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P.R. Economic Freedom Index

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ECONÓMICA

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Puerto Rico Economic Freedom Index

The Economic Freedom Index developed by The Heritage Foundation provides a framework to determine Puerto Rico's own Economic Freedom Index.

The index focuses on four key aspects of the economic environment, where government usually exercises policy control (rule of law, government size, regulatory efficiency and market openness).

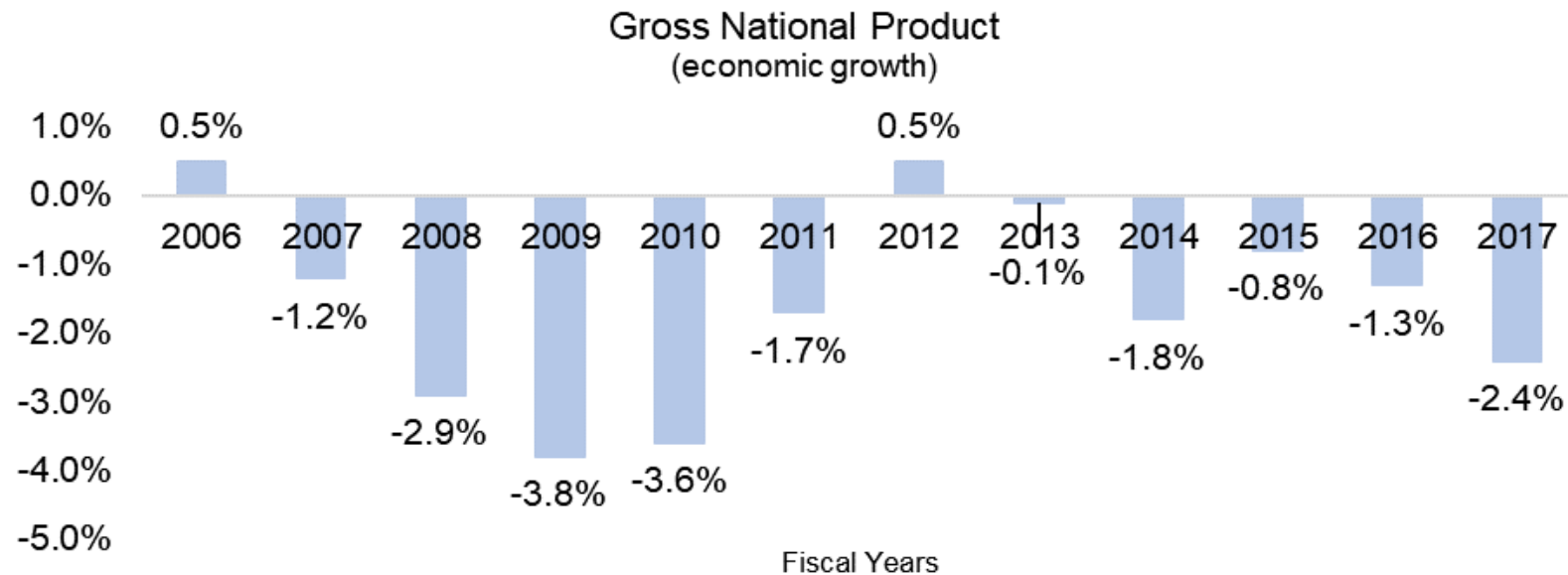
The index measures 12 specific components, each of which is graded on a scale from 0 to 100. In this analysis you will see a short overview of the economic behavior in Puerto Rico as well as the methodology and procedures performed to obtain each score component for the economic index.

Economic Freedom Index

The 2017 Economic Freedom Index Report shows that Hong Kong, (90.2), Singapore (88.8), New Zealand (84.2), Switzerland (88.7), and Australia (80.9), obtain the higher freedom indexes.

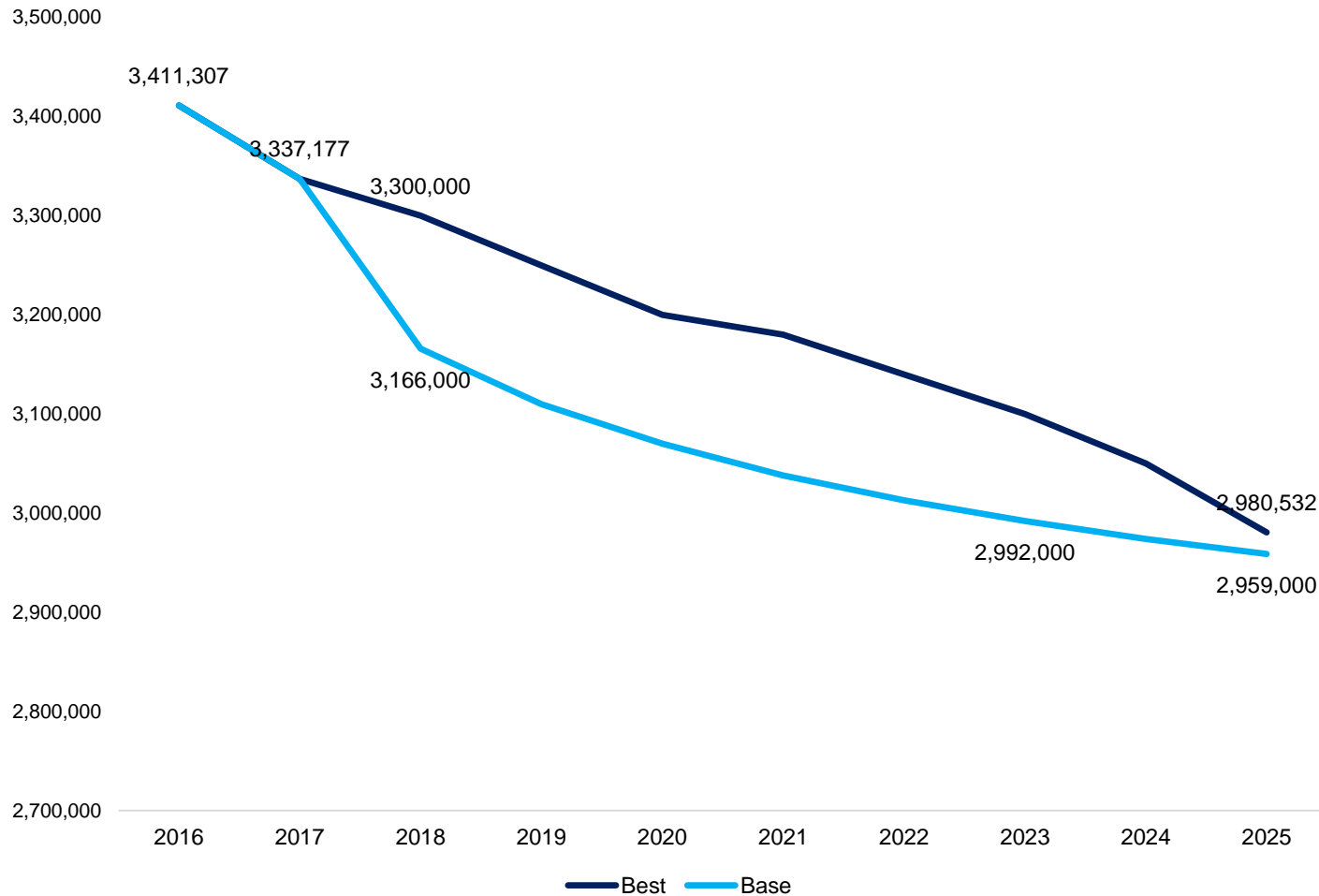
In LATAM, Chile has the highest score with an index value of 75.2, categorized as a mostly free economy according to the guidelines. The rest of the LATAM economies are considered moderately free (60 a 69), including Puerto Rico with a score of 61.

Puerto Rico's Economic Context



Source: Statistical Appendix 2017

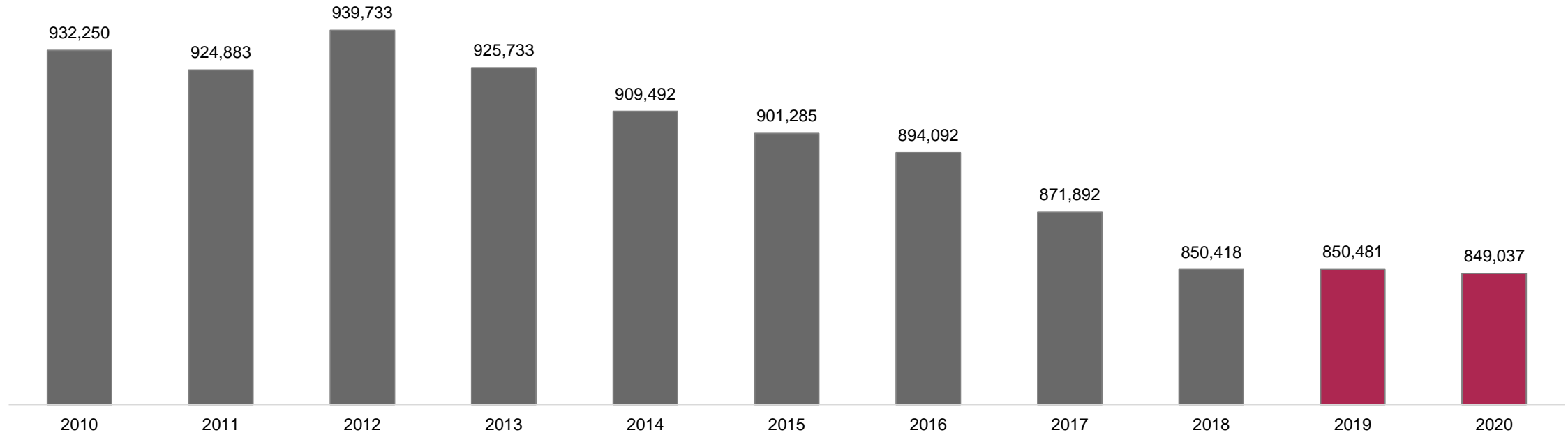
Total Population



Source: Statistical Institute of PR; Fiscal Oversight Board

Puerto Rico's Economic Context

Total nonfarm payroll



Source: Department of Labor, Projections by Inteligencia Económica

Puerto Rico's Economic Context

Rule of law

The property rights component assesses the extent to which a jurisdiction's legal framework allows individuals to accumulate private property freely, secured by clear laws that the government enforces effectively.

Relying on a mix of survey data and independent assessments, it provides a quantifiable measure of the degree to which a jurisdiction's laws protect private property rights and the extent to which those laws are respected. It also assesses the likelihood that private property will be expropriated by the state.

Property Rights	50
Judicial Effectiveness	50
Government Integrity	41.8

Sub-factor	Score
Strength of investor protection	70
Risk of expropriation	43

Government Integrity

“Corruption erodes economic freedom by introducing insecurity and coercion into economic relations. The systemic corruption of government institutions and decision-making by such practices as bribery, extortion, nepotism, cronyism, patronage, embezzlement, and graft are the greatest concern.

The lack of government integrity caused by such practices reduces economic vitality by increasing costs and shifting resources into unproductive lobbying activities”

Sub-factor	Score
Freedom from corruption	63
Public trust in Politicians	31.9
Irregular Payments and Bribes	47
Transparency of government policymaking	40

Judicial Effectiveness

“Well-functioning legal frameworks are essential for protecting the rights of all citizens against unlawful acts by others, including by governments and powerful private parties.”
(Heritage, 2018)

- Requires efficient and fair judicial systems to ensure that laws are fully respected, with appropriate legal actions taken against violations.

Sub-factor	Score
Judicial Independence	45
Enforcing Contracts	54.4

Limited Government & Tax Burden

Limited government

- exists only within pre-defined limits that are established by delegated sources of authority
- fewer laws regulating what individuals and businesses can do

Tax Burden

- composite measure that reflects marginal tax rates on both personal and corporate income and the overall level of taxation
- includes direct and indirect taxes imposed by all levels of government, as a percentage of gross domestic product (GDP)

Sub-factor	Score
The top marginal tax rate on individual income	33
The top marginal tax rate on corporate income	39

Tax Burden	61
Government Spending	31
Fiscal Health	71.3

Business Freedom

The business freedom component measures the extent to which the regulatory and infrastructure environments constrain the efficient operation of businesses. The quantitative score is derived from an array of factors that affect the ease of starting, operating, and closing a business.

Business Freedom	Puerto Rico	International Average	Score
Starting a Business (# of procedures)	6	7.14	59.5
Starting a business (# days)	6	21.09	87.8
Cost of starting a business (% of income per capita)	0.8	24.48	91.8
Starting a Business minimum capital (% of income per capita)	0	17.42	-
Obtaining a construction permit (# of procedures)	22	14.58	33
Obtaining a construction permit (# of days)	165	166.02	50.3
Cost of obtaining a construction permit (% of income per capita)	6.3	4.36	35
Close a business time (years)	2.5	2.55	51
Cost of closing a business (% of estate)	11	15.84	72
Recovery rate for closing a business (cents on the dollar)	70.5	37.03	26.3
Getting Electricity (# of procedures)	5	5.12	51
Getting Electricity (# of days)	32	94	88
Getting Electricity – cost (% of income per capita)	228.3	1,103.90	97

Source: World Bank Doing Business Report

Business Freedom

Labor Freedom

Labor freedom

- considers various aspects of the legal and regulatory framework of a jurisdiction's labor market, including:
 - regulations concerning minimum wages
 - laws inhibiting layoffs
 - severance requirements
 - measurable regulatory restraints on hiring and hours worked
 - the labor force participation rate as an indicative measure of employment opportunities in the labor market

Labor Freedom	P.R.	Int'l Average	Score
Ratio of Minimum wage to average value added	0.52	0.36	35.3
Legally mandated period for redundancy dismissal (weeks of salary)	0	5.3	-
Mandatory severance pays of redundancy dismissal (weeks of salary)	0	12.18	-
Difficulty of hiring index	22	29.88	67.9
Rigidity of hours index	0	23.75	-
Difficulty of redundancy dismissal	20	29.1	72.75
Labor Force Participation Rate	40.3	62	77

Trade Freedom	80
Investment Freedom	70
Financial Freedom	70

Open Markets

Trade Freedom

- Composite measure of the extent of tariff and nontariff barriers that affect imports and exports of goods and services

Monetary Freedom

- Combines a measure of price stability with an assessment of price controls
- Both inflation and price controls distort market activity
- Price stability without microeconomic intervention is the ideal state for the free market

Table 1: Puerto Rico Economic Freedom Index Summary Table.

Description	Score
Property Rights	50
Judicial Effectiveness	50
Government Integrity	41.8
Tax Burden	61
Government Spending	31
Fiscal Health	71.3
Business Freedom	62
Labor Freedom	63
Monetary Freedom	77
Trade Freedom	80
Investment Freedom	70
Financial Freedom	70

Summary



Structural Reforms and policy recommendations

Structural Reforms & Policy Recommendations

Government integrity

- Paying public servants well
- Creating transparency and openness in government spending
- Cutting red tape
- Replacing regressive and distorting subsidies with targeted cash transfers
- Maximization of technology in government processes

Judicial integrity

- Strengthen internal oversight within the judiciary
- Modernization of the court management systems
- Disclosure of information and public monitoring trials
- Create a nonpartisan system to select judges and prosecutors

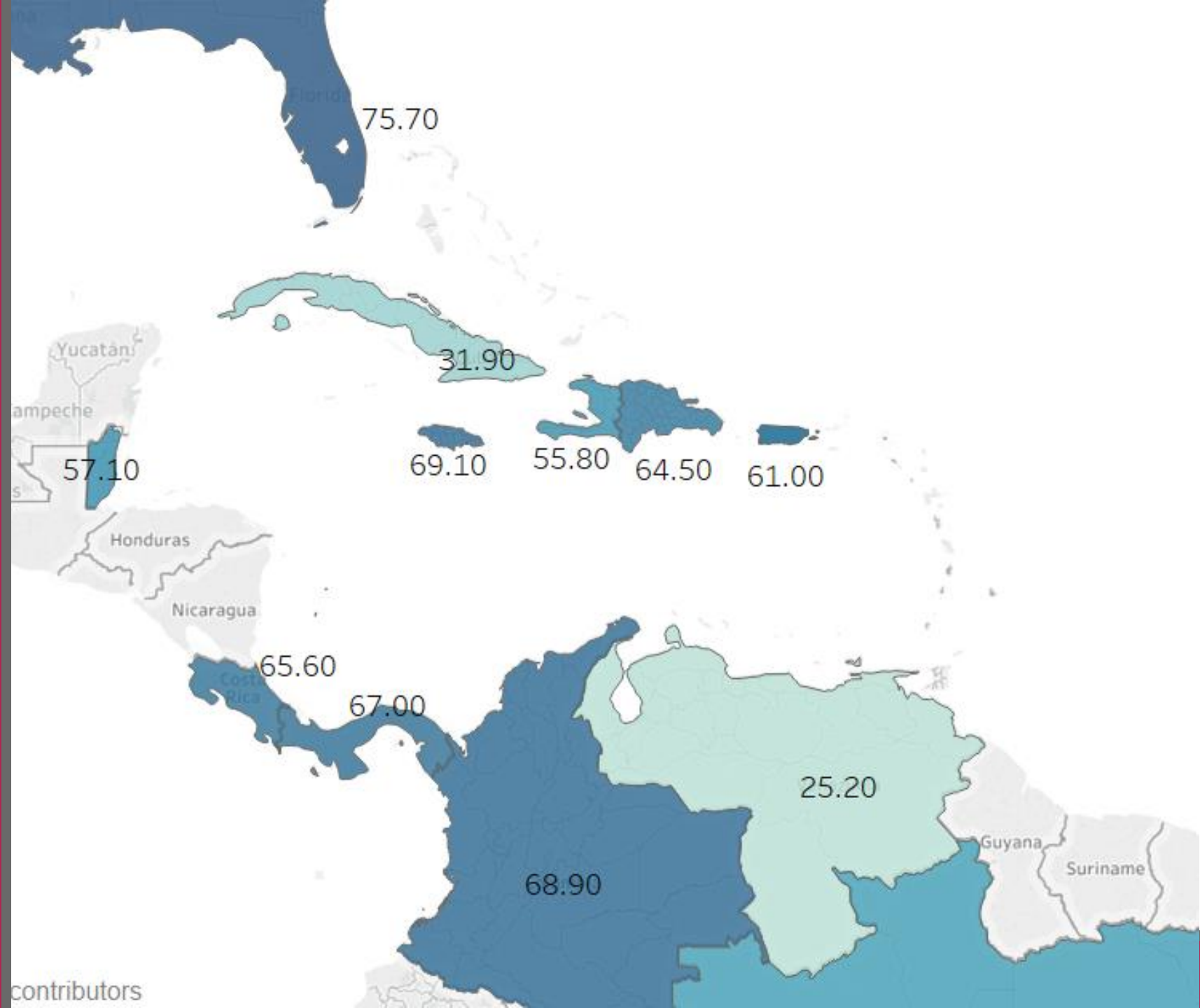
Trade freedom – Repeal of the cabotage laws

- Since 1917, the Jones Act imposed that all maritime transportation from the U.S. mainland must be conducted by U.S. vessels. This statute is highly restrictive and costly to local importers - who depend on three shipping vessels to transport \$24,589 million in goods from the U.S. mainland (2017), representing 53.2% of total imports.

Comparative of 2016 v. 2018 Indexes

Variable	2016	2018
Property Rights	70	50
Judicial Effectiveness	-	50
Government Integrity	-	41.8
Tax Burden	-	61
Government Spending	77	31
Fiscal Health	-	71.3
Business Freedom	63	62
Labor Freedom	79	63
Monetary Freedom	77	77
Trade Freedom	80	80
Investment Freedom	70	70
Financial Freedom	70	70

How do we compare with others?



contributors