

## **A goal we can all share**

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The breach in the per capita income level between Puerto Rico and Mississippi, the poorest state of the Union, has been widening in recent years. We are losing ground in the wealth of the Commonwealth and in economic growth vis-à-vis the states of the Union. Our unemployment rate is more than twice as high; even worse is our rate of participation in the work force. The quality of life is deteriorating. A soaring crime rate instills a feeling of insecurity all around us. A new wave of migration to the mainland U.S. has set in.

To reverse this calamitous situation requires action by the federal and Commonwealth governments. Since Congress, with the acquiescence of the NPP leadership repealed Section 936, there has been no federal policy for the economic development of Puerto Rico. This has had a very negative effect on our economy for the federal government controls many of the variables that bear upon our economic development. Some of these are the minimum wage, costs imposed by OSHA, costs of ocean transportation, costs due to environmental laws, competition from international trade, etc.

Federal actions or inactions regarding these economic variables have seriously burdened our economy in recent years. While the economy of Puerto Rico flounders, there is no comprehensive federal policy under which we can move the economy forward. Economic matters regarding Puerto Rico are considered piecemeal—e.g. the recent approval of a new minimum wage applicable to Puerto Rico—without putting them into a broader frame of reference. Worse than that, there is no institutional responsibility within the federal government regarding the economic development of Puerto Rico. Power over such matters is dispersed among various congressional committees none of which has made it its concern to provide the framework for us to develop economically to close the per capita income gap with the poorest state.

Status politics are mainly responsible for this. The broader visions of Puerto Rico, which we urge upon Congress, are cast in status terms not in economic terms. Therefore the fundamental considerations in Congress regarding Puerto Rico are of a political nature not of an economic nature and hence the sad state of affairs into which our economy has devolved. We can not allow the status gridlock that exists in Congress to prevent us from getting Congress to focus on our economy.

Operation Bootstrap, through which we industrialized the island, was successful because we worked within the framework of sections 931 and later 936 to attract industry to Puerto Rico. The competition that globalization has brought upon us plus the higher costs of production visited upon us today by federal laws require a new framework for us to relaunch our economic development. The Acevedo Vilá administration has rightly pointed to the knowledge economy with research and development in the life sciences as the way to a new level of economic development. I agree. The pharmaceutical sector is the

keystone of our economy and we must build upon it. Yet, we are missing opportunities. Sadly, we are becoming experts at missing opportunities.

The repeal of 936 did not work out for the U.S. Treasury as it had expected. The drug companies did not repatriate their profits to the U.S. as had been predicted by Treasury. They have instead invested these profits overseas. Ireland and Singapore have been the two principal beneficiaries.

The result of the repeal of 936 has been that foreign countries are reaping the financial benefits of profitable drugs developed in Puerto Rico. The companies are not only expanding manufacturing in these countries, they are also opening up research and development facilities there. This should be occurring in Puerto Rico if we are to close the gap with regards to the poorest state of the Union.

The U.S. Treasury faces considerable difficulties in collecting corporate taxes within a globalized economy based on information and knowledge and not hard assets. Capital is mobile. Companies establish themselves in different countries, preferably close to their markets. The value of patents and trademarks can not be easily quantified. Income is shifted to places where it is least subject to taxation.

Given this reality, the U.S. national interest would dictate that instead of allowing investment particularly in research and development to go to foreign countries where it will be immune from U.S. taxation and where investment will not benefit the U.S., policies should be established so these activities could be channeled to Puerto Rico. Within this context, better fiscal controls than those in foreign countries can be established by the federal and Commonwealth governments. Induced research and development should be the motor to move the economy of Puerto Rico to a new level of development. It can make an important contribution in closing the gap with the poorest state if complemented by developmental and educational policies from the government of Puerto Rico.

The government of Puerto Rico must engage Congress with a comprehensive proposal to relaunch economic development on the island relying on the assets that we now have, such as the pharmaceutical industry, our research capabilities and workers who have gained respect throughout the world.

Nevertheless, we must go even further with Congress to close the gap with the poorest state. Federal assistance programs targeted to mainland income levels have created a poverty trap in Puerto Rico. Recipients of these programs do not work because they lose their benefits. This is then a disincentive to work. During my second term as governor, I started a program called "*Pan y Trabajo*" in which recipients of food stamps could work while not losing their benefits. The whole structure of federal assistance in Puerto Rico needs to be re-examined to eliminate disincentives to work while receiving federal benefits. At the same time, the Commonwealth government would have to implement policies for job creation in the private sector for less skilled workers who would be joining the work force searching for jobs.

We may be divided on status but closing the gap with the poorest state of the Union in a realistic amount of time is a goal we can all share.