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Lack of Economic Freedom and Income Inequality Makes Unaware Politicians Lose Elections

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The tale of Two Poor Puerto Ricos

Like many of our Puerto Ricans who participated and voted in last week's primaries, some more than others were surprised that the PNP chose Resident Commissioner Jennifer Gonzalez over Governor Pedro Pierluisi by a superlative margin. The final tally was 159,572, or 54.57%, for Resident Commissioner Gonzalez and 132,805, or 45.43%, for Governor Pedro Pierluisi, a margin of 26,764 votes.

This election marked the first time in Puerto Rico's history that a sitting Governor lost a primary from any party, and we must remind all our readers of something I have been writing about for quite some time. There are two distinct Puerto Ricos, culturally and economically, regarding needs, services, perception, and even quality of life.

Some differences are linked to words; for example, in the southwest of Puerto Rico, we use the word "Empanadilla" to describe the fried turnovers filled with beef, fish, conch, and much more. In contrast, in the metropolitan area, they are called "Pastelillo"; in the southwest, a "Pastelillo" sold at bakeries are round and made of phyllo. In the southwest, a "Vellon" refers to a dime or ten cents, whereas a "Vellon" in the metropolitan area is a five-cent coin. The people in the metropolitan area refer, in my opinion, to any area other than theirs as "La Isla"; since I was born and raised in Ponce, this idiom, which I find despective and absurd, highlights stark differences in an Island 100 by 35 miles wide.

Going back to the primaries and the historical fact that a sitting Governor lost for the first time in history, his party primary sends a strong and loud message that critical issues affecting all Puerto Ricans were not dealt with to the voter's satisfaction.

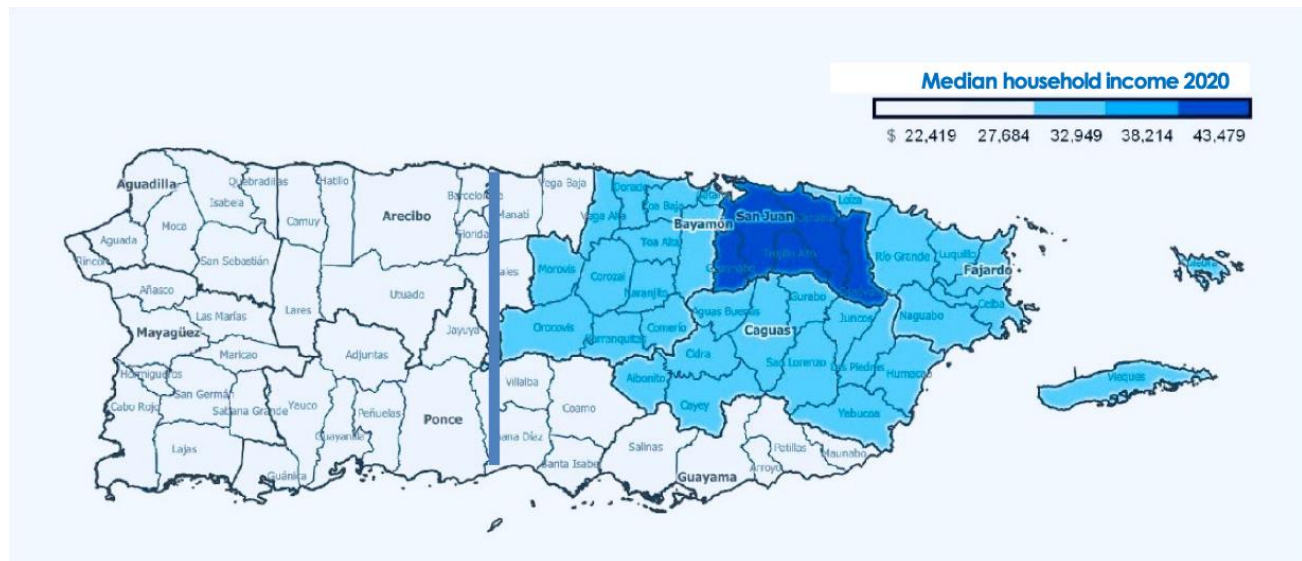
Among the critical issues mentioned are the fragility of the electrical grids, the condition of our roads, the high inflation, the glacial pace of the reconstruction, the lack of economic freedom and the constant defense of LUMA Energy; whether right or wrong, this is what most voters had in their minds while voting. While considering these issues, I am writing to make you aware that we have two different Puerto Ricos. If we take a map of Puerto Rico and draw an imaginary line from Manati down to Juana Diaz, we would realize that the Puerto Rico to the West of the imaginary line is poor, with high unemployment, limited workplaces, and many other challenges. In fact, the median household income in the West is as low as \$22,419, which is 28.14% below the U.S. poverty level of \$31,200.

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This makes the issues voters claim are critical to them in any electoral process. Their needs differ dramatically from those of the rest of Puerto Rico, creating a chasm in service needs and messages from elected officials.

In contrast, in Puerto Rico to the east of the line, the median household income is as high as \$32,949, and in the San Juan-Guaynabo area as high as \$43,479.

Which is still poor, but one is slightly above the poverty line. The San Juan-Guaynabo area is better positioned economically, at least on paper.



As we embark on this journey of understanding, let us peel back the layers of statistics and economic jargon to reveal the human stories at the heart of this pressing issue. It is time to confront the challenges head-on, armed with compassion and an unwavering determination to create a more just and equitable Puerto Rico for all its inhabitants.

This chasm in income inequality casts a long shadow over Puerto Rico's potential, creating a barrier to progress for many residents. As we delve deeper into this pressing issue, we must move beyond mere statistics and economic jargon to uncover the human stories driving these numbers. One key issue that most politicians are unaware of is the lack of economic freedom and its damaging causes to the Puerto Rico Economy.

The growing divide between the affluent and the impoverished has left lasting scars on the collective spirit of the Puerto Rican people. However, this discussion is not meant to evoke despair but as a rallying cry for compassion and collective action. By honoring the resilience of those affected and striving for unity, fairness, and shared prosperity, we can build a better future for Puerto Rico.

Income inequality is a global socioeconomic issue affecting individuals and communities. This analysis compares how the lack of economic freedom creates an outsize income inequality in Puerto Rico and we chose to compare it with that in the 50 states of the United States, highlighting the unique challenges Puerto Rico faces.

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Key Indicators of Lack of Economic Freedom and Income Inequality

- Puerto Rico's Lack of Economic Freedom:** Puerto Rico has been ranked last for the second consecutive year among the 51 U.S. jurisdictions in the Economic Freedom of North America 2023 report. This study, published by the Fraser Institute of Canada, assesses the degree of economic freedom across 93 provincial and state governments in Canada, the United States, and Mexico. The report features subnational and broader indexes encompassing the three countries. In the U.S. subnational index, New Hampshire leads with the highest economic freedom score of 7.96 out of 10. Florida follows closely with a score of 7.80. Tennessee (7.73), Texas (7.64), and South Dakota (7.59) complete the top five.
Conversely, Puerto Rico is at the bottom with a score of 2.85. Among the states, New York has the lowest score of 4.09, 43 percent higher than Puerto Rico's. Other low-scoring states include California (4.27), Vermont (4.27), Oregon (4.56), and Hawaii (4.58). These scores are derived from 2021 data, the most recent year for which complete information is available. The lack of economic freedom outweighs the other issues.
- Gini Coefficient:** This measure quantifies income distribution on a scale from 0 (perfect equality) to 1 (maximum inequality). Puerto Rico's Gini coefficient is approximately 0.545, significantly higher than the U.S. average of 0.411. This 24.58% higher rate underscores the stark income inequality on the Island.
- Poverty Rates:** Puerto Rico's poverty rate is alarmingly high at around 43%, compared to the U.S. average of approximately 11%, marking a 290.9% increase. This statistic highlights the severe economic disparity within Puerto Rico.
- Median Household Income:** The median household income in Puerto Rico is approximately \$22,419, significantly lower than the U.S. average of around \$65,000, a difference of 189.9%. This vast income gap illustrates the financial struggles many Puerto Ricans face.
- K-12 Education and Skill Disparities:** Puerto Rico's education system faces significant challenges, including inadequate infrastructure, outdated materials, and limited resources. These issues result in lower academic performance than in the mainland U.S., as evidenced by lower scores on the National Assessment of Educational Progress (NAEP).
- Higher Education and Graduation Rates:** While Puerto Rico boasts a higher graduation rate (52.2%) than the U.S. average (46.4%), only 27.4% of the population holds a bachelor's degree, compared to 53.7% in the U.S. This 51.05% lower rate in higher education attainment contributes to broader income inequality.
- Impact of Natural Disasters:** Puerto Rico's vulnerability to natural disasters, such as Hurricane Maria in 2017, exacerbates income inequality by disproportionately affecting vulnerable communities, damaging infrastructure, and disrupting economic activities.
- Brain Drain:** Since 2000, Puerto Rico has lost 525,126 residents, a 13.77% decrease, due to a phenomenon known as "brain drain." Talented individuals leave for better opportunities elsewhere, resulting in a significant loss of human capital and further hindering efforts to address income inequality.
- Economic Diversification:** Efforts to diversify Puerto Rico's economy beyond its historical reliance on a few industries are crucial. Encouraging the growth of small and medium-sized enterprises, promoting innovation and entrepreneurship, and attracting investment in sectors such as renewable energy, technology, and tourism can create more job opportunities and economic growth.

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10. **Labor Market Reforms:** Despite a low unemployment rate of 6%, Puerto Rico's labor force participation rate is only 45.1%. Reforming labor market policies to encourage job-seeking and reduce dependence on federal funds and informal economies can help address income disparities.
11. **Social Safety Nets:** Implementing robust social safety nets, including healthcare, social assistance programs, and affordable housing, is essential to mitigate the impact of income inequality. Currently, over 44% of Puerto Ricans live in poverty, with more than half of the Island's children affected.

The Final Word: Tacking Economic Freedom is the Key to Distribute Wealth Instead of Poverty

A Puerto Rico with strong economic freedom would likely be wealthier due to several key factors that contribute to economic growth and prosperity. Here's how economic freedom can lead to increased wealth:

1. **Business Environment:** Enhanced economic freedom typically means fewer regulatory hurdles and lower taxes, making it easier to start and operate businesses. This encourages entrepreneurship, leading to job creation and innovation, which boost economic activity and wealth.
2. **Investment Attraction:** A freer economy is more attractive to both domestic and foreign investors. With less government intervention and more predictable policies, investors are more likely to commit capital, leading to increased economic development, infrastructure improvements, and technological advancements.
3. **Efficient Resource Allocation:** Economic freedom allows markets to operate efficiently, with prices driven by supply and demand rather than government controls. This leads to better allocation of resources, higher productivity, and improved economic outcomes.
4. **Competition and Innovation:** Reduced barriers to entry and lower levels of government interference foster competition. Competitive markets drive businesses to innovate, improve products and services, and reduce prices, benefiting consumers and contributing to overall economic growth.
5. **Labor Market Flexibility:** Greater economic freedom often includes more flexible labor markets. This means businesses can hire and manage employees more effectively, and workers can find jobs that best match their skills, leading to higher productivity and incomes.
6. **Property Rights and Rule of Law:** Strong protection of property rights and a reliable legal system are critical components of economic freedom. These elements ensure that individuals and businesses can securely invest in and benefit from their property and innovations, fostering long-term economic stability and growth.
7. **Entrepreneurial Opportunities:** With fewer regulatory barriers, individuals are more likely to pursue entrepreneurial ventures. This not only drives personal wealth creation but also contributes to broader economic diversification and resilience.
8. **Government Efficiency:** A government focused on maintaining economic freedom is likely to operate more efficiently, with lower levels of corruption and waste. This means public resources can be better allocated towards essential services like education, healthcare, and infrastructure, further supporting economic development.
9. **Higher Standards of Living:** Economic freedom often correlates with higher incomes, better job opportunities, and improved access to goods and services. This leads to an overall higher standard of living and quality of life for the population.

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In summary, a Puerto Rico with strong economic freedom would create a conducive environment for business growth, investment, innovation, and efficient market operations. These factors collectively drive economic prosperity while addressing income inequality in Puerto Rico requires a multifaceted approach. Puerto Rico can achieve more significant economic equity, social stability, and sustainable development by focusing on economic diversification, education reform, labor market reforms, and strengthening social safety nets. Prioritizing economic growth, progressive tax reforms, transparent governance, and investments in education and infrastructure can pave the way for a more equitable future. Through these combined efforts, Puerto Rico can create a society where opportunities are accessible to all and income inequality becomes a relic of the past.



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