

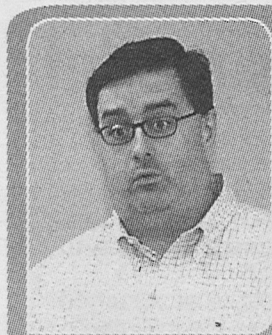
# Puerto Rico's anemic private sector

Professors Steven Davis and Luis Rivera Batiz, in an analysis conducted for their contribution to the book *The Economy of Puerto Rico: Restoring Growth*, published in 2006 by the Center for the New Economy and the Brookings Institution, found that a "truly striking feature of Puerto Rico's economy is the underdeveloped state of its private sector." According to their analysis, private sector employment rates in Puerto Rico are less than half the U.S. rates in recent decades.

Furthermore, they found that these private sector employment figures overstate firsthand exposure to employment in the unfettered free enterprise segment of the formal economy because many Puerto Ricans with "private sector" jobs work in industries with a major role for government employment (like hospitals and schools), industries that owe their Puerto Rican operations to special tax subsidies (pharmaceuticals), or in industries that face multiple bureaucratic obstacles to business activity (construction).

Therefore, if we look only at the free enterprise segment of the economy, which comprises businesses that operate in the formal economy without large subsidies, special regulatory advantages or heavy-handed oversight by government bureaucracies, we find that in 2000 only 24 percent of Puerto Rico's adult population worked in the free enterprise sector, compared with 51 percent in the United States.

Now, it could be reasonably argued that comparing Puerto Rico with the U.S. is unfair and that the appropriate benchmark for the island would be a small, open economy. So, let's take a look at employment in Ireland. According to data from Ireland's Central Statistics Office, in 2008 the total population was 4.2 million people, of which 3.5 million were 15 years and over. Of those 3.5 million, approximately 2.2 million were in the labor force and 1.3 million were outside the labor force, for a labor force participation rate of 62.8 percent. Finally, of the 2.2 million people in the labor force, some 2.1 million were employed and 115,000 were unemployed.



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Commentary

In Puerto Rico, in 2008 the total population was approximately 3.95 million people, of which 3.06 million were 16 years and over. Of those 3.06 million people, 1.37 million were in the labor force and 1.69 million were outside the labor force, for a labor force participation rate of 44.8 percent. Finally, of the 1.37 million people in the labor force, some 1.19 million were employed and 188,600 were unemployed.

Right away you can notice some stark contrasts. Ireland and Puerto Rico have similar populations and demographic structures, yet there were 910,000 more people employed in Ireland than in Puerto Rico. In addition, the labor force participation rate, which is the percentage of the adult population that is economically active, was 18 percentage points higher in Ireland than in Puerto Rico. Indeed, in Puerto Rico more than half (55.2%) of the adult population was officially economically inactive, while in Ireland it was a little over a third (37.2%).

So where are those additional 900,000 jobs in Ireland? Certainly not in the government. Total public sector employment in Ireland, including the health sector and local governments, amounts to 373,300. If we exclude the health sector, government employment in Ireland drops to 262,300.

These figures are comparable to those for Puerto Rico, where total public sector employment amounts to 297,300, of which 218,500 jobs are in the central government (including public corporations), 63,900 jobs are in municipal governments, and 14,900 jobs are in the federal government. If we exclude federal government workers, public sector employment in Puerto Rico decreases to 282,400.

Thus, if public employment is essentially the same in both places but there are 900,000 more jobs in Ireland than in Puerto Rico, then the Irish private sector must employ a significantly larger share of the population when compared to the private sector in Puerto Rico. Some areas where the employment differences are significant are: agriculture, which employs 121,000 people in Ireland and only 15,000 in Puerto Rico; finance, insurance and real estate, which employs 296,300 people in Ireland and only 48,000 in Puerto Rico; and eating, drinking and lodging, which employs 128,600 people in Ireland and a mere 73,000 in Puerto Rico.

The plain truth is that Puerto Rico's private sector is underdeveloped. There are multiple explanations for this weakness, among them a complex regulatory environment, the lack of an entrepreneurial culture and a burdensome tax system. However, that is only part of the problem. In Puerto Rico, we also see a significant amount of parasitic, rent-seeking behavior by "private" firms that pretend to live off government contracts, tax breaks, regulatory favors and other assorted forms of corporate welfare. These "businessmen" spend more time lobbying government for special treatment than running their companies. Any serious policy effort to generate economic growth in Puerto Rico must address all these issues head on. It is also high time for private sector leaders to end their pusillanimous whining, roll up their sleeves, and get on with the hard work of growing Puerto Rico's private sector.

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