaders. His was the inspiring summons to serve. His words changed lives and the history of an impoverished Puerto Rico. Much of the actions he made apply as much today as they did 70 years ago.

We are at the dawn of a new era, with new leaders who plan to take us further in the evolution of our economic development, social transformation and collective growth.

President John F. Kennedy probably said it best: "Those things that we talk about, which seem unreal, where so many people doubt that they can be done—the fact of the matter is, it has been true all through our history—they will be done."

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