

It's the economy, stupid

BY RAFAEL HERNÁNDEZ COLÓN

To come out on the winning side, political campaigns must be focused. There are many issues in every campaign. The key to winning elections resides in focusing on the central concern of the voters. Bill Clinton, the ultimate politician, knew this well. In his 1992 campaign

for the Presidency of the United States, a sign was posted in the national campaign headquarters and in all state headquarters in order to focus the campaign. It read: "It's The Economy, Stupid." The U.S. economy had gone into recession during the latter part of the first Bush's presidency. The people were hurting economically. Clinton won the presidency by focusing on this issue. But this was easier said than done. New issues come up every day in campaigns. It takes discipline and strategic vision to maintain a focused campaign staff. So the sign went up: "It's The Economy, Stupid." Kind of rude, but effective.

As we begin the New Year—2010—the Clinton campaign sign has come powerfully into my mind. Since March 2006 our economy, which previously suffered anemic growth, has been in recession. In fiscal 2009 the island's gross national product had a negative growth rate of 5.5%, according to information I have been provided. Since the beginning of the recession overall employment has shrunk by 7.5%, most significantly in key economic sectors such as manufacturing. Not surprisingly, the government's earnings diminished by 6.9% and during the past five years it has been unable to emerge from a structural deficit in its budget.

Given this situation, one is tempted to recommend that the Clinton campaign sign—"It's The Economy, Stupid."—be placed in each government department, agency or instrumentality with powers bearing on economic activity so that they focus on economic development and get a move on. But we have a problem: We lack a strategic vision as to economic development.

I have no doubt that the government is focused on reactivating the economy and bringing it back to positive growth, even if anemic. But there is a difference between economic growth and economic development. We need both. Development is what creates jobs, permanent—not short-term-jobs; jobs that produce goods and services on an ongoing basis such as manufacturing jobs or jobs in the service sector. Jobs in construction are good, but they only last for the life of the project. We must go after them, but at the same time we must also go after the jobs in the manufacturing and service sectors and this is what is lacking. These other jobs are the ones with staying power. Investments in plants and equipment for

production purposes, or in technology to provide new services, has fallen dramatically in Puerto Rico.

In order to stimulate growth the government is relying on Obama's stimulus program and on the Public Private Partnerships (PPPs), neither of which is directed towards creating permanent jobs in the productive sectors. The stimulus package will provide more than \$6 billion to our economy in two years but will be directed towards social programs, education, construction, consumption, etc. The PPPs will provide another \$6 billion in much-needed infrastructure projects—toll roads, electric generation plants, schools—over the next four years. They will also provide a more efficient administration of the Luis Muñoz Marín Airport and an automated water-meter reading and collection system for the Puerto Rico Aqueduct & Sewer

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Authority. These projects will create construction jobs and will provide required infrastructure for economic development, but by themselves they create no meaningful amount of permanent jobs. The other PPP projects—privatization of the airport and automation of the collection systems—will provide more efficiency but a lesser number of jobs.

So, where is the strategy for economic development? We had one once. It was called Operation Bootstrap. It consisted in stimulating manufacturing operations in Puerto Rico by providing incentives and aggressively pursuing the companies that would make such investments in our island. Through these policies we achieved a real growth rate of more than 6% for two decades bringing about the transformation of an agricultural economy into a thriving industrial high-tech economy with profound social justice.

These policies, which the Asian tigers such as Taiwan or Singapore borrowed, were maintained up until the end of my administration as governor of Puerto Rico in 1992. They were so effective that when the U.S. economy went into recession, as it did during the last two years of my administration, our economy did not go into recession but continued growing albeit at a slower pace.

In 1995 the Rosselló Administration agreed to the repeal by Congress of Section 936 of the U.S. Tax Code, the principal incentive which we

offered to promote investment into Puerto Rico.

The demise of the Puerto Rican economy closely parallels the phasing out of Section 936 which began in 1996 and ended in 2005. In fiscal 1997, GNP growth was 3.4% but by fiscal 2005 it was down to 1.9% and by fiscal 2006 it had reached 0.6%. After that, there has been no growth. Contraction has set in up to this day.

Congress has provided no substitute for Section 936. Our new law providing tax incentives does not provide any incentive comparable with 936. The Fortuño Administration has not focused on this subject. So we lack a strategy for economic development. We do have one for the fiscal rehabilitation of our government, one for economic recovery and one for infrastructure development. They are necessary, but not enough. In order for Puerto Rico to regain meaningful levels of growth we must resume economic development.

Devising the strategy for economic development will put the pro-statehood administration to the test. Such a strategy requires competitive advantages *vis a vis* the states because our principal source of domestic investment is the U.S. and this investment does not flow unless locating in Puerto Rico is advantageous *vis a vis* the states. Local sources of investment cannot match what we can attract from the U.S. with an incentive comparable to 936.

The pro-statehood administration will not accept mechanisms for economic development for Puerto Rico which are not constitutionally viable in the states. This is why they gave up Section 936. This policy constraint, which can be called the policy of uniformity, puts severe limitations on the alternatives at hand to promote economic development.

Puerto Rico is today a Commonwealth because economic realities convinced Luis Muñoz Marín and the PDP leadership of his time that our economic development required the policies which this status permits and independence did not. Our economy is moving in a direction which, if not corrected soon by an economic development strategy, will bring statehooders face to face with the same dilemma Muñoz faced, but not from the ideal of independence, rather from the opposite end: from its ideal of statehood. At that point in time, electoral realities will call upon them to revert their policy of uniformity and hang up the Clinton sign in their offices or suffer the wrath of a desperate public in their next visit to the polls. ■

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