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Addressing & Solving the Labor Shortages in Puerto Rico

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by Francisco Rodríguez-Castro
frc@birlingcapital.com

Labor Shortages are the #1 Problem in Puerto Rico

Last week we began to discuss the Ten Potholes in the P.R. Economy; We now focus on an issue that has plagued us for the past three years, Puerto Rico has been experiencing one of the sharpest labor shortages in its history. To examine this phenomenon further and the adverse effects of labor shortages in Puerto Rico, specifically focusing on why businesses cannot fill thousands of available jobs, even as wages continue to increase, reduced Productivity, and increased business costs. The analysis explores the underlying causes of the labor shortages and provides potential solutions to mitigate their impact.

For the past few months, Puerto Rico has reported a 6% unemployment rate with a 45.1% participation rate; while immensely encouraging to see such a low unemployment rate, the reality is that the unemployment rate is based on those who are unemployed and actively seeking jobs. If we were to apply to those that gave up looking for jobs or if the P.R. Labor Department had better systems to monitor job movements, we could have greater clarity about the reality of the Puerto Rico labor market.

What are the Causes of Labor Shortages?

- 1. Economic Challenges:** Puerto Rico has experienced economic difficulties for many years, including a high unemployment rate and a stagnant economy. A stagnant economy, high unemployment rates, and a massive debt burden have exacerbated the island's long-standing fiscal crisis. The devastating impact of natural disasters, such as Hurricane Maria in 2017, further deepened the economic woes. Limited access to capital markets, a shrinking population, and a brain drain have also hindered the island's growth prospects and significant loss of jobs in recent years. According to the U.S. Bureau of Labor Statistics, between 2017 and 2021, the island saw a decline in employment by approximately 150,000 jobs. This decline is due to a combination of factors, including the aftermath of Hurricane Maria, the ongoing debt crisis, and the COVID-19 pandemic. These economic challenges have resulted in a high unemployment rate of around 10% as of 2021. The job losses have had a severe impact on the livelihoods of Puerto Ricans and have contributed to the overall economic struggles the island faces.

Addressing these challenges requires comprehensive fiscal and economic reforms, attracting investment, diversifying industries, and improving infrastructure to revitalize Puerto Rico's economy and create sustainable growth.

- 2. Smaller Population and Migration:** Puerto Rico has declined significantly over the past few decades. Many people, particularly young professionals, have migrated to the mainland United States for better job prospects, higher wages, and improved living conditions. Puerto Rico has experienced a decline in the working-age Population due to emigration to the mainland United States with a total loss of Population of 525,126 or 13.77% of the island's Population, mixed with a low birth rate. This outmigration has resulted in a smaller labor pool, exacerbating the labor shortages on the island.
- 3. An Older Population:** Puerto Rico has an aging population, with a declining birth rate and a longer life expectancy, as we highlighted above. The current birth rate for Puerto Rico in 2023 is 6.554 births per 1,000 people, a 56% decline since 1995.

In contrast, the Death rate has risen significantly during 2023; the death rate is 21.721% which is 63.02% higher than the 8.024% recorded in 1995. On the positive side, the Puerto Rican life expectancy rate has risen to 80.69 years for 2023, up from 74.26 in 1995, a 7.96% increase and higher than that of the U.S., which stood at 76.40 years or 5.31% less than Puerto Rico. So Puerto Ricans live an average of 4.29 years more than the citizens of the 50 states. One of the main reasons behind this fact has been the implementation of the Puerto Rico Healthcare Plan, or Vital, as it is now known.

In the U.S. access to healthcare system is contingent on having health insurance, and 9.2% or 30 million Americans do not have any health insurance. Puerto Ricans without a health plan have decreased just shy of 8% or 248,000. Puerto Rico has, along with Hawaii, the second-highest percentage of insured Population, close to 92%.

Moreover, Plan Vital has 1.5 million Puerto Ricans with access to healthcare or 47% of the Puerto Rico population. These demographic shifts and access to healthcare in Puerto Rico have led to a significant imbalance between the supply and demand for labor, resulting in a shortage of qualified workers across various industries. The combination of low birth rates and longer life spans has led to a shrinking working-age population. With fewer young people entering the labor force to replace retirees, the labor supply is further constrained.

- 4. Impact on Wage Increases, Reduced Productivity, and Increased Costs:** The labor shortages have adversely affected the economy and businesses since, to attract and retain workers, most companies have been forced to offer higher wages, leading to increased labor costs. Moreover, businesses have experienced reduced Productivity due to staffing gaps and a mismatch between available skills and job requirements.
- 5. The most significant impact is on Small and Medium-Sized Enterprises:** SMEs comprise Puerto Rico's economy. However, they are particularly vulnerable to labor shortages due to their limited resources and inability to compete with larger corporations in attracting talent. The burden of increased wages and decreased Productivity disproportionately affects these enterprises.

- 6. The Most Affected Industries by Labor Shortages:** The impact of labor shortages extends to various sectors, including hospitality, restaurants, retail, healthcare, construction, agriculture, and manufacturing, among most client-facing jobs. These industries heavily rely on human capital and face substantial challenges in meeting the demand for labor.
- 7. Considerable Economic Implications:** The labor shortages have broader economic implications, such as reduced economic output, slower economic growth, and a decline in tax revenues. Additionally, businesses may face difficulties expanding operations, attracting investments, and remaining competitive in the global market.

How does Puerto Rico Mitigate Labor Shortages?

- 1. Revamping and Relaunching Vocational Schools Focused on Entrepreneurship:** workforce development initiatives are crucial to addressing the labor shortages in Puerto Rico. Doing so entails improving education and strengthening vocational training programs; the P.R. Department of Education claims to have 116 vocational schools around the island, with 27,000 students. The curriculum includes 49 offerings from accounting, administration, nursing, culinary arts, medical emergencies, barbering, architectural drawing, and automotive technology. To better position these schools, we must foster collaboration between educational institutions and industries, promoting STEM education and supporting entrepreneurship and business incubation. The Department can create adoption programs to encourage businesses to collaborate with these schools and develop curriculums to secure employment or start a small business.
- 2. Labor Market Reforms:** the current Department of Labor market policies, systems, and regulations are obsolete to deal with the realities of the market. For example, the Department does not have a report that shows how many open jobs are available in Puerto Rico, or it does not report how many unemployed Puerto Ricans are actively seeking employment. A key metric of the U.S. Labor Department produces monthly is called U.S. Job Openings: Total Nonfarm, which currently shows 10.10 million open jobs, and another report, the U.S. Unemployed Persons: Job Seeker, which presently shows 5.197 million people seeking employment, a 48.54% deficit. These tools are essential for facilitating efficient labor mobility, streamlining immigration policies to attract foreign talent, and implementing robust labor market information systems.
- 3. New Incentives to Attract Talent:** incentives to attract talent are a helpful tool to alleviate labor shortages. These incentives can include tax incentives per job created, tax credits, exemptions, reduced tax rates, not taking away the benefit of the government's Health Insurance to those that become employed, offering academic programs in alliance with the University of Puerto Rico, and implementing a Flexitime working model, which can alleviate the financial burden on businesses and encourage expansion among other incentives that result in enhancing the overall quality of life of the workforce in Puerto Rico.

- 4. Collaboration between Educational Institutions and Industries:** Creating strong partnerships between educational institutions and industries can facilitate the development of relevant curricula and ensure that students acquire the skills demanded by the job market. This collaboration can also offer internships, apprenticeships, and on-the-job training opportunities.
- 5. Promoting STEM Education:** Focusing on science, technology, engineering, and mathematics (STEM) education can equip individuals with high-demand skills needed in various industries. Promoting STEM education from early schooling to higher education levels can nurture a pool of talented individuals to meet the evolving workforce requirements.
- 6. Entrepreneurship and Business Incubation from High School to Vocational Schools to Universities:** entrepreneurship and supporting business incubation programs stimulate job creation and economic growth. Puerto Rico can attract and retain entrepreneurial talent by fostering a favorable environment for startups and small businesses.
- 7. Enhancing Job Matching Platforms:** Implementing effective job matching platforms, both online and offline, can connect job seekers with suitable employment opportunities. These platforms can use algorithms and data analytics to match the skills, qualifications, and preferences of job seekers with the requirements of employers.
- 8. Continuous Adjustment and Assessments in the labor market:** Regularly assessing the labor market dynamics, impacts of implemented measures, and stakeholder feedback is vital. Doing so enables policymakers and relevant authorities to adjust strategies, policies, and initiatives as necessary, ensuring their effectiveness and relevance.

The Final Word: Addressing the labor shortages

Addressing the labor shortages in Puerto Rico is a pressing issue and an opportunity for transformative change. By implementing comprehensive strategies, we can foster a vibrant and sustainable workforce that propels the island's economic growth and social development.

Additionally, focusing on entrepreneurship and innovation will be instrumental in revitalizing Puerto Rico's economy. By equipping Puerto Rican citizens with the knowledge and expertise demanded by industries, we can bridge the existing skills gap and create a talent pool that meets the demands of both local and international businesses.

The Future Outlook for addressing labor shortages in Puerto Rico requires a long-term commitment from various stakeholders. Puerto Rico can foster a resilient and robust labor market by implementing the sustainable solutions we have stated here and continually evaluating and adjusting strategies.

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