

Towards a Dystopian Existence in Puerto Rico

Essay

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Abstract

This essay delves into five interconnected themes shaping Puerto Rico's economic trajectory. Firstly, it highlights an entrenched reliance on fiscal federalism, characterizing an inefficient relationship with the United States, impeding the island's economic autonomy. Secondly, the essay explores how a dependency on federal funds has inadvertently stifled the island's political leadership, hindering efforts to cultivate internal productive capacities. A crucial aspect is the insufficient backing and cultivation of Puerto Rico's economic backbone: its Small and Medium Size Enterprises (SMEs/PYMEs), family businesses, and local capital, impeding their growth potential. Furthermore, the essay addresses the neglect of governance principles, strategic foresight, and the island's role within the technology-centric global economic landscape of the 21st century. Lastly, it highlights the conflict between political expediency and the formulation of sound economic growth strategies, obstructing comprehensive economic development.

Keywords

Puerto Rican economy, Small and Medium Size Enterprises

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The economy, standard of living and quality of life in Puerto Rico have recessed significantly during a young 21st Century forcing a long disillusionment after 17 years, and counting, of incessant negative economic growth, slumbering politics, lack of productive capacity, disheartening loss of quality of life, catastrophic natural events, unpleasant federal and local government decisions, the pandemic, massive migration, a shrinking labor force, extensive poverty levels and a dwindling participation rate among others. All in frustration and anguish under the surveillance of myopic political leadership.

Local and congressional leadership have been unable to put into productive use the island's unique and longstanding relationship with the United States after elimination in 1996 of Section 936 of the IRS Code. This removal followed two others major events that reduced tariffs around the world. One was the creation of NAFTA in 1994; the other the World Trade Organization (WTO) in 1995. No back-up plan by the then political leadership and nothing since has been done to mitigate the abusive results of the triple whammy that severed Puerto Rico's economic competitive advantages in a rapidly globalizing world.

Congress' disdain and local government's continued reproachful and nearsighted political and economic blunders have made the unbearable situation created in 1996 grow to become an unstructured, undisciplined, and unproductive economic environment. Even as we have a right to federal funds, our shameful dependence on fiscal federalism is compounded by forestalling the creation of an endogenous productive capacity.

Five interrelated assertions form the central premise of this essay:

- An underutilized and unproductive relationship with the United States resulting from Puerto Rico's continued economic addiction on fiscal federalism.
- Dependency on federal funds has muted the island's political leadership interest, need and determination to recognize, organize and establish endogenous productive capacity.
- Lack of support and empowerment for the island's most significant economic resource: Small and Medium Size Enterprises (SMEs/PYMEs), family businesses and local capital.
- Disregard of good governance, strategic intent, purpose, and definition of the island's role in the 21st Century's technology-centered global economic geography.
- Political expediency counters sound economic growth and development strategies and initiatives.

Frustration has been internalized by the citizenry from an underutilized, unproductive, and politically driven Puerto Rico-United States relationship. More than

\$600,000,000,000 received from the federal government since 1980 have not resulted in corresponding wellbeing, economic growth nor development. In addition, intensified reliance on fiscal federalism has muted the island's need, interest, ability, capacity and determination to pursue long-term internal economic productive capacity.

Optimism, however, is ever present. The causes of the frustration can be positively addressed with good governance and intelligent utilization of the island's most productive economic resource: Small and Medium Size Enterprises (SMEs) and family businesses. These, however, have been traditionally unrecognized, overlooked, overtaxed, underrated, and never considered in strategies to improve the island's economic wellbeing. This, of course, is contrary to small countries that today excel because of their confidence in the capacity of small and family businesses to lead their economic awakening.

The two revolutionaries of economic growth in the 20th Century, Lee Kuan Yew in Singapore, and Deng Xiaoping in China, could not have accomplished the transformation of their economies if they had not cultivated and empowered SMEs and family businesses (Zakaria, 1994).

SMEs and family businesses today constitute the island's most important economic resource. Our governments, however, have stymied them since the 1940s by consistently pursuing growth and development from external sources ostracizing local actual and potential economic capabilities. Utilization of this endogenous resource would impart a welcome improvement to results from the tired and weak economic growth and development model in use since the mid-20th Century.

95% of all commercial establishments in Puerto Rico are SMEs having less than 49 employees and providing 43% of total payroll. (FOMB, n.d.). They are the island's most productive and perhaps only true economic resource. These companies do not 'pack and leave' as others who come to the island can and do. However, to produce macro results, local SMEs and family businesses need nurturing, assistance, leadership, education, training, prosperity-oriented public policies, sound legislation, optimism and encouragement from government (Catalá, 2007).

Puerto Rico's 'industrialization by invitation' strategy, in place since the mid-20th Century, attracted companies able to close and/or relocate to other countries. Local SMEs and family businesses do not 'pack and leave.' One of their most valuable characteristics is their permanency complemented by additional positive attributes: market know-how, experience and understanding, employees, customers, clients, revenues, suppliers, capital, banking relations, contracts, brands, products, services, professional contacts, and survival skills in the island's small yet intricate economic environment.

Local enterprises and businesspersons will prove productive and improve the island's wellbeing when they receive, from political leadership and their governments, the importance, recognition, opportunity, motivation, ease of doing business, respect, encouragement and empowerment small firms and family businesses have earned and well deserve. A dystopic Puerto Rico will arise from a continued economic deterioration, future destructive natural events, scarcity of effective government, extensive corruption and unproductive economic planning and strategies. Extensive closing of multinational manufacturers will result and be followed by closures of existing local SMEs and family businesses. With these closings unemployment and migration will dramatically spike complicating even more the island's predicament by introducing a completely different set of distressful circumstances.

Puerto Rico's government, more than seven decades later, continues to follow the mid-20th century 'industrialization by invitation' or 'export led' model as the underlying program for the island's economic growth and development. Warding off the domestic business resources the island has today. While Puerto Rico's economy slumbered during the last 30 years the world reinvented itself into an agile, resilient, and technology-oriented economic environment.

Today the island has more than 42,000 SMEs and family businesses with entrepreneurial talent, capital, know-how and experienced professionals nonexistent in the mid-20th century. Today these productive assets must be formally factored in as a central element in the island's economic planning and strategic programs. A new paradigm, structured with corresponding contemporary SME initiatives, is needed to surpass decades-long unproductive economic stagnation, declining wellbeing, and scarcity of economic foresight.

The stability SMEs and family businesses bring to the economy can best be understood considering that during the last four decades the manufacturing and government sectors in Puerto Rico lost, respectively, 62% and 30% in their share of total employment. SMEs and family businesses picked up the slack raising their share 52% during the same period (Morales, 2022). Day in and day out the island's economic stability is protected and fueled by SMEs, family businesses and local capital. Small businesses in Puerto Rico's economy are productive, important, relevant, and necessary for job creation. Their productivity and value have always been there and have always been unrecognized by governments. For too long local businesses have been overlooked, overtaxed, underrated, and taken for granted.

These small and family businesses need, however, to professionalize in order to improve their capacities, grow, develop and eventually lead the island to become a relevant link in the world's global value chains. Such professionalization must be part of a transformed economic model with overhauled growth and development strategies. Unfortunately, island governments have shied away from embracing contemporary

challenges and new horizons in the global economic palestra. The seven-decade old industrialization model disregards and discourages the intent and/or capacity to industrialize from within. The island created a productive and rewarding economy for offshore capital, developing an extensive capacity to export (without, unfortunately, corresponding forward and backward linkages) with exogenous capital neglecting creation of an endogenous productive capacity for local firms to export. The very large GDP-GNP gap attests to the limitation of Puerto Rico's domestic productive capacity. Today the island has the know-how, opportunity, and willingness to create a prosperous economy from within it did not have in the 1940s. Yet our governments, for the last seventy years, have looked the other way.

Within its unique economic and political relationship with the United States, Puerto Rico's political leadership and their governments should have pursued locally based economic growth and development programs. They, however, intensely focused on their trivial and unproductive political interests. Decades of potential internal economic progress was lost after politicians erroneously made dependency on fiscal federalism the integral component of Puerto Rico's much needed growth proposition during the last fifty years.

Progress and prosperity do not just happen. They must be consciously and continually planned for and pursued. Economic progress, not political handouts, must be formally pursued as the most important goal of the Puerto Rico - Washington, D.C. relationship. Singapore's Lee Kuan Yew used small businesses and families to push economic growth, factoring the ambitions of a person and the family in his island-nation's planning (Zakaria, 1994). China's Deng Xiaoping, mentored by Lee, was also convinced that genuine economic decentralization of production, down to the household level, would provide for successful economic growth and development (Vogel, 2011). Small and family businesses were the cornerstone of the vision for their respective country's growth, development, modernization, and role during the last few decades.

Patricio Alwyn in Chile and Sir John Cowperthwaite in Hong Kong also made small and family businesses a cornerstone of their jurisdiction's economic growth and development strategies. Vietnam's socioeconomic successes have been significantly attributed to the country's small- and medium-sized enterprises (SMEs) (Cuong et al, 2008). Institutional reliance by Puerto Rico on foreign capital, federal welfare and related funds is a deadweight heavily at work against the island's intent and capacity for entrepreneurship, productive capacity, linkages, increased productivity, prosperity with economic growth and development.

During the last five decades the island has become completely dependent on federal funds to operate the government, provide citizens with nutrition, health, housing needs and education as well as assistance to 44% of the population living in poverty. Puerto Ricans, as American citizens have the right to receive all the safety-net benefits they are

entitled to and more as circumstances merit. It is time, however, to reconsider, reassess and reposition the island's emphasis on continued insistence on foreign capital and fiscal federalism. We must show our worth, productivity and work for positive, respected resilient growth and development initiatives into the fold.

Puerto Rico's politicians and their governments must agree on a consensus for a considerable and sustained productive restructuring of the economy as their primary objective rather than centering on continued petty political interests, expediency and demands for evermore financial assistance from the United States to cover their ineffective leadership. Dependency on external capital and federal funds has not, does not, and will not bode well for the island's economic growth and development facing massive migration of our productive workforce.

Lifting itself from the presently deplorable economic circumstances is a Puerto Rican necessity; a requirement to enhance its existence as well as those of its people, their children, grandchildren and beyond. Self-respect, abundant employment opportunities, productivity challenges, prosperity, and expansion of economic horizons with local resources is a necessity. Puerto Ricans deserve it and must pursue it as a principled goal. Joseph Stiglitz described it: *development is about transforming the lives of people, not just transforming economies.*

During the last 25 years the world has been undergoing an information technology driven economic transformation. Puerto Rico cannot be an outcast of the dramatic changes, advances and multiple benefits that can be garnered from the Fourth Industrial Revolution (4IR) and its Internet of Things (IoT). The effective and disruptive innovations presently defining global economic growth and development standards are successfully modifying and improving almost every aspect of life. Puerto Rico must be capable of having its share.

Countries that have understood and accepted these 4IR dramatic changes and have committed to economic and technological advancements have done well and substantially improved their economies. Countries that have not, like Puerto Rico, disavowed prosperity for its citizenry and created an array of future hardships, disadvantages, and difficulties. The island's lack of leadership and economic degradation during the last decades speak to this louder than words can describe.

Puerto Rico must recapitulate, reassess, and define its role for the 21st Century. It must have its people work enthusiastically to become citizens of the world. Governmental apathy towards economic growth and development has not, and will not, provide needed solution to the island's economic plight and to other impending social threats Puerto Rico confronts. Ironically, Jane Goodall's opinion could be Puerto Rico's motto: *The greatest threat to our future is apathy.*

We expound the need for an assertive economic-oriented, rather than politically oriented, government in Puerto Rico which will control the extent of Puerto Rico's

extreme dependence on fiscal federalism and the need to begin growing and developing the island with the capacity, know-how and intent of local resources. Critical first steps must be defined and followed in reassessing what the island is, who it wants to be, how it will do it and how results will be measured and evaluated setting the pursuit of true and meritorious economic growth, development, and prosperity as the road to a better and prosperous future.

Once focused on repositioning social and economic development priorities, the next step must be to recognize and overcome an overwhelming variety of most serious threats facing our collective wellbeing and intent to enhance prosperity, self-respect, standard of living and quality of life. Among the most relevant threats, in addition to economic maladies: longevity, environmental degradation, political status, electricity, food security, productivity, education, maintenance of infrastructure, bureaucratic hypertrophy and government accountability among others.

A purposeful understanding of the real and dangerous risks and consequences that may lead to even more difficult times in the future must receive formal and serious considerations. These threats can be effectively countered with good and responsible governance initiatives, sound management strategies and creative and assertive use of local resources. The island cannot use its association with the United States to continue receiving ever increasing amounts of funds that only serve to solidify dependency, regress leadership, ignore good governance, accept misjudgments, mistakes, and partisan shenanigans rather than improving the economy with prosperity and better standards of living and quality of life.

Economics and prosperity rather than politics and dependency (pseudo-economic development) must rank as priority among Puerto Rican politicians, governments and, most importantly, the community to make genuine their quest for much needed improvements. Chile, Mexico, Costa Rica, Colombia, Hong Kong, China, Singapore and Vietnam are countries that successfully triumphed over adversities much more pronounced than Puerto Rico's. They succeeded economically and improved the wellbeing of their people with deliberate emphasis on SMEs, family businesses and local capital. As in Singapore and China, SMEs in Vietnam have been at the very core of the government strategy for inclusive growth and economic transformation (Rand, 2020).

Effective political leadership in those countries, as did Puerto Rico during the mid-20th Century, understood how to accomplish economic prosperity with good governance practices and industrious use of domestic resources. They envisioned, planned, and executed strategies to provide for economic growth, prosperity, wellbeing, improved standards of living and a better quality of life. Economies around the world, with small and family businesses at the forefront, prospered beyond expectations. They followed Puerto Rico's economic game plan and have continued to enjoy the fruits of their efforts. As we did in the 1950 – 1975 period.

Leadership in these countries placed political antagonisms aside, reached consensus and focused on real economic priorities establishing effective planning with good and responsible governance as a cornerstone of their public policies. Strategic alternatives for control, direction and utilization of local SMEs were carefully studied, designed, and implemented. Ironically several of those countries learned from Puerto Rico's exemplary economic growth and development programs in the 1950s and 1960s. Today the island must stoically look to them for guidance and how-to experience.

It will take new rules, outlook, time, organization, commitment, determination, and hard work. But trying to improve the economic infrastructure and productive capacity is a must for Puerto Rico. It is up to local and Washington leaders in private and public life to heed the message from a stagnating economy, a disrupted government, tortuous political incongruities, and disillusioned citizens.

The world is aware of Puerto Rico's demise placing United States' assistance in the crossfire particularly when the mainland has, and will continue to have, perilous political confrontation between its political parties. Puerto Ricans must recognize the importance and relevance of the challenges before them; recognize their mistakes, put them behind and begin to govern and legislate under constitutional guidelines to return to the splendor once created and enjoyed in the island.

SMEs and family businesses must become Puerto Rico's engines of growth soon, leading the way for Puerto Rico to regain its ascendancy in the global economic palestra. Countries have prospered wherever local governments placed good and responsible governance before political interests resulting in motivated growth and development of small businesses. Puerto Rican politicians, and those in Washington D.C., must take heed and prepare the way for a revival of the Puerto Rican economy. If not, Puerto Rico will be on a fast track to a dystopian existence.

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