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CENTER FOR ECONOMIC RENEWAL, GROWTH AND EXCELLENCE UNVEILS FIRST ECONOMIC FREEDOM INDEX FOR PUERTO RICO

Former governor Luis Fortuño joins economists Carlos Colón de Armas and Gustavo Velez to analyze results

San Juan, PR - The former governor, Luis G. Fortuño joined Dr. Carlos Colón de Armas and Gustavo Velez to discuss the results unveiled in the First Index of Economic Freedom of Puerto Rico by the Center for Economic Renewal, Growth and Excellence (CRECE, for its Spanish acronym).

The focus of this study was to evaluate and determine the position of Puerto Rico as compared to 186 countries using the parameters established through the 2016 Economic Freedom Index published annually by The Heritage Foundation and the Wall Street Journal. The aim was twofold: (1) compile the scattered data over Puerto Rico to better understand the current fiscal situation and; (2) identify opportunities to improve economic freedom in Puerto Rico.

Research stages included the following:

1. Analyze and break down formulas used in the 2016 Index of Economic Freedom.
2. Investigate quantitative and qualitative sources used by 2016 Index.
3. Replicate existing formulas if quantifiable objective data is available.
4. Determine alternative sources and measures for criteria for which replicable data is unavailable.
5. Recommend economic freedom ranking for Puerto Rico.
6. Identify short term goals for improving the development of quantitative economic measures in PR Index.

During his presentation, the former governor said that "economic freedom is not an abstract concept. It is a proven socio-economic model that produces direct benefits for people and their communities. As we promote a society based on the principles of economic freedom, the doors to opportunity and growth open."

Among the 186 countries that are evaluated annually by the Heritage Foundation, Hong Kong and Singapore stand out as countries that benefit most from economic freedom. This entity describes economic freedom as the antidote against poverty. Their data indicate that over the past 20 years, as the global economy has adopted the values that define economic freedom, the Gross National Product (GNP) worldwide has increased 70%, while poverty has been reduced in half.
Fortuño described the Index of Economic Freedom as an effective tool to assess the strengths and weaknesses of the economy in order to maximize economic freedom and promote growth. "The index is an x-ray. It provides an objective picture; with clear and measurable parameters that allow governments to develop public policy focused on expanding economic opportunity and prosperity. Therefore, it is not an exercise to be performed only at times of crisis like the one we live today, but consistently so that we can yield positive results for the people."

The Index of Economic Freedom ranks 186 countries based on 10 categories of quantitative and qualitative criteria grouped into four key pillars:

- Rule of Law (property rights, freedom from corruption);
- Limited Government (fiscal freedom, government spending);
- Regulatory Efficiency (business freedom, labor freedom, monetary freedom); and,
- Open Markets (trade freedom, investment freedom, financial freedom)

Each criteria is graded on a scale of 0 to 100, in order to derive an overall score by averaging all ten economic freedom factors. The latest publication ranks 186 economies and combines data from 2015 to 2016. Puerto Rico is not included in the Index of Economic Freedom published by The Heritage Foundation. With this in mind, CRECE took on the task of developing an Index of Economic Freedom for Puerto Rico. Fortuño hopes to share CRECE’s Index with The Heritage Foundation so that eventually they incorporate Puerto Rico in their publication.

According to the Index of Economic Freedom developed by CRECE, Puerto Rico gets a rating of 71, which would place it at position 31 among 186 countries, just below Botswana.

A summary of the results of the index for Puerto Rico is included, including a comparison with the 186 other economies:

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>PR RATING</th>
<th>COMPARABLE ECONOMIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property rights</td>
<td>70</td>
<td>Botswana, Portugal, Qatar, Spain</td>
</tr>
<tr>
<td>Freedom from Corruption</td>
<td>63</td>
<td>Botswana, Cyprus, Portugal</td>
</tr>
<tr>
<td>Fiscal freedom</td>
<td>61</td>
<td>Luxembourg, Solomon Islands, Portugal</td>
</tr>
<tr>
<td>Government spending</td>
<td>77</td>
<td>Ghana, Panama, Rwanda</td>
</tr>
<tr>
<td>Business freedom</td>
<td>63</td>
<td>Kuwait, Belize, Iraq</td>
</tr>
<tr>
<td>Labor freedom</td>
<td>79</td>
<td>Bahrain, Micronesia</td>
</tr>
<tr>
<td>Monetary freedom</td>
<td>77</td>
<td>US, Azerbaijan, Mexico</td>
</tr>
<tr>
<td>Trade freedom</td>
<td>80</td>
<td>Timor-Leste, Turkmenistan</td>
</tr>
<tr>
<td>Investment freedom</td>
<td>70</td>
<td>Bahrain, Cape Verde, Jordan</td>
</tr>
<tr>
<td>Financial Freedom</td>
<td>70</td>
<td>USA, Albania, Chile</td>
</tr>
</tbody>
</table>

The report identifies a number of factors that must be addressed to improve Puerto Rico’s ranking and expand economic freedom:

1. Unavailability of reliable economic data from the government
2. Lack of transparency and reliability in the process of property registration
3. Number of processes / time related to obtainment of construction permits
4. High government spending
5. Lack of transparency in government
6. Political favoritism permeates government structure
7. Onerous tax burden on individuals and businesses
8. Cabotage laws (Jones Act)
9. Fiscal instability

On the other hand, the report proposes a number of recommendations to improve the status of Puerto Rico vis-à-vis other economies, including:

1. Increase transparency in the development of public policy
2. Expand the availability of reliable economic data
3. Include Puerto Rico in economic studies such as the ones published by the World Economic Forum and The Heritage Foundation, among others.
4. Digitalize the Property Registry
5. Depoliticize government agencies
6. Reduce the tax burden on individuals and businesses
7. Streamline the permitting process with particular emphasis on construction permits, without compromising quality controls
8. Modify / delete application of Cabotage laws under the Jones Act PR
9. Reduce the tax burden on trade
10. Increase the government’s credibility and reliability by applying fiscal discipline to attract foreign investment

CRECE (for its acronym in Spanish) is the Center for Economic Renewal, Growth and Excellence. We are a nonpartisan, nonprofit organization dedicated to formulating, disseminating and implementing policies and practices that promote economic freedom, personal responsibility and opportunities in Puerto Rico and Latino communities in the United States to attain their full potential for growth and prosperity. Growth is at the core of our mission. As a think-tank organization based in Puerto Rico, we are committed to advancing the same principles and policies that have proven time and again to best enable individuals and societies to thrive and prosper throughout the world. For more information about CRECE, access our website at www.centrocrece.org.