

It is the economy, not status II

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In my most recent column, I argued against H.R. 2499, the status bill in Congress, on the basis that it is a distraction that projects us as divided people and causes Congress to lose focus on the serious economic problems Puerto Rico is facing. The quality of life in Puerto Rico, marred by an appalling crime rate, would have a dramatic turnaround if only we could increase our participation rate in the labor force by 20%. The U.S. rate is 78%; ours 43.2%, the lowest in the world. We must keep Congress focused on measures to attend to our economic malaise. Our problem is serious.

Far from growing, Puerto Rico's economy is contracting. For the past two-and-a-half years, our economy has been in recession. In 2008, the island's gross domestic product had a negative growth rate averaging 1.2%. Overall employment shrank by 2.8%, most significantly in key economic sectors such as manufacturing (-3.6%), transportation (-5.0%) and information technologies (-1.9%). Not surprisingly, the government's earnings diminished by 6.9% and, during the past five years, has been struggling to emerge from a structural deficit in its budget.

The breach in per capita income levels and unemployment rates between Puerto Rico and Mississippi—the poorest state of the union—has been widening. As of 2008, Puerto Rico had a median household income of \$17,741 and an unemployment rate of 12.6%, compared to Mississippi's \$36,338 and 7.9%, respectively.

The number of households under the poverty level is also alarming. More than 50% of households on the island live under the level of poverty. This figure is even more alarming in those households led by single women, where the poverty level rises to 60.7%.

Not only is Puerto Rico losing ground vis-à-vis the states in terms of growth and wealth, but also vis-à-vis its neighbors. As 2008 drew to a close, the economies, for instance, of the Dominican Republic (8.5% growth in gross national product [GNP]), Panama (11.2%), Colombia (7%), Costa Rica (6.8%), Barbados (4.2%) and Antigua & Barbuda (6.1%) not only were expanding but also doing so swiftly and consistently. While most economies in the hemisphere grew, albeit to varying degrees, Puerto Rico's dwindled.

With 4 million inhabitants and a population density of 1,113 people per square mile, by far higher than any state, Puerto Rico has come to rely too heavily on federal transfers for its economic survival. In 2008, out of a total consolidated budget of \$26.6 billion, \$5.73 billion, or 21.5%, came from the federal budget—mostly for healthcare, education and low-income housing. Direct federal payments to individuals in Puerto Rico was \$10.46 billion—mostly by way of Social Security retirement and disability benefits,

veterans' pensions and food stamps—a 7.6% increase from the previous year. This figure accounts for more than 20% of personal income in Puerto Rico.

The economic meltdown, preceding and unrelated to the financial crisis in the U.S., has unleashed grave social ills leading to an acute deterioration of quality of life on the island. The massive exodus of highly educated young professionals to the U.S. mainland, particularly to South and Central Florida, stands as an unfortunate byproduct of such a meltdown. Estimates suggest that between 2000 and 2006, close to 200,000 Puerto Ricans fled to Florida. If things aren't set right in Puerto Rico, the island's middle class will all but disappear.

A concerted federal and Commonwealth approach is imperative to rectify this dire scenario. Action from Washington is of the essence because the federal government controls those economic variables that most decisively bear upon Puerto Rico's economic development—such as the minimum wage, costs imposed by occupational health and safety regulations, costs of ocean and air transportation, costs due to environmental laws and competition from international trade. Federal control over these variables imposes the costs of the most developed and powerful economy of the world on Puerto Rico's production of goods and services.

If we want to increase our labor force participation rate, if Puerto Rico is to have a healthy economy, one with ample and varied opportunities for the advancement of Puerto Ricans on the island, federal policies as to economic development—not transfer payments—must compensate Puerto Rico for the burden congressional legislation for the mainland's economy has placed upon the development of the island's economy. This predicament won't be resolved through the countercyclical initiatives to abate the recession in the U.S. It requires policies that will stimulate direct foreign and domestic investment and trade as a means of creating permanent jobs on a sustainable basis, for an extended time. Economic development isn't a countercyclical proposition.

Section 936 of the U.S. Tax Code provided such a policy by exempting repatriation of profits of U.S. companies that established manufacturing operations in Puerto Rico from federal taxation. Congress, under the Clinton administration, repealed it with a 10-year transition period. The pro-statehood government in Puerto Rico at the time opposed Section 936 because it was an incentive the states don't have due to the uniformity clause of the U.S. Constitution. The demise of the Puerto Rican economy closely parallels the expiration of this transition. Congress has provided no substitute for Section 936, largely due to the status gridlock.

The collapse of the island's economy, the competition that globalization has brought to bear, plus the higher costs of production stemming from a host of federal laws and regulations demand a new framework for relaunching the Commonwealth's economy, one that must rely on the assets the island already possesses such as its pharmaceutical industry, technological infrastructure and a sophisticated workforce that has gained the world's respect.

To provide for this framework, we must surpass the status gridlock; we must surpass ideological status-oriented visions that don't converge and prevent us from moving forward. Convergence on economic development is a must. Our government and parties must converge. Congress will then converge with us.

This column will be continued.

