ECONOMY

When it comes to living within a tight budget, top leaders have long way to go

Still from Disney's 2004 animated film, Home on the Range

Think Strategically: Living High on the Hog

Even With Severe Budgets, Greece, Portugal Economies Turning Around; FOMB-Certified Fiscal Plan Needed to Transform Imprudent Fiscal Practices

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Austerity is not the only answer looking into Portugal

Many people in Puerto Rico are talking about the sacrifices the island must make to confront the fiscal challenges just ahead. We have listened to all the political leaders' speeches about the austere measures our government has been taking to make ends meet.

However, those talking about austerity are not by any measure practicing it. We have mostly seen austerity through the unwillingness to pay government debt or most suppliers. So, I wonder where this so-called austerity begins.... At Fortaleza, with its $245,000 SUV? At the P.R. Electric Power Authority (Prepa) with its $750,000 director? Alternatively, is this austerity at Education with its $250,000 executive? Alternatively, has the austerity begun at University of Puerto Rico with its new $240,000 president? Alternatively, it might have taken hold at San Juan City Hall with the mayor's hundreds of trips.

Truth be told, I am first to admit I do not have a problem paying any salary for our civil servants, as long as, in return, we receive a government that is focused on excellence, essential services of quality and the real needs of the people are met.

There cannot be a better example of bad management than the recent developments at Prepa. In our view, Prepa is amid its most critical juncture, where all audiences—from consumers to national and global media, to Congress—are breathing down its throat.

Why is Puerto Rico facing a crisis that will continue to hound us for at least another decade? It should not surprise anyone that we need the Fiscal Plan certified by the Financial Oversight & Management Board (FOMB) to guide our public transformation, which will erase at least 20 years of imprudent fiscal practices.

As we continue to resist the changes that have to come through the FOMB, I decided to compare two economies that have been the poster children of problems for the European Union: Greece and Portugal. Both nations had to request massive bailouts to revive their economies, change their bad spending habits, streamline their governments and change their countries. As we now know, austerity may not be the only answer. As we review Portugal, we notice that like Greece, it underwent large austerity measures that included tax increases, salary reductions to most government employees and many other measures. However, the political effect has been entirely different from Greece's or even Puerto Rico's for that matter.

During this period, Greece has seen many elections that have included a notable rise of leftist governments that are anti-austerity, which are also involved in the ruling party Syriza. Portugal, in stark contrast, has enjoyed significant continuity, even though it elected a new government in 2015 that is center-left, which implemented an extraordinary economic recovery as it also moved to the left.

Portugal is headed by Prime Minister Antonio Costa, the leader of the center-left Socialist Party, which came to power in late 2015.

Prime Minister Costa was able to form an odd alliance with small parties that are now called *"geringonça,"* which in Portuguese means an unstable thing unlikely to work.

In our analysis, the principal role that supported the stability of Portugal's electoral process was the strong recovery of its economy. While no one can challenge that the austerity measures implemented with the Euro bailout affected the lives of most everyone in Portugal.

We continue to review Portugal's economy, and one question comes to the fore. Why didn't Portugal experience more pain from the austerity measures and the European Union bailout as have Spain and Greece? After 1999, when Portugal changed its currency to the Euro, it did not receive the large economic inflows that both the Spanish and Greece economies received before the crisis. We also note that the high growth rate that Portugal had during the 1990s came to a halt with the implementation of the Euro. So, it is safe to say that Portugal's crisis started well before 2011.

We decided to compare the economic indicators of Greece and Portugal, and the differences are quite telling. We noted substantial increases in annual gross domestic product (GDP) and per capita income, with Portugal still having a high debt to GDP of 125.7 percent, which is 53 percent less than Greece's.

Another item that is quite evident is the fact that Portugal is on target to see a surplus by 2020, while Greece achieved the unthinkable—a budget surplus of $722.2 million. For Portugal, most of these actions have translated into an upgrade of its credit rating to "BBB," with incremental growth in exports, manufacturing and tourism becoming drivers of new economic growth. We should also add that Portugal performed several public-private partnership transactions that allowed it to receive large amounts of capital while passing the risk on to the private sector. Among the deals, we find more than 21 road transactions, the TAP Air Portugal agreement with Azul and JetBlue founder David Neeleman, among other relevant operations.

Country	Portugal	Greece	Change
Annual GDP	217,571	200,288	17,283
GDP Per Capita	21,142	18,651	2,491
Debt (% GDP)	125.70%	178.60%	-53%
Deficit (% GDP)	-3.00%	0.80%	-4%
Education Expenditure (% Budget)	9.89%	8.70%	1%
Govt Health Expenditure (% Budget)	11.91%	9.98%	2%
Unemployment Rate	7.30%	20.20%	-13%
Value-Added Tax (VAT)	23.00%	24.00%	-1%
Top Tax Rate	61.00%	55.00%	6%
Exports % GDP	28.54%	16.23%	12%
Imports % GDP	35.72%	28.31%	7%
Population	10,291,027	10,738,868	-447,841
Number of Homicides	100	93	7
Credit Rating	BBB-	B+	

Portugal, Greece economic data

I chose to discuss these economies because they compare well with Puerto Rico's current economic uncertainty. While we continue to play politics and make court challenges to the FOMB's existence and powers, more mature countries have taken the route that national pride means changing bad habits, creating new wealth, attracting investors, reducing the size of government and restoring economic growth to new levels.

Puerto Rico has an even better chance than these other economies because the inflow of federal funding for hurricane disaster recovery increases our ability to change our structures and, with it, we have an opportunity to improve our economy without adding to our already massive debt load.

We must all realize that the road Puerto Rico must take is that of restoring growth and economic development, while not forgetting those bondholders who allowed Puerto Rico to utilize funding to run the government. In the end, we will soon face the stark reality of our actions.

Buddha said, "Three things cannot be long hidden: the Sun, the Moon and the Truth.

For the benefit of the next generation, we must set aside politics to revamp our economy and transform our island.

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