The economic trajectory of Puerto Rico since WWII

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Globalización y desarrollo: desafíos de Puerto Rico frente al siglo XXI.
By Comisión Económica para America Latina y el Caribe: CEPAL.
284 pages; np [paper]

By Eliezer Curet Cuevas.
393 pages: $30.00 [paper]

Puerto Rico: Negotiating Development and Change.
By James L. Dietz.
221 pages: $19.95 [paper]

Pay to the Order of Puerto Rico:
The Cost of Dependence to the American Taxpayer.
By Alexander Odishelidze and Arthur Laffer.
471 pages: $24.99 [cloth]
corporations whose profits originate in Puerto Rico. Paradoxically, the tax relief has not translated into any notable benefits for the people of Puerto Rico. For these reasons, the presented books urges that the Island government adopt a model of development that diminishes its dependence on the United States.

**Stagnation, growth, and political-institutional variables in economic development**

Puerto Rico has been a nonincorporated territory of the United States since 1898. Despite the ensuing economic transformation of Puerto Rico, the word “colony” still describes the politics and economics of the Island. Nevertheless, since the drafting of the Commonwealth Constitution in 1952, the Island has enjoyed substantial investments from the United States, which has generated significant changes (political, economic, and international). Over this time period, the Popular Democratic Party (PPD by its Spanish acronym) has driven the development strategy of the Island to the point where social and economic problems are given priority over resolution of political status. The policy goal became economic growth but without the earlier measures of import substitution.

The relationship with the United States significantly influenced the role of the Island government as a promoter of economic activity through pre-established policies; the economic peak of 1947–1974 can be largely attributed to that influence. Nevertheless, beginning in 1975, significant changes were occurring in both the political and economic spheres. Some were the consequence of trends in the world economy at the end of Bretton Woods in 1973; others were affected by the unique economic, political, and legal relationship of the United States. Despite best efforts to jump start the economy with the Law Section 936 in 1976, Puerto Rico had become submerged in a protracted stagnation.

As shown in Graph 1, by the middle of the 1970s, the economy of Puerto Rico (its GNP) oscillates around an equilibrium level of activity. Moreover, it is worth pointing out that the equilibrium path, rather than showing any trend toward sustainable development, shows signs of deterioration. For the years 1975, 1982, 1983, and 2002, the economy contracted; for the years 1991 and 1992, the growth was virtually zero.

sector depended on the ability of the government to expand its infrastructure in keeping with the capital investment strategy and resolve social problems in an effective way.

The upshot is that organizational, administrative, and public policies are fundamental in the dynamic of the local economy. Nevertheless, in distinction to the administrations in the ’60s and ’70s, widespread distrust of the government exists inasmuch as those in power from 1975 to 2000 have broken the continuity of public policy with respect to economic development and have significantly undermined the professionalism of the bureaucracy. According to this author, the previous governments have not been able to recruit, in general terms, trained professionals capable of exercising the function of leadership and administration of the programs and organism of the central government. The positions of trust, in major part, are granted for political reasons and not for ability and the desire to contribute to the public good. In addition, adding to the current friction among the political parties, a very adverse atmosphere has been created for the economy.

A contentious climate, both inter- and intraparty, characterizes the last three administrations (1950–2000). Corruption is linked to the evolution of economic activity in Puerto Rico.

The greatest source of corruption lies in the approval of decisions, favors, help, permits, exemptions, and supply contract and project development of large economic interests, which sponsor legal firms and professional services. (2004: 307).

**Endogenous growth and human capital**

Dietz begins much of his book in a vein similar to Curet, surveying how the Puerto Rican economy evolved over the last half of the twentieth century. In the last section, regression models are presented with the purpose of explaining the engines of growth. Drawing on this empirical evidence, the end of the book lays the foundations for a “New Economy” and proposals for the economic future of the Island.

The first, an empirical model developed by William Baumol and Edward Wolf in 1996, is grounded in the theory of endogenous growth. The dependent variable is the annual growth in the Gross Domestic Product (GDP), and the independent variables are the ratio of GDP per capita in Puerto Rico and the United States, the average investment as a percentage of GDP, a proxy for human capital, and measures of openness to the world economy and population growth. What distinguishes the Baumol and Wolf model from that of Curet are the variables of openness and human capital and the period chosen (1950 to 1990).

According to the results, the level of education and the accumulation of
1. Greater correspondences in the area of business development. One can easily identify concurrent proposals stressing the importance of promoting simultaneously savings and investments at the local level, business formation at the local level, and support programs;
2. The necessity to strengthen the chain of value in manufacture;
3. An increase in the promotion of investments in the service sector and consequent grounding in manufacturing;
4. An increase in public and private services of support for Puerto Rican enterprises; and an improvement in the method of financing, including venture capital;
5. The importance of research and development. One must deepen alliances among businesses, universities, and other research centers;
6. The importance of investing in the infrastructure to become a distribution center for the Americas, with concrete proposals about specific investments in shipping ports and airports;
7. The necessity of greater participation at the municipal level in development initiatives (relating to the proposals on the importance of support and promotion of local businesses);
8. Education: a consensus exists regarding its relevance in the new economy. It coincides with the efforts to improve the Puerto Rican educational system;
9. Health Care: the necessity to improve coverage and quality of services as well as facilitate access to health care for the entire population;
10. Health Care-Senior Citizens: general agreement on the necessity to carry out studies about the impact of aging on the population in health care and social and economic services;
11. Environment: general agreement about improving land use and enforcing standards. Several proposals agree in the urgency of a master plan on land use and enforcement of regulations;
12. Environment: agreement to support the conservation of watersheds and create waste management plans;
13. Policy Implementation: agreement with respect to the quantity of bureaucratic procedures involved for the establishment of a business and the loss of time in requirements by the government, thus discouraging investment;
14. Civil Society, including the private sector: agreement among proposals about the importance of civil society in several areas—health, education, community management, labor relations, environment, etc.—in decision-making and the management of certain services.

From the CEPAL findings, one can say that a broad consensus exists on the strategy that should be adopted, emphasizing innovation, technology transfer,
preserve friendship and mutually beneficial arrangements—open immigration for example—while maintaining real sovereignty and enjoining the right to unilaterally revoke prior agreements.

3. Opt for statehood, setting in motion a process for Puerto Rico’s admission to the union as the 51st state, with permanent guarantees of citizenship and equally with other states.

4. Continuation of its current status as an incorporated territory of the United States, enjoying the substantial measure of self-rule that had been achieved over time but acknowledging the ultimate discretion of the U.S. Congress, consistent with the U.S. constitution, to determine the parameters of that rule (2004: 243).

Concluding remarks
The four books emphasize the debate over the interpretation of the evolution of the Puerto Rican economy since the end of WWII and how it integrates with understanding the current situation and feasible solutions. Curet’s analysis focuses on the political and administrative aspect and their effects on economic activity, especially since 1975. The book points out that the economic activity of the country has been affected severely by: excessive growth of public debt, a rupture of continuity in the public policies about economic development, a significant drop in knowledge about political power, the lack of governability, and the review of organizational structures and regulatory oversight (to stimulate attendance to business and citizen requests), as well as government intervention in the direct provision of certain services.

In agreement with Curet, all this adversely affects the current public policy and contributes to the unfavorable tax scenarios that the government routinely faces. For his part, Dietz, grounded in the theory of endogenous growth, conjectures that the level of education and accumulation of human capital, like the investment in physical capital, are factors that significantly contribute to economic growth. As seen in the empirical evidence, the greatest source of economic growth comes from an increase in efficiency, derived from the accumulation of human capital and assimilation of technology, combined with an appropriate level of physical capital investment. Dietz concludes that human capital as much as the creation and good use of financial assets for investment purposes should be the principal factors in the economic strategy for the future.

The synthesis about globalization and development by CEPAL draws on the work of Dietz and Curet, showing how several different proposals converge. The strategic emphasis placed by CEPAL lies in education, the environment, and industrial linkages and can throw light on important aspects such as the