

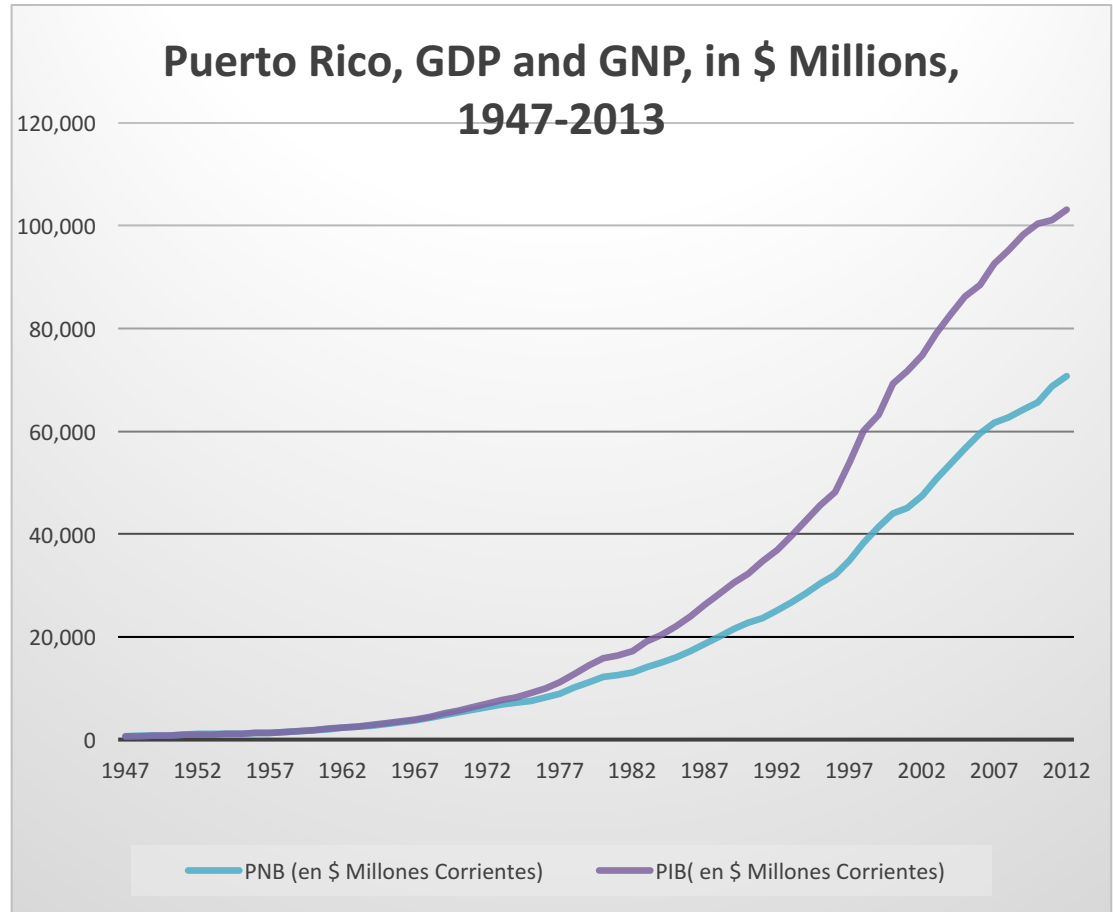
Background to Puerto Rico's Financial crisis

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A phenomenal drain of profits

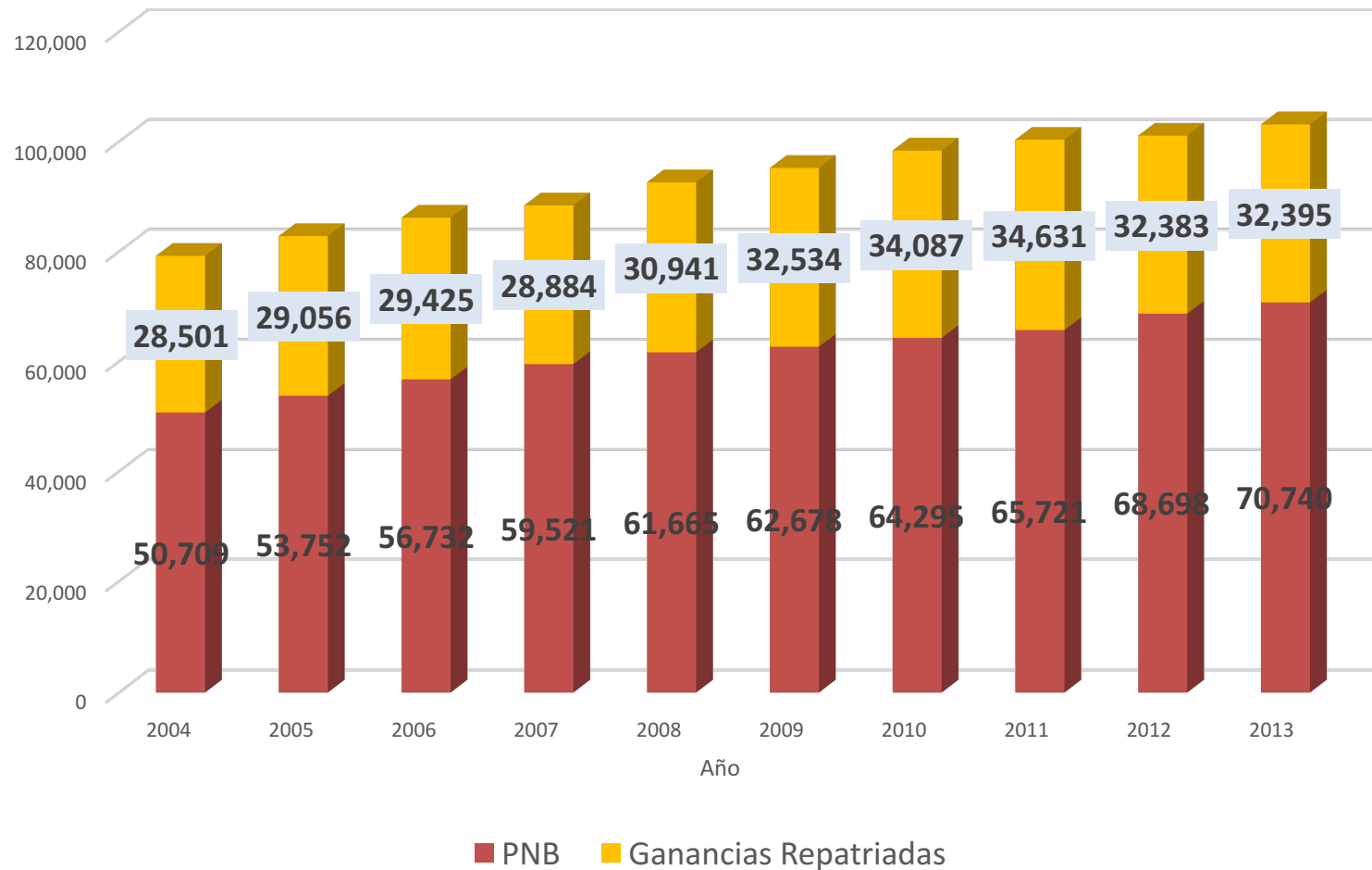
Beginning in the 1970s, Puerto Rico's economy began to suffer a drain of profits, to the point where the measure of total income produced in the island, the Gross Domestic Product, began to separate dramatically from the measure of income that residents own, the Gross National Product or GNP.



Extraordinary volume of repatriated profits

This divergence owes itself to the extraordinary volume of profits that leave Puerto Rico into the hands of the foreign investors that control its economy. A third of the income that is generated in Puerto Rico leaves the country each year in the form of repatriated profits. In other words, the gross National Product of Puerto Rico, or the income that belongs to the residents of the island, is 67% of the total income generated there; the other third is taken away by U.S. corporations

Puerto Rico, GDP Decomposed into GNP and Repatriated Profits



Drain of Profits

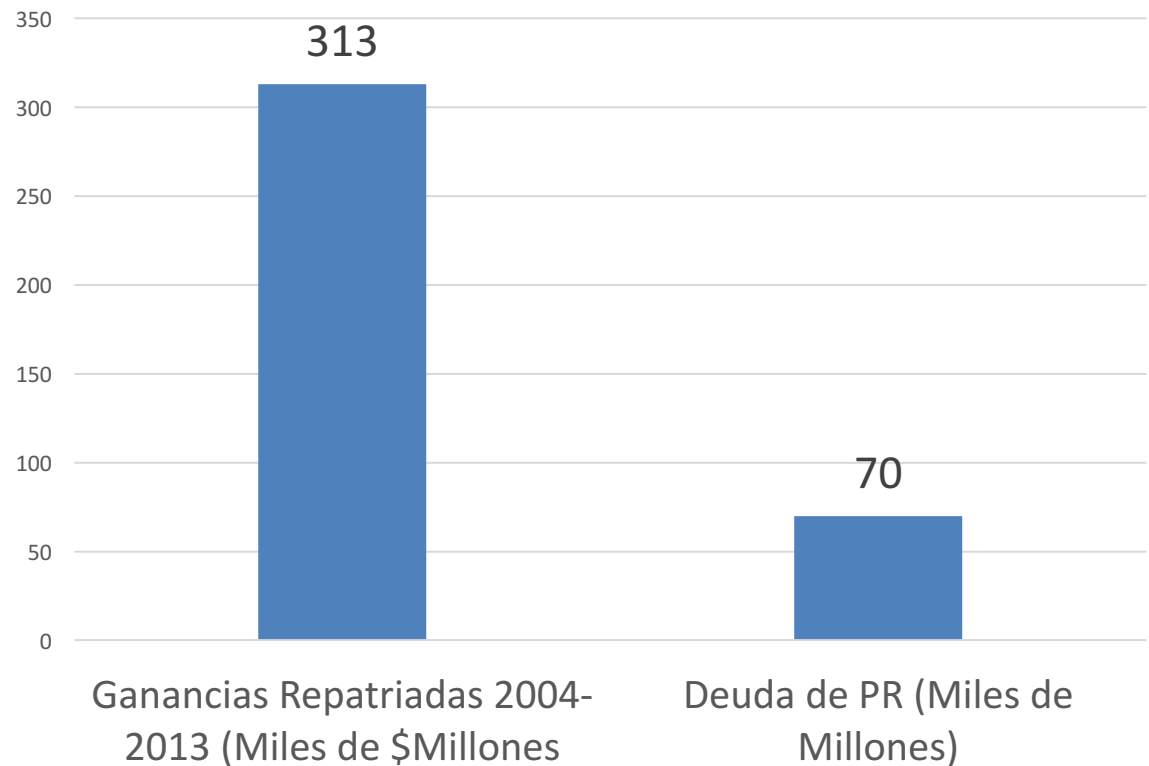
This is a phenomenal drain of resources in an economy controlled primarily by American multinational corporations. In the graph above, the columns represent the Gross Domestic Product of Puerto Rico, broken down into the part belonging to the island's residents (GNP) and the part of the income that U.S. investors take home in the form of repatriated profits.



Size of the Drainage and Size of the Debt

Puerto Rico's debt is currently valued at approximately 70 billion dollars; U.S. corporations repatriated 313 billion dollars between 2004 and 2013. To put this drain in perspective, repatriated profits in the last decade alone are enough to pay the entire debt of Puerto Rico's government and its public corporations four times over!

Ganancias Repatriadas y Deuda
(Miles de \$ Millones)



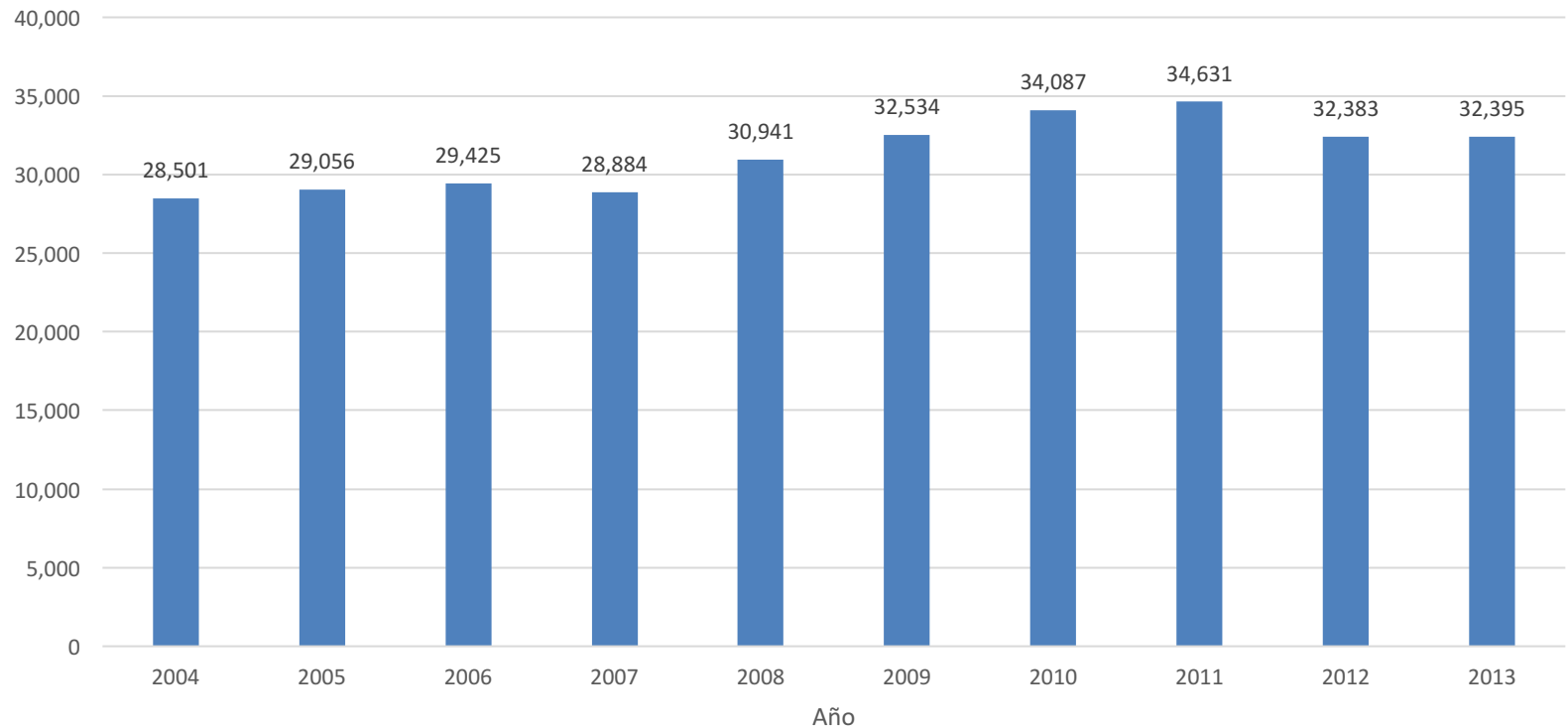
The White Elephant in the room...

These payments to absentee capital constitute the elephant in the room that is never mentioned in discussions of Puerto Rico's debt problems. If we take the last decade, the profits earned in two of the last ten years, or an equivalent of 20% in taxes on the total profits generated during that decade, would be enough to leave Puerto Rico free of debt.



Over \$300 Billion in Repatriated Profits in a Decade

Payments to Absentee Capital
(In \$ Billions (Thousands of Millions))



An Extraordinary Case

One might think that the case of Puerto Rico is normal with respect to Foreign Direct Investment and the resulting proportion of the income it produces that escapes into the hands of external investors. However, this is not the case. Puerto Rico's situation is exceptional in terms of repatriation of profits and the drain it creates on the local economy. The following table represents GDP and GNP in a number of selected countries. In the worst of these cases, Ireland, extracted profits are not even half of those of Puerto Rico (15 % of the GDP compared to 33% in Puerto Rico).

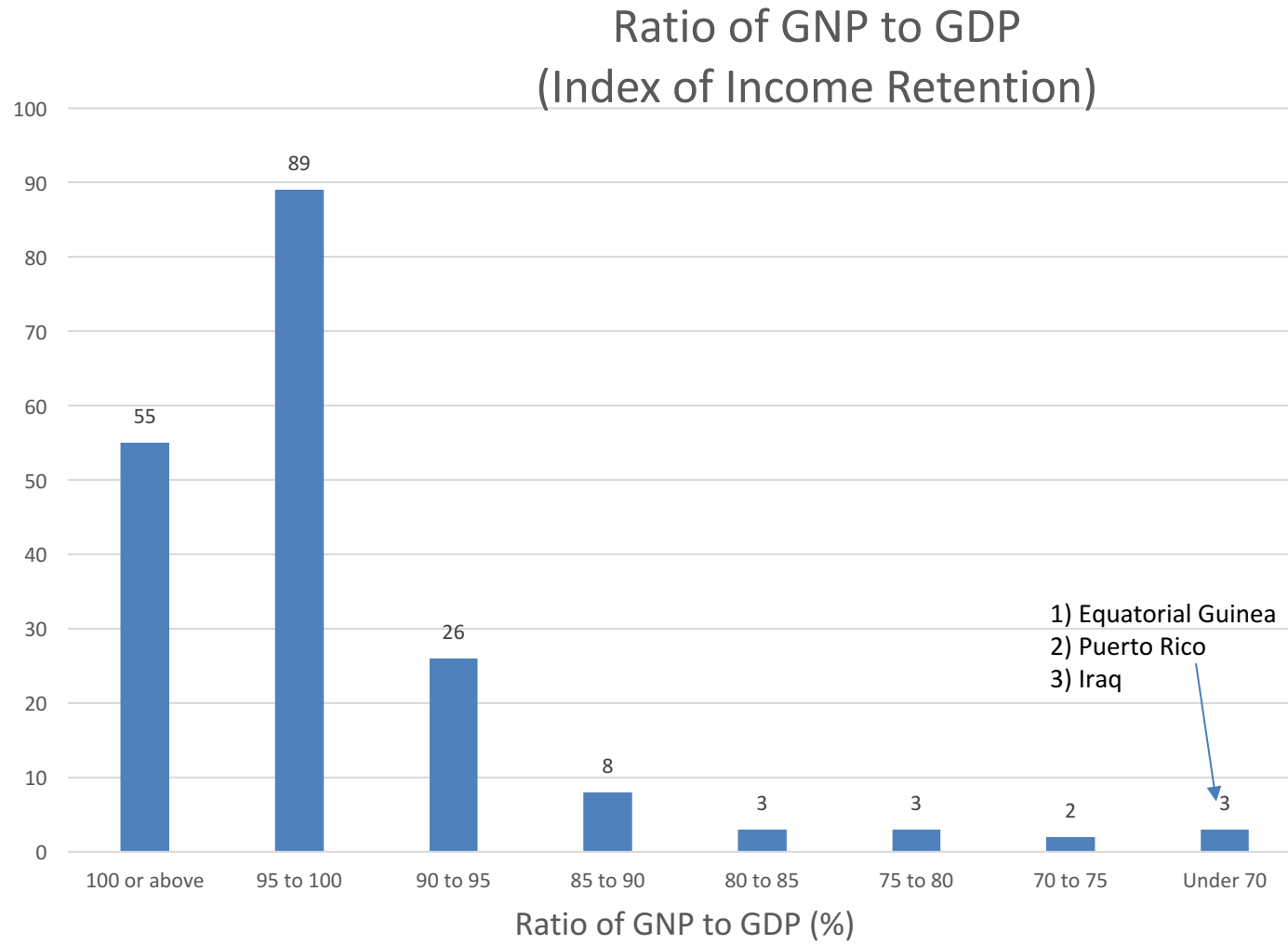
Puerto Rico is an outlier, an extreme case in terms of profit repatriation

Country	Gross Domestic Product (2013)	Gross National Income (2013)	GNI as % of GDP
South Africa	\$366,057,913,372	\$393,823,024,542	108
Greece	\$242,230,732,091	\$249,278,628,645	103
United States	\$16,768,053,000,000	\$17,113,833,339,939	102
Spain	\$1,393,040,177,014	\$1,395,888,680,016	100
Malaysia	\$313,158,247,643	\$309,755,676,019	99
South Korea	\$1,305,604,961,393	\$1,298,955,846,781	99
Dominican Republic	\$61,198,258,779	\$60,060,832,161	98
Argentina	\$622,057,981,847	\$604,738,952,600	97
Chile	\$276,673,695,234	\$268,328,882,346	97
Czech Republic	\$208,796,024,646	\$199,407,572,904	96
Mexico	\$1,262,248,825,556	\$1,209,227,950,661	96
Uruguay	\$57,524,653,094	\$53,290,776,344	93
Ireland	\$232,077,367,193	\$198,111,832,736	85
Puerto Rico	\$103,134,778,000	\$69,432,480,620	67

Source: <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries>

Source: <http://data.worldbank.org/indicator/NY.GNP.ATLS.CD/countries>

One of the most extreme cases in the world



Why working people? Why not capital?

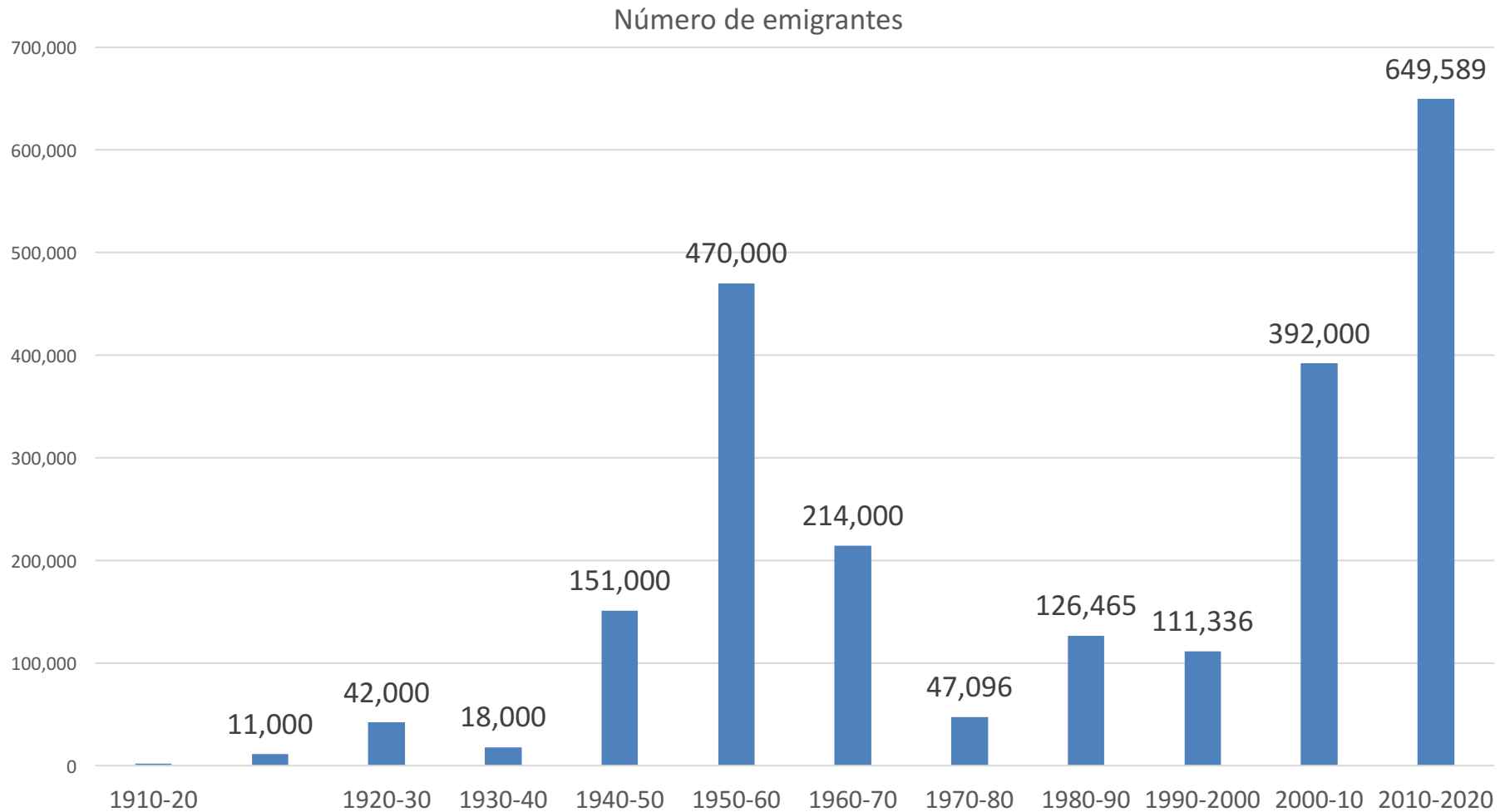
It is well to ask, then, whether Puerto Rico can recover from its debt crisis without confronting the elephant in the room (profit repatriation), that is, without demanding contributions from the corporations that make so much money in the island?

Current proposals are all based on paying the vulture funds by squeezing working people through REGRESSIVE TAXATION (especially through sales taxes, currently above 11%!!!).

These measures and proposals cover only the income retained in Puerto Rico but leave untouched the third of the GDP that leaves the island as repatriated profits!

SEIU among others has called for a moratorium on debt payment and a renegotiation of the debt. A complete economic program of economic reconstruction must also include the issue of repatriated profits and taxing the corporations that make so much money in the island, even as we speak, in the middle of the worst economic crisis since the 1930s!

Out-Migration, sign that crisis started earlier for working people



Extraordinary volume of repatriated profits

Year	Out-Migration
2010	45,833
2011	38,226
2012	46,588
2013	49,233
2014	83,257
2015 (January to October)	115,790
Total January 2010 to Oct 2015	378,927
Monthly Average	5,413
Projected Jan 2010 to Dec 2019	649,589

Estimates based on Bureau of Transportation Statistics data on passenger movement.

Source: <https://www.indicadores.pr/Business/N-mero-de-vuelos-pasajeros-a-reos-y-carga-con-orig/chx2-fpcf>

Thanks to Dr. Mario Marazzi of Instituto de Estadísticas de Puerto Rico for pointing me to statistical sources.

Dire situation, before the money of the vulture funds was threatened!

- At present, Puerto Rico has a 40% labor participation rate.
- The official unemployment rate is 12%.
- Puerto Rico's per capita income is a third of the U.S. figure.
- It is half of the per capita income of the poorest state.
- Around 45% of the people in Puerto Rico live under the poverty level.
- The corresponding figure in the mainland is 15%.

Indicators of Dire Economic Crisis Between 2006 and 2015– BEFORE the Bondholders were affected

- 88,000 government jobs lost
- 53,000 manufacturing jobs lost
- 52,000 construction jobs lost
- Unemployment Rose from 11% to 13% even as thousands of workers left the island!
- Approximately 263,000 people left between 2010 and 2014
- This surpasses the figures for the highest levels of out-migration during the “Great Migration” of the 1950s (237,000 between 1950 and 1954)
- In 2014, net out-migration was 64,073 (U.S. Census Bureau)
- According the *the Instituto de Estadística de Puerto Rico*, out-migration reached 97,000 in 2015.

A Social and Economic Crisis, not just a Financial Crisis

- The financial crisis, and the issue of debt moratorium for Puerto Rico, is part of a much larger social and economic catastrophe that has been hurting Puerto Rico for over a decade, since the elimination of Section 936 of the Internal revenue Code, in 1996-2006.
- During the period 2006-2015, the outflow of profits from the island has been sustained, but jobs and social conditions have deteriorated for the overwhelming majority of the population. Massive emigration is the primary indicator of the magnitude of the crisis.
- This is NOT just about whether the bondholders will get paid. This should be primarily about the well being of working people in Puerto Rico, who have been hurting since way before the crisis was reflected in the financial markets.
- The bondholders want to talk about their property rights and profits. We have to change the conversation, to start talking about the lives of **working families**.