

Send your opinions and ideas to: **The San Juan Star**
P.O. Box 364187
San Juan, PR 00936-4187
c/o Viewpoint

Or send us a fax:
(787) 782-0310

Or e-mail us at:
viewpoint@sjstar.net

Restoring growth in Puerto Rico's economy

In 1930, the Brookings Institution, a Washington, D.C.-based think tank, published a book entitled "Porto Rico and Its Problems." This report, prompted by various groups of Puerto Rican private citizens, was a thorough examination of the island's social and economic landscape, covering, among other topics, education, public debt, public health, agriculture, trade and the state public works. It included a long list of recommendations, many of which were eventually implemented by the Puerto Rican government.

According to the authors of that report, Puerto Rico in 1930 presented two distinct problems to "her own people and to the federal government." The first problem was economic, "how to raise the incomes and standards of living of her people to something approaching a parity with those prevailing in the continental United States." The second problem was political, "how to establish mutually satisfactory public relations between the island and the mainland."

Today in 2006 every Puerto Rican is aware that these two issues remain intractable and still lie at the very core of the island's political economy.

Last Thursday, the Brookings Institution presented to a standing room only audience at the Institution's Falk Auditorium another book about Puerto Rico, this one entitled "The Economy of Puerto Rico: Restoring Growth." This 600-page volume is the result of a three-year collaborative effort of the Brookings Institution and the San Juan-based Center for the New Economy. In 2003, the Brookings/CNE editorial team identified a cadre of first-rate scholars to work on this project. The editors also decided to create teams of two persons, pairing one economist from Puerto Rico and one from the mainland, to conduct research on Puerto Rico's economic growth trajectory, labor markets, educational system, entrepreneurial environment, fiscal policies, financial sector, and international trade performance. Each research paper was then reviewed and com-



**Sergio M.
Marxuach**
Commentary

mented by two other economists, again one from Puerto Rico and one from the U.S. mainland, to provide feedback and constructive criticism. In all, 32 scholars, representing 15 universities, including Chicago, Harvard, Princeton, and the University of Puerto Rico, as well as institutions such as the World Bank and the Federal Reserve Bank, participated in this study.

CNE and Brookings seek to accomplish several objectives with the publication of this book. First, both institutions have strived for this study to be a balanced and fair assessment of the Puerto Rican economy based on empirical data and world-class economic analysis. It seeks to develop a series of benchmarks and definitions that can be used to guide the economic discussion. In other words, it seeks to create a common vocabulary, similar to what lawyers do when they set forth specific definitions of certain terms in a contract, which participants in our public debate can then use in the analysis and development of economic policy.

Second, it seeks to answer the question of why has economic growth in Puerto Rico stalled over the last 30 years. While income per capita in Puerto Rico doubled from just over 20 percent of the U.S. average in 1950 to roughly 40 percent in the early 1970s, it has drifted back down to only about 30 percent more recently. As a result, living standards in Puerto Rico are

farther from the U.S. average today than they were in 1970, and per capita income is only about half that of the poorest state.

This is particularly puzzling because, according to orthodox economic theory, Puerto Rico has created the conditions for strong sustained economic growth. Puerto Rico has made enormous investments in physical capital and infrastructure, increased education to OECD levels, and implemented policies to foment technological progress and innovation. In addition, Puerto Rico is one of the world's most open economies; has a stable legal and political system, certainly when compared with many other emerging markets; and has a decent institutional framework and respect for the rule of law. By these standards, Puerto Rico should be growing at a rate much faster than those experienced in recent years. What happened?

Third, in addition to critically examining the record of economic growth, this study also seeks to provide policy recommendations that can and should be implemented by the Puerto Rican government. Evolution of the global economy and developments within its own region dictate that the policies it pursued in the past will not work for the future. Instead, Puerto Rico must diversify and strengthen its economy by developing its own dynamic private businesses and the jobs that they will bring.

Finally, the editors of the book highlight that Puerto Rico is at an important crossroad as it seeks to develop and implement a strategy for future growth. Critical decisions need to be made today in order to assure our future economic growth. It is our hope that this book will contribute to a better understanding of our economic problems and will help to illuminate a set of policy options to restore economic growth and substantially raise our standard of living in the near future.

Sergio Marxuach is director for policy development at the Center for the New Economy, a Puerto Rico-based think tank.