

Is Puerto Rico on the Brink of Economic Disaster?

Mass Migration, Poverty, Unemployment and the “VAT” Initiative

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Puerto Rico’s unemployment rate hovers around 14 percent but of course, the Bureau of Labor Statistics (BLS) does count those who dropped out of the labor force completely. If you did count every working age person not participating in the labor force, you would probably have a 50 percent unemployment rate. The poverty rate is at 44 percent and there is a historic mass migration of Puerto Ricans heading to U.S. states of Florida and New York which have their own economic problems including a high-rate of housing foreclosures. Puerto Ricans, who end up on U.S. shores looking for economic opportunities will find themselves in the midst of an economic catastrophe as employment opportunities continue to disappear. Puerto Rico is at a period in time where its commonwealth relationship with its Imperial neighbor operates as a colonial territory under a corrupt financial system imposed by Washington, D.C. and Wall Street.

The Puerto Rico Government is desperate with a failed economy, a steady-rise in crime with the failed “War on Drugs” policy to compliment it. However, one of the solutions proposed by Puerto Rico’s Governor Alejandro García Padilla is a VAT initiative supposedly to “lower tax rates” for 800,000 small businesses and individuals. The new tax will be based on consumption such as food and other necessities. According to Tax-News.com on February 2nd, Secretary of the Treasury, John Zaragoza Gomez said that the Puerto Rico government will launch “a massive educational campaign” on plans to restructure the tax system when they introduce a “new value-added tax (VAT)” that “will enable the Government to substantially lower tax rates for individuals and companies, lifting a total of 800,000 taxpayers out of the income tax net.” According to Gomez, there will be a public relations campaign to convince the Puerto Rican people that they will in fact benefit in the long term because it will lower their tax rates:

This campaign is part of a broad effort of communication and openness that began several months ago and continues today. There are still details to finalize but at this early stage, before the establishment of the project, we Puerto Ricans know the basic principles of this transformation, [of placing an] onus on consumption rather than on income. In other words, with the new system, VAT will be paid not by what you earn, but what you eat, leaving [it] in the hands of each individual to decide how to use their money.

Online news service www.caribbeanbusinesspr.com also reported back in March what Puerto Rico Treasury Secretary Juan Zaragoza had said about the VAT system and how it would benefit taxpayers:

Zaragoza explained that the new system will ultimately benefit Puerto Rico’s

taxpayers because it spreads the 16% VAT on goods and services to everyone. The tax is passed along a value chain—from importer to distributor to retail outlet—against which businesses can claim credits on all taxable goods and services, which will be reimbursed by Treasury at several stages during the year.

As for the implementation of the VAT system according to the Caribbean Business report:

There is near-unanimous consensus that Treasury has failed to implement the necessary technology to fully capture the actual 7% sales & use tax (IVU by its Spanish acronym) that has been in place for the past eight years. Zaragoza is first to recognize that undeniable truth. If simple IVU capture through technology hasn't been achieved, what makes the government think it can implement a system far more complex?

According to a 2010 www.CNSNews.com report, an analysis by the National Retail Federation (NRF) says the opposite what Mr. Zaragoza claims when it states the facts that “a Value-Added Tax (VAT) would damage economic growth and kill hundreds of thousands of jobs.” The NRF report was a response to U.S. President Barack Obama’s Fiscal Commission at the time who was considering a VAT to cut the federal deficit. The NRF report claims that a VAT will “decrease” consumption:

The vast majority of that economic damage comes in the form of decreased consumption caused by the tax. Because a VAT is applied to consumer and business purchases - the origin of the term value-added - it makes that spending more expensive, thereby moving consumers and businesses to do less of it.

If a VAT system were introduced to the U.S. mainland, it would result in unintended consequences for the middle class:

Those Americans 55 and older with mid-level incomes - between \$40,000 and \$80,000 per year - would be the hardest hit, losing 1.8 percent of their rest-of-life resources due to the VAT. Rest-of-life resources are the value of a person’s consumption and leisure spending a person will likely be able to do over the rest of their lives. A reduction in this figure means that because of a VAT, Americans would be less financially-able than they otherwise would be.

The study also revealed that a VAT - because it is levied on consumption - would amount to a large tax on mostly middle-income Americans who are likely to devote most of their disposable income to consumption, as opposed to investment.

The “VAT” Experiment in St. Lucia

St. Lucia introduced VAT at the rate of 15 percent in 2012 following in the footsteps of its Caribbean neighbors. According to Melanius Alphonse, a consultant on management and development and an advocate for social justice, economic freedom and equality and a member of the Lucian People’s Movement (LPM) told Silent Crow News that a “VAT” proposal in Puerto Rico would result in doubling “sales tax rates” and “inflation”:

This is a dicey proposition that could result in a high VAT rate, probable double the existing sales tax. Even then, the stated outcome to revenue collection is not assured. The implementation of VAT usually carries an adjustment period, pre and post implementation. VAT also carries increased mechanism of monitoring price adjustments to the adverse of inflation and its effects on small business enterprise cash flow management. The ongoing cost of business to comply with government regulations is often passed on to the consumer, in addition to the VAT rate, plus inflation.

Alphonse agrees with Puerto Rico Representative Jennifer Gonzalez when she said that “the construction industry, the small to mid-sized businesses and professional service will be hit hard by this measure.” He says that the “VAT implementation affects the quality of life and hurts the development of small enterprise” and that when the “VAT is applied to every transaction in the course of doing business. VAT constitutes an economic threat to the poor; and is an additional burden to the middle class, whereby it suffocates liquidity, while serving as a permanent defacto control in the wallets of taxpayers.”

Alphonse explains what happened in St. Lucia when the VAT was introduced when Prime Minister Dr Kenny Anthony was re-elected. Alphonse says that PM Anthony’s prescription to fix St. Lucia’s economy was to add the VAT which proved to be a “mechanism” to generate revenue to pay down the government’s deficits which only increased over time:

In Saint Lucia, when in opposition, Dr Kenny Anthony declared VAT “oppressive and punishing” Once reelected in 2011 the value added tax suddenly became the bitter cure to government ballooning expenditures. And, the chosen weapon to, presumably, salvage an economy flirting with insolvency. In other words VAT is simply another adverse revenue generating mechanism.

Puerto Rico should examine what happened in St. Lucia regarding the implementation of the VAT which proved to be a failure. Adding to what the St. Lucia Times reported back in March that the unemployment figures rose between 2008 and 2014 which makes matters worse for the Eastern Caribbean nation’s fragile economy:

Saint Lucia’s unemployment rate stands at 24.9%. A new publication by the government’s head of statistics say the financial crunch of 2008 resulted in a surge in unemployment. Unemployment in Saint Lucia has risen by 8 percent during the 2008-2014 period, and joblessness among young people aged 15 to 24 rose by 15 percent.

The economic policies of introducing the VAT to the St. Lucian people proved to be a failure with a rise in poverty and unemployment. The VAT not only effects the local population, it affects local small businesses that depend on consumer spending.

Time for Puerto Rico to Break the Chains of Debt Bondage

The Puerto Rican people are quickly falling into a debt trap. Fox News Latino published an interesting story titled ‘Puerto Ricans continue to shop as new luxury mall opens’ regarding Puerto Rico’s new luxury mall and its population who suffer from chronic consumerism with credit cards:

While a nearly decade-long recession has forced many Puerto Ricans to seek a

more affordable life on the U.S. mainland, some of the world's priciest retailers have stores at The Mall of San Juan, a \$475 million shopping center opening Thursday alongside one of the island's most crime-ridden public housing projects.

With \$22 billion in consumer debt and unemployment and poverty rates steadily increasing every day, shopping seems like a cure to economic misery for the Puerto Rican population:

Shopping on credit is popular on this island, where the population of 3.65 million holds more than \$22 billion in consumer debt, compared with the \$3.3 trillion held by consumers on the U.S. mainland. Laura Ortiz, a sociology professor at the University of Puerto Rico, said consumers she interviewed for her book "Shopping in Puerto Rico" told her they didn't worry about debt. The view was, "I'll handle it," she said.

That shop-until-you-drop mindset is on full display at the Plaza Las Americas, the largest shopping center in the Caribbean. It generates roughly twice the sales-per-square-foot of the average U.S. mall and draws up to 70,000 visitors daily.

While the politicians in San Juan debate its political status with the U.S. (which will remain the same because Washington wants Puerto Rico to remain under its control for geopolitical reasons) the economy is quickly becoming a crisis with no end in sight. But a former Puerto Rico Speaker of the house Jose Aponte-Hernandez wrote an article for the Washington-based news source, The Hill titled 'It's in Washington's hands' claiming that it is the political status of Puerto Rico which is at fault for the economic dilemma:

To put it in simple terms, the political limbo in which we live has caused an economic stagnation not seen since the beginning of the twentieth century. For example, economic data show that due to the prolonged recession, people are not buying houses. In fact, there was a sharp 29.5 percent drop in the number of new mortgages generated in the fourth quarter of 2014. That figure contrasts dramatically to the one seen in the rest of the Nation where housing value jumped 1.4 percent in 2014.

The historical migration of more than 100,000 people in less than two years has something to do with it, but the main problem has been and remains the political status. Because of the uncertainty of what would happen to our Island and the restriction placed upon her by what can only be described as a 'colonial government,' Puerto Rico has not been able to promote itself, to use its resources to better the quality of life of its residents.

Washington has to intervene, and it must be now. There are several bills pending in this Congress aimed at giving Puerto Rico equality with the rest of the States.

The only solution Hernandez has for Puerto Rico's dire situation is for Washington to intervene? Everywhere the U.S. has intervened whether by military force or through its economic institutions (most notably the International Monetary Fund (IMF) based in Washington, D.C.) has resulted in disaster.

I urge the members of this Congress to make a difference, to tell the world that the United States remains the 'Shining city upon the hill,' as former president Ronald Reagan said, and

admit Puerto Rico into the Union of States.

For someone who wants Puerto Rico to become an American State, I think Mr. Hernandez should know that it was Ronald not “Roland” Reagan! The U.S. debt is at over \$18 Trillion and is on course for QE4 or more money printing at taxpayers’ expense. There is a “total US Unfunded Liabilities are estimated at \$144 trillion, roughly \$1.2 million per taxpayer” according to online financial news source Zero Hedge. Yet, the U.S. continues its perpetual wars around the globe.

With more wars on the horizon, U.S. military recruiters are taking advantage of the dire situation in Puerto Rico amid rising poverty levels. As the unemployment increases, the more potential recruits for the Military-Industrial Complex because there are simply no jobs. Washington’s Imperial wars have used Puerto Rican men and women to oppress nations all over the world including Latin America.

Puerto Rico’s \$71 billion debt is still a major problem that won’t go away no matter how much they tax the Puerto Rican people. It’s time for Puerto Rico to break the chains of bondage and debt servitude once and for all, but with politicians like Padilla and Hernandez who are under Washington’s control, it will be a difficult task.

*Please visit the Lucian Peoples Movement (LPM) at www.lpmstlucia.com

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