



The bankrupt economy

In 1985 the Johns Hopkins University Press published a book by Richard Weisskoff entitled "Factories and Food Stamps: The Puerto Rico Model of Development." The book, as you can deduce from the title, is a withering critique of the Puerto Rican economic development model. For Weisskoff, Puerto Rico was "the prototypical industrial colony, the archetypal case of the highest stage of development toward which many other Third World economies are moving. Its economy is open and dependent: open to both imports and exports; dependent on flows of foreign capital, government aid, and on the intangible methods, such as technology, consumption styles, and even wage levels for certain occupations."

Needless to say, economic development under this model is unavoidably limited. Moreover, the limitation arises from, and is the inevitable consequence of, the structure of the economy; it is not merely the product of cyclical or temporary setbacks. The main limitation to development arises from what Weisskoff called the "hollowness" of the Puerto Rican economy. In that kind of an economy, both production and consumption are dominated by the foreign sector. The production of goods for export is dependent on "imported capital, imported investment, imported raw materials, imported technology, and imported spare parts." Thus, most of the income derived from the manufacturing and sale of exports accrues to and is repatriated by absentee owners, with little impact on the local economy.

On the consumption side of the ledger, the overwhelming majority of consumption needs is satisfied by imports, thus we end up "buying codfish from Nova Scotia, rice from California, and wood from Sweden." Increases in consumption, therefore, generate demand for foreign, not local, labor; again generating activity with little impact on the local

economy. The result is a dissociated economy that does not produce what it consumes and consumes what it does not produce.

In this hollow economy we (1) spend other people's money (federal funds, money borrowed from bondholders), (2) make products for other people (computers, pharmaceuticals), and (3) buy other people's products (food, clothing, plasma TVs, etc.).

Now, this model, even with all its deficiencies, may generate significant economic growth and, indeed, that was the case in Puerto Rico between 1948 and 1974. However, that growth was not based on the institutions or structures necessary to sustain economic development, a rather different and broader social phenomenon, over the long-term. When economic growth collapsed in 1974, our government, instead of rethinking this model, simply put the hollow economy on life support; obtaining a new federal tax exemption (Section 936), increasing government employment, appealing for increases in federal transfers (food stamps), and issuing public debt in ever larger amounts.

During the first decade of the 21st century it has become evident that our hollow economy has collapsed. Section 936 has been phased-out by the federal government, government employment has increased to its upper limits, federal transfers are solely dependent on the economic and political dynamic in Washington DC — and thus cannot be the basis of future development—and public indebtedness is cur-



Sergio M. Marxuach

rently at historic highs and unlikely to be a source of financing for long-term development. In short, our hollow economy is dead.

Thus, we enter the era of the bankrupt economy. In this era, we can expect economic growth to be anemic, stagnant, or nil, unemployment to be consistently high, poverty and all its attendant social ills to spread, and our overall quality of life to decline. Furthermore, this bankruptcy is not limited to the economy. It seems to me that we have reached a critical inflection point: the *ancien régime* is terminally weak; all our social, economic, and political institutions are rotten and crumbling. We are living in such a place, as Barbara Tuchman wrote about Vienna at the end of the Austro-Hungarian Empire, "where something was visibly coming to an end; everyone knew it and no one spoke of it."

So, what will replace the bankrupt economy? That is, perhaps, the most important question we, collectively as a society, face today. Yet, while our economy is literally sinking, our so-called leaders focus on the most insignificant, inconsequential, and trivial matters. The first thing for us to do is to demand that our politicians, as St. Paul wrote to the Corinthians, "put away childish things; for now we see through a glass, darkly."

The time has come for serious thought, to deeply rethink our social, economic, and political institutions. The alternative is economic stagnation, moral decay, and social decomposition. A society, in short, where you would not want your children to grow up.

The author is Director for Policy Development at the Center for the New Economy, a Puerto Rico-based think tank. www.grupocne.org