



AMERICAN UNIVERSITY

WASHINGTON, D C

June 4, 2014

*****American University Media Conference Call*****

**AU Economist Arturo Porzecanski & University of Puerto Rico's
Elías Gutiérrez Discussed Puerto Rico's Economic Situation**

WASHINGTON, D.C., June 4, 2014 – In a media teleconference today hosted by American University, international economist and American University professor Arturo Porzecanski and University of Puerto Rico economist Elías Gutiérrez discussed their views on key political and economic factors contributing to Puerto Rico's faltering economy. Gutiérrez commented on Puerto Rico's crushing debt, the contraction in productive capacity, de-population and failed attempts by the government to address a stagnant economy. Porzecanski discussed the deepening recession; proposed legislation that would raid the deposit insurance fund (COSSEC) set up by the island's cooperative banks; and the government's recent nullification of a legal agreement that would have returned \$230 million in tax credits to one of the island's largest mortgage lenders, Doral Financial Corp., which he argued could cause serious economic repercussions. (See: <http://thehill.com/blogs/congress-blog/economy-budget/207436-puerto-rico-is-this-any-way-to-run-an-island>)

Dr. Arturo Porzecanski

Why would the Puerto Rican government do anything that would threaten the stability of its cornerstone financial institutions? The Doral example is one such instance in which the government nullified a contractual obligation with a major lending institution — a move that has since created serious doubts about the stability of the commercial banking segment. Take this lesson from global markets: when banks teeter, confidence vanishes and conditions get worse. It's important not to rock the boat of the banking system, because one doesn't want to trigger a credit crunch just when the economy is struggling to regain ground. We watched that movie in 2008 in the continental United States, and we don't want to watch it again.

Dr. Elías Gutiérrez

The financial situation in Puerto Rico is badly shaken. After all, back in 2010, we lost three or four banks in one weekend, and that was terribly destabilizing. We are witnessing a profound vacuum of political leadership, so the Commonwealth is in danger. Unfortunately, leadership seems to be a scarce resource at the moment. Our government gives the impression that it is utterly disoriented, and this is hurting the investment climate and economy. We must massively increase our productive capacity in Puerto Rico, but that will require the government to step aside and make room for private-sector investment.

Dr. Arturo Porzecanski is a professor of international economic relations at American University in Washington DC. He previously worked for nearly three decades as a senior international economist on Wall Street. (See: <http://nw08.american.edu/~aporzeca/>)

Dr. Elías Gutiérrez is an economist, professor, and former Dean of the Graduate School of Planning at the University of Puerto Rico.

SCHOOL OF INTERNATIONAL SERVICE

4400 MASSACHUSETTS AVENUE, NW WASHINGTON, DC 20016-8071 1202-885-1602 FAX: 202-885-2494