

The Brookings—Center for the New Economy Report

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The Brookings Institution, which produced a landmark report on the situation in Puerto Rico during the third decade after the U.S. occupation of the island, teamed up with the local Center for the New Economy (CNE) to produce a new report going into our “problematique” in depth. Seventy-five years have passed since the first report. During these years, the transformation of our economy took place and the modernization of our institutions. The new report is no doubt a major contribution to the diagnosis of our problems and toward the solutions of these problems. But, there is a part of it that troubles me.

The report yields to what became fashionable during the Clinton and Rosselló administrations, which is 936 bashing. Economists are not immune to the currents of public opinion. The stormy winds against 936 set loose by Robert Reich, Clinton’s secretary of Labor, who characterized Section 936 as “corporate welfare” are still blowing strong. Reich’s rhetoric opened a breach in Congress against 936, immediately seized upon by the U.S. Treasury and local statehooders who had a love-hate relationship with 936. They hated it because it was incompatible with statehood. When in power they loved it because it was the most effective job creation tool anybody could ask for. The Rosselló administration made the ideological strategic decision not to defend 936. The financial community in Puerto Rico bent to the wishes of the powers that were, and 936 was doomed. But matters got even worse. The rhetoric got embedded in developmental policies and fiscal incentives from Congress special to the Commonwealth were demeaned and vilified.

My first administration fought hard to obtain Section 936 from Congress. In 1975, the House Ways & Means Committee was intent on depriving us of Section 931 of the U.S. Tax Code, the section that had most contributed to the success of Operation Bootstrap in Puerto Rico. Teodoro Moscoso, the father of Bootstrap, whom I brought back to Fomento in 1973, and Salvador Casellas, then secretary of the Treasury, presented such a strong case for tax incentives as an aid to growth in Puerto Rico, that they not only preserved Section 931; they enhanced it with Section 936, allowing tax-free repatriation of profits and a substantial pool of dollars—billions—to our financial system. This pool of dollars became known as the 936 funds.

Our thinking was not based on ideology or on rhetoric. You can say it was based on constructive realism. That is, given the breach existing between the per-capita income level of the poorest state and Puerto Rico and given the burdens such as the federal minimum wage and the Jones Act, which Congress has seen fit to visit upon us, it is not only fair, but necessary, for Congress to compensate with fiscal incentives to provide for growth in our economy.

When a second assault against 936 came in 1985, under the Reagan administration, I defended it successfully through an imaginative use of 936 funds, to finance investments in economic development throughout the Caribbean, thus complementing Reagan's Caribbean Basin Initiative, which lacked support for private investment for economic development. At that time, Puerto Rico became the leader in economic development in the Caribbean Basin with investments in twin plants—Puerto Rico and another Caribbean country—and other projects that totaled 1.3 billion dollars at the end of my third mandate.

My problem with the Brookings CNE report is that it minimizes the fact that without tax incentives—936 and our local tax incentives—we would not have industrialized Puerto Rico, and that what we now have as our industrial infrastructure is the foundation upon which to launch a new phase in our economic development that will bring Puerto Rico into the knowledge economy of the 21st century.

Take the pharmaceutical industry for example. There are 43 pharmaceutical firms operating in Puerto Rico. Sixty-three manufacturing pharmaceutical plants provide 26,200 direct jobs, and 50,800 indirect jobs. This is one of the highest concentrations of pharmaceuticals in the world. Seventeen of the top-20 prescription drugs sold in the U.S. were manufactured in Puerto Rico last year. Inserting ourselves into the knowledge economy requires that we promote research in Puerto Rico and its commercial application through existing firms or through start-ups. One of the most promising fields is biotechnology.

The pharmaceutical industry is the linchpin on which biotechnology turns. Through biotechnology miracle drugs are made—right here in Puerto Rico—drugs that slow the aging process, treat diabetes, combat Alzheimer's, medications that will permit us all to live longer, happier, more productive lives. Four pharmaceutical manufacturers, Amgen, Abbott Health Products, Eli Lilly and Ortho Biologics, are already involved in the high-tech manufacture of biotechnological medications. They employ 4,194 Puerto Rican workers. We must build upon these foundations and we must not forget how they came about, nor be intimidated by anti-936 rhetoric against seeking federal or local tax incentives that can enhance investments in such matters as research and development in Puerto Rico.

Another foundation upon which we must rest our policies for economic development in the 21st century is our communications infrastructure. In 1973, I made the decision to purchase PRTC because ITT had no faith in Puerto Rico, so they were unwilling to make the necessary investments to modernize and develop Puerto Rico's then backward telephone system. We acquired it for \$130 million. We invested what was necessary and when my third term was up in 1992 we had a state-of-the-art telephone system worth \$2 billion serving all of Puerto Rico and connecting us to all parts of the world. Having privatized the telephone company in 1998, we must now encourage investment and competition by all the companies participating in what is now a competitive system to maintain our telephone infrastructure at a state-of-the-art level, and provide us with such access to broadband networks as the knowledge economy requires for businesses and consumers.

The Brookings CNE report should be seriously studied by government and the private sector. It states where 936-induced development went amiss and this must be taken into consideration in planning for the future. It also makes proposals such as the development of a financial and business center on the island that must be seriously considered because we must not forget that development or growth is incremental and all sectors can and must contribute to it. But the report must be analyzed with a deeper perception of the broader reality of where we are today in Puerto Rico and how this came about.

