

Infographic of the Report

ECONOMIC FREEDOM ACTIONS FOR A JUST AND PROSPEROUS PUERTO RICO

Ángel Carrión-Tavárez • <https://doi.org/10.53095/13585007> • October 2024

Economic freedom is the right of every human being to earn an honest living—that is, to work, produce, start a business, sell, buy, and exchange goods and services—responsibly and voluntarily, **without undue governmental obstacles or interference**. This is one of the most important rights of free individuals, as it relates to their well-being, economic development, and upward mobility, as well as to a higher life expectancy. **Where economic freedom exists, there are more opportunities, more entrepreneurship, more jobs, greater prosperity, and less poverty.**

CURRENT DATA



Puerto Rico **RANKS LAST** in economic freedom among U.S. states.

2 times harder to make a living in Puerto Rico than in the states.

OCCUPATIONAL LICENSES

13 occupational licenses that do not exist in any of the **50 states**.

34 occupational licenses that are not required between **47** and **49** states.

Puerto Rico **RANKS LAST** in *Ease of Doing Business* among 83 of the top U.S. jurisdictions.

\$17 billion
in economic transactions on the Island that **do not report** income to the State.

#168 out of 178 countries
in the world, Puerto Rico's position in the **labor participation rate**.

40 times more expensive
in Puerto Rico to process a **real estate deed** than the U.S. average

266,000 people
in Puerto Rico, ages 18 to 54, able-bodied with no dependents, **receive nutritional assistance and are outside the labor force**. This is 24% of the civilian labor force participation.

37.5%
corporate tax rate in Puerto Rico, the **highest in the world**.

\$30,413 billion
annually in **tax credits and incentives** in Puerto Rico.

132 government agencies in Puerto Rico, the **most among all U.S. jurisdictions**

510 government employees
per 10,000 population, the **most government employees** as a percentage of total employment in the United States

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RECOMMENDATIONS

OCCUPATIONAL LICENSES

Approve legislation to:

- Review and eliminate occupational licenses in Puerto Rico that do not serve the purpose of **protecting public health and safety**.
- Standardize the evaluation of occupational license applications from **individuals with criminal backgrounds**.
- **Adopt the universal recognition** of U.S. occupational licenses in Puerto Rico.
- Consider and systematically accept or reject any petition or proposal for a new license **based on criteria for protecting public health and safety**.
- Align Puerto Rico's meritorious occupational licenses **with the least burdensome requirements of equivalent licenses in the United States**.

NUTRITIONAL ASSISTANCE PROGRAM

- **Establish Supplemental Nutrition Assistance Program (SNAP)** work requirements for able-bodied adults without dependents, aged 18 to 54.
- **Increase minimum income limits** to align with current income levels of beneficiaries working 80 hours per month.
- Implement a **gradual reduction of nutritional assistance** to facilitate workforce participation and income generation, while allowing beneficiaries to continue receiving nutritional assistance benefits.
- **Amend Law No. 63 of May 7, 2015**, "Puerto Rico Family Agricultural Markets Organization and Development Act" **and Regulation 8775 of July 22, 2016**, "Regulation for the Organization and Development of Family Agricultural Markets in Puerto Rico" to ensure they provide real benefits to participants in the Nutrition Assistance Program (NAP) and farmers on the Island. In addition, require the Administration for the Socioeconomic Development of the Family and the Department of Agriculture to **publish an annual report on the performance of Family Agricultural Markets**.

TAX BURDEN

- **Amend Law No. 1 of January 31, 2011**, "Internal Revenue Code of Puerto Rico of 2011" to reduce the tax burden on individuals and consider **a cost-of-living or inflation adjustment** in the taxation of individual income.

PROPERTY REGISTRY

- **Eliminate the current backlog** in property registrations.
- Consider moving property registration to a **semi-private blockchain**, where notaries would confirm all property purchase and financing closings **to streamline the process, create efficiencies, and reduce administrative costs**. The blockchain registry would be updated almost instantly at each closing.
- Make the necessary procedural changes to **establish an average of 15 days for new property registrations**, including the implementation of a fully digital process.
- Review the current requirements to **reduce the cost of registering a property by 50%**.
- Update property values based on their most recent sale, or the appraisal used for financing or refinancing, with the goal of **promoting fairer tax contributions and balancing property owners' tax burdens**.

INVENTORY TAX

- **Amend Law No. 107 of August 13, 2020**, "Puerto Rico Municipal Code", to **eliminate the inventory tax** that businesses are required to pay on unsold stored merchandise; this would reduce the cost of doing business in Puerto Rico and lower product prices for consumers.
- **Allocate to municipalities the full amount of funds** corresponding to the inventory tax **using the General Fund**, which receives contributions from income and excise taxes.

PRICE CONTROL OF PRIVATE PARKING LOTS

- **Repeal Law No. 120 of June 7, 1973**, "Act to Regulate the Public Motor Vehicle Parking Business" **to encourage investment, innovation, and competitiveness in the parking business**, which will result in better service quality and more competitive prices.

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RECOMMENDATIONS

EASE OF DOING BUSINESS

Starting a Business

- **Eliminate requirements** for starting businesses in Puerto Rico **that do not exist in the 10 jurisdictions** with the highest ease-of-doing-business rankings in the United States.
- **Harmonize state and municipal requirements** to avoid duplication. What is required by a state entity should not be required by other entities involved in the permitting process.
- **Allow applicants to use third-party certifications** to meet pre-established requirements.
- Consider **implementing a trust-based system** that allows applicants to declare compliance with all requirements to start a business and begin operations immediately. Regulatory entities would have a specified period to review compliance. Non-compliance by the entrepreneur could result in actions such as permit cancellation, fines, and business closure.
- Establish a **maximum timeframe** for proponents to receive a response to their permit application.
- Measure and report monthly **metrics on business permit approvals**.
- **Create categories based on the type of business**, complexity, and regulatory needs.
- **Repeal Law No. 8 of June 16, 2021**, "To amend Article 2.05 of Law No. 26-2017, Fiscal Plan Compliance Act; Holidays", to **increase government service days** for business creation.

Employing Workers

- **Amend Law No. 4 of January 26, 2017**, "Labor Transformation and Flexibility Act" to **eliminate the probationary period** and, thereby, increase the hiring of regular employees by reducing cost and risk.
- **Amend Law No. 47 of September 21, 2021**, "Puerto Rico Minimum Wage Act" to **eliminate the Minimum Wage Evaluating Commission and establish an annual minimum wage in proportion to the per capita income**, based on the average of the 83 cities in the United States included in the Doing Business North America 2022 study. This would prevent job losses, a reduction of working hours, loss of benefits, and price increases in products and services, while stimulating the creation of entry-level jobs.
- **Repeal Law No. 60 of January 27, 2018**, "To amend Article 6 of Law No. 180 of 1998, Puerto Rico Minimum Wage, Vacation, and Sick Leave Act" to **discourage absenteeism and inefficiency in employment**.
- **Repeal Law No. 106 of 2024**, "Anti-Hair Style Discrimination Act" to prevent the government from imposing aesthetic judgments and to **promote the hiring of employees without distinction of race**, without increasing burdens.
- **Amend Law No. 80 of May 30, 1976**, "Unjustified Dismissal Act" to establish a **reasonable maximum limit for monetary compensation for unjustified dismissals**, in order to alleviate the economic burden, particularly for micro, small, and medium-sized businesses in Puerto Rico.
- **Review the relevant regulations of the Department of Labor and Human Resources** so that, in dismissal cases where an employee handbook with clear definitions of duties exists, **the employee has the burden of proving that the dismissal was unjustified**.
- **Review and evaluate** practices in the 83 cities included in the Doing Business North America 2022 report regarding **sick leave, maternity leave, vacation policies, and additional benefits and protections**. In more than 70 of these jurisdictions, benefits are market-driven and generally higher than those established by law in Puerto Rico. The goal is to **promote better benefits for employees through competitiveness**, without undermining job creation or imposing onerous conditions on micro, small, and medium-sized businesses in Puerto Rico.

Getting Electricity

- **Reduce the cost of electricity** per kWh in commercial properties, using the U.S. average as a benchmark.
- Evaluate **reducing the cost per kWh in commercial properties** by paying, fully or partially, the debt with the Puerto Rico Electric Power Authority using the General Fund, based on additional reductions obtained by paying it in full at present value.
- **Ensure compliance with the targets** established for the System Average Interruption Duration Index (SAIDI) and the System Average Interruption Frequency Index (SAIFI) by the Energy Bureau of the Public Service Regulatory Board and LUMA, pursuant to the resolution issued in case NEPR-AP-2020-0025.
- Direct the Energy Bureau to establish **regulations and open-access costs for transmission and distribution lines** to provide market certainty and promote private investment.

Paying Taxes

- **Amend Law No. 161 of December 1, 2009**, "Puerto Rico Permitting Process Reform Act" to **simplify the tax system and the filings** required of organizations.
- **Amend Law No. 1 of January 31, 2011**, "Puerto Rico Internal Revenue Code of 2011" to **reduce the tax burden on corporations** using as a benchmark the average of the 83 cities included in the *Doing Business North America 2022* study.
- Create a collaborative agreement between the Department of the Treasury and the Department of Labor and Human Resources to **consolidate and simplify the filing of payroll tax returns** and employee wage income tax returns.
- **Reduce the individual income tax rate** using as a benchmark the 83 cities included in the *Doing Business North America 2022* study.

Land and Space Use

- **Reduce the number of procedures** required to **transfer real property** using as a benchmark the 83 cities included in the *Doing Business North America 2022* study.
- Reduce the cost of processing a deed (as a percentage of per capita income) using as a benchmark the 83 cities included in the *Doing Business North America 2022* study.
- **Eliminate Section 8.5.3.1 Minimum Required Spaces** from the "Joint Regulation for the Evaluation and Issuance of Permits Related to Development, Land Use, and Business Operations" of January 2, 2021, to **allow applicants to determine the minimum number of parking spaces** to be provided for motor vehicles.

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RECOMMENDATIONS

PRICE CONTROL OF FREIGHT TRANSPORTATION

- Amend Law No. 109 of June 28, 1962, “Puerto Rico Public Service Act” and Regulation 9358 of February 7, 2022, “Regulatory Code of the Bureau of Transportation and Other Public Services” to **eliminate the absolute control of freight transportation rates on the Island**, thereby allowing carriers and business owners to reach free and voluntary agreements; this would encourage entrepreneurship and innovation in freight transportation and improve prices for consumers.

INSPECTION OF CONTAINERS

- Eliminate Regulation 8837 of November 18, 2016, “Regulation to Implement the Necessary Measures to Ensure Efficient Commercial Traffic Flow in the Inspection of Incoming Cargo Containers to Improve Port Facility Security and/or Otherwise Implement the Public Policy Delegated by the Government of Puerto Rico to the Ports Authority” to **improve efficiency** in import processes and **promote more competitive prices for consumers**.

DISTRIBUTION CONTRACTS

- Amend Law No. 75 of June 24, 1964, as amended, “Distribution Contracts Act” to **reduce the time and costs** associated with resolving contractual disputes under Law 75 and to allow principals and distributors to **reach free and voluntary agreements**.

CERTIFICATES OF NEED AND CONVENIENCE

- Repeal Law No. 2 of November 7, 1975, “Certificates of Need and Convenience Act” to **foster private investment, competitiveness, innovation higher quality, and better prices** in the healthcare sector.

CORPORATE SUBSIDIES AND INCENTIVES

- Amend Law No. 60 of July 1, 2019, “Puerto Rico Incentives Code, to **eliminate any subsidies and incentives that are not of strategic importance to the Island** or that do not demonstrate, through empirical data and objective evidence, a return on investment and that the market does not incentivize naturally and autonomously.
- Require the Department of the Treasury to **include performance and fiscal cost metrics for corporate incentives** in its annual tax expenditure report.

MUNICIPAL BUSINESSES

- Amend Law No. 107 of August 13, 2020, “Puerto Rico Municipal Code” to **prohibit municipalities from using public funds** to create, acquire, sell, and engage in any commercial activities **related to the operation and sale of businesses and franchises**, to prevent undue and unfair competition with the private sector.

GOVERNMENT SIZE

- **Gradually decrease government employment as a percentage of total state employment** by promoting business creation, to increase opportunities for better jobs in the private sector.
- **Reduce the number of state agencies** based on a comparative analysis with other jurisdictions, to **lower overall government spending as a percentage of Puerto Rico’s personal income** and increase efficiency in government services.

CONCLUSION

The highlighted regulations represent **governmental obstacles that limit workers’ ability to participate in economic activity** and contribute their industriousness and talent to the Island’s prosperity and well-being. Eliminating these barriers, which stem from **centrally planned, paternalistic, and protectionist public policies, is essential for Puerto Rico residents to become the driving force behind economic growth**.

Private investment, entrepreneurship, and labor are fundamental drivers of societal well-being and progress; yet, for these to effectively fuel Puerto Rico’s economic growth, it is essential to ensure that **individuals and businesses can retain ownership of their gains and enhance returns** on economic activity. Only through a truly open and fair environment **can the potential of each person on the Island be unleashed**, giving them the opportunity to prosper and **contribute to the sustainable development of Puerto Rican society**.