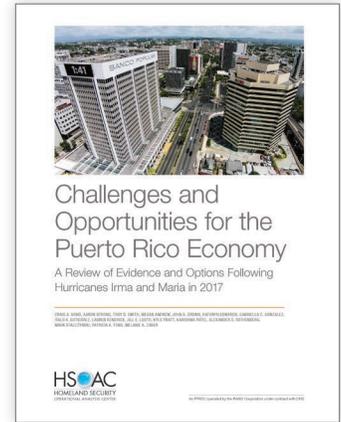


# Challenges and Opportunities for the Puerto Rico Economy: A Review of Evidence and Options Following Hurricanes Irma and Maria in 2017



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The authors review Puerto Rico's economic history and compare observed economic indicators following the storms to counterfactual estimates to assess the real net impacts of the 2017 hurricanes. This analysis provides the context for the recovery plan for rebuilding a sustainable and healthy economic sector and whole of Puerto Rico.

## RESEARCH QUESTIONS

- What are the historical and current challenges to economic development in Puerto Rico?
- How has Puerto Rico's unique status as a territory of the United States presented both opportunities and challenges over a complicated economic and policy landscape?
- What were the main impediments to Puerto Rico's economic growth before the storms?
- How extensive was the damage to the economy following Hurricanes Irma and Maria?
- What principles/guidelines should be used to steer investments with the objective of long-term, sustainable growth of the Puerto Rico economy?
- What specific courses of action might encourage economic growth during and after the recovery effort?

## KEY FINDINGS

### **Long-term stressors before the storms added to the shock Hurricanes Irma and Maria delivered to Puerto Rico's economy**

- Puerto Rico has experienced negative economic growth and associated outmigration of labor due to a variety of factors since the phaseout of Section 936 manufacturing tax advantages in 2006.
- Outmigration of capital, labor-force participation, and public debt are other long-term challenges with multiple root causes.
- Cost of doing business, tax structure, the Jones Act, labor policies, and federal entitlement programs all have impeded Puerto Rico's economic growth.

### **Short-term impact of the hurricanes to economic activity was severe, and investment objectives should be steered toward long-term, sustainable growth**

- A large informal economy exists in Puerto Rico, which distorts the labor market and depresses property tax revenue, making government spending, relative to tax revenues, unsustainable.
- Areas of special importance to Puerto Rico's economy, and the recovery effort, are tourism, trade and transportation, agriculture, manufacturing, fisheries and the ocean economy, and the nonprofit sector.
- Investments related to strategic initiatives should target areas that support growth across multiple sectors and contribute to the reversal of economic contraction experienced over the past decade.

## RECOMMENDATIONS

- Ensure that specific policy changes overlap with and support principles for public investment for achieving long-term, sustainable economic growth.
- Increase the attractiveness of doing business in Puerto Rico by lowering the (government-imposed) financial and nonfinancial costs of doing business and stemming the flow of outmigration.
- Increase the formal labor-force participation rate by reforming labor market policies, removing disincentives for formal work, and providing incentives for workforce training.
- Broaden the tax base and increase fiscal resilience by flattening the tax structure in Puerto Rico and lowering dependence on particular tax exemptions.
- Increase fiscal discipline to ensure a sustainable and rightsized public sector.
- Invest primarily in infrastructure, including electricity, roads, bridges, and other transportation assets, communications, and water systems.
- Invest in data gathering and information products to support better public and private decisionmaking.
- Pursue investments that create economic diversification and add resilience to the real economy and the fiscal position of the government.
- Target investments to projects with the potential to support a large employment base, inspire entrepreneurial activity and innovation, contribute to relatively more regional economic supply-chain linkages, and promote visionary sustainable development goals. Development of tourism around the ocean economy is an example of one such idea.