

# ECONOMY

From the sublime to the ridiculous—FOMB imposes budget



## Think Strategically: Do Politicians Walk in Circles?

### Gov. Rosselló Attempts to Bridge Gaps to Achieve Consensus With FOMB on Law 80, Gov't Fiscal Plans

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#### Tariff war impacts markets, Trump gamble

As July rolled in with its usual lullaby of a slower pace and summer vacations, the stock market opened with a sharp decline in the triple digits, amid concerns about trade war tensions. The three main market indicators began in negative territory, with the Dow Jones Industrial Average opening at 24,161.53, or a loss of 109.88 from the previous close. The S&P 500 opened at 2,704.95, or a loss of 13.35, and the Nasdaq opened at 7,451.89, or a loss of 58.41 from its last closing. The markets are reacting to the July 6 implementation date for U.S. of tariffs of 25 percent on Chinese imports. In case the duties go into effect as

expected, the Chinese government has pledged to implement similar taxes on the U.S.

President Donald Trump has promised that should China implement retaliatory tariffs, the Trump administration will perform a much broader tariffs action. Should the U.S. and China negotiate their differences? When China was able to join the World Trade Organization in 2001, it was a developing country with per capita gross domestic product (GDP) of \$3,227, and a 4 percent global trade share. After 15 years, the increase has been notable. In 2016, the GDP per capita, adjusted by purchasing power parity, had increased to \$14,400.90, or an increase of 361.49 percent. As the Chinese economy grew in absolute terms in both wealth and GDP, from \$1.325 trillion in 2001 to \$11.199 trillion forecast for 2018, the \$10 trillion growth makes China's questionable market-distorting practices highly critical by most trade partners. In the past, the U.S. government made complaints through the World Trade Organization and other groups with little results. As the broad base of U.S. businesses remain unsatisfied with Chinese practices, with the current political discourse an excessively aggressive policy, the risk increases for an all-out U.S.-China trade war that will harm both sides. China is not a

market economy and is very far from being a free market economy. Even though most U.S. companies treat China as a free market economy, in the ultimate hope it may become a free market economy like the rest of the world, China continues to practice several strategies that are very disruptive:

- Currency manipulation.** The Chinese government manipulates its currency to keep the value of the U.S. dollar vs. the Yen high, with a cost advantage of up to 40 percent.

- State-owned enterprises.** China owns and provides subsidies to enterprises in broad sectors of its economy. This often results in driving competition out of China.

- Technology theft.** China appears to be conducting a commercial espionage campaign against U.S. companies that involve a combination of cyber-surveillance and human infiltration.

- Technology transfer.** As a condition to access the Chinese market, the government requires U.S. companies that build plants in China to create joint ventures with local companies.

- Research & development facilities.** All U.S. manufacturers with plants in China have to establish R&D facilities.

The Trump administration is not wrong to seek changes in U.S.-China economic relations. There is so much more than meets the eye.

#### Online sales tax increases states' revenues

The U.S. Supreme Court decided the case *South Dakota v. Wayfair*, and the 5-4 verdict overruled a 1992 precedent set by *Quill v. North Dakota* that only addressed mail-order businesses. That decision allowed companies without a physical presence to thrive by exempting purchases from the sales tax, so long as the seller did not have a physical operation in the state where the customer resided. Now, every state or territory in the Union will be able to collect sales taxes from retailers that do not have any physical presence in their state (See Top Story, p.4).

#### The Final Word: Do politicians always walk in circles?

Have you ever wondered, when someone gets lost in a forest or desert without any landmarks, why people tend to walk in circles?

Do politicians always walk in circles? For a long time, we have asked these decades-old questions and have come up with some plausible conclusions by using the current Puerto Rico budget process as a basis of our analysis.

It may be true that the Financial Oversight & Management Board (FOMB) creates a body with immense powers for people who are not elected officials, but rather individuals named by the President of the

United States in agreement with the U.S. Congress.

The FOMB had certified a new Fiscal Plan for Puerto Rico on April 19, 2018, and recertified it again on May 30, 2018. The FOMB called the plan a “path forward for overcoming the numerous and entrenched challenges.” These challenges have become even more daunting in the aftermath of hurricanes Maria and Irma.

This new Fiscal Plan will not be implemented because the Legislature did not comply with the enactment of what the FOMB calls “the most important component of the Labor Reform Package—the repeal of Law 80 thus turning Puerto Rico into an at-will employment jurisdiction—as required by the new Fiscal Plan.”

On June 30, the FOMB announced the certification of the government of Puerto Rico's revised budget for fiscal year 2019, as well as the budgets for five covered instrumentalities, including the University of P.R., Government Development Bank and the P.R. Electric Power, Aqueduct & Sewer and Highways & Transportation authorities.

The budget for fiscal 2019 is \$8,757,524 for the general fund and \$20,663,643 for the consolidated budget.

Although the repeal of Law 80 may not have been the basis for approving the Fiscal Plan, what is certain is that our politicians were walking in circles and finished in the same place they started.

What was gained by opposing Law 80? What was the real reason behind this posture?

We should all ask why Puerto Rico and its government became bankrupt. No one needs to look further than our most recent budget process and the enactment of critical legislation. We continue to operate under the impression that leaving things for the last minute was insufficient and not following up on FOMB requirements was not the correct course of action. Puerto Rico's political players lost a valuable opportunity to put the island before their political interests. In that light, I commend Gov. Ricardo Rosselló for attempting to bridge the gaps to arrive toward a consensus, which is a stamp of what a leader should do. If others prefer to walk in circles, that is up to them.

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