

Federal aid, public sector layoffs: Will this be enough to jump start our economy?

BY JOSÉ L. BOLÍVAR

Given the current fiscal situation of the Government of Puerto Rico as well as that of our most important trading partner, the United States, the question remains: How do we achieve both economic and intellectual growth? What is our vision of the future and how can we sustain it? Puerto Rico is set to receive a substantial amount of federal aid, which in the short term will benefit at least some of our population. But, will this be enough?

The efforts by the current administration have so far been concentrated on reducing costs. As payroll accounts for a huge portion of governments expenses, all efforts have been made to reduce the number of government employees. As a result, on June 5, workers protested by walking to the state Capitol. Agency budgets were slashed by 10%, taxes have been increased, and governmental services have been cut back or, in other cases, fees charged by these agencies have been drastically increased. It would seem that both these fiscally conservative measures combined with the federal stimulus package being offered by President Obama's administration would suffice to bring our dire economic situation under control. But, will this be enough?

Fortunately, Puerto Rican history provides us with useful insights, as this is the second time that the island's economy has been rescued by massive federal funding. Without the intervention of the United States Government during 1939 to 1947, the local economy would have collapsed. It is interesting to note that at the

time, the Puerto Rican government used this opportunity wisely, as it initiated a huge number of local programs. As we shall see, some failed, others remain but a faint memory, yet some initiatives remain, even after almost 70 years. How will history judge the current administration? Will some of its initiatives also have a lasting effect?

During the years following the entry of the United States in World War Two, federal expenditures rose from \$40.2 million in 1941 to \$110.0 million in 1942. The Works Projects Administration, one of the many federal initiatives, built roads, bridges, health infrastructure, and managed a lunch program for students, employing 18,019 workers in 1940, 32,615 in 1941 and 28,100 in 1942. The construction of army and navy bases represented an unprecedented economic boom in some sectors of the economy of Puerto Rico and other Caribbean islands.

During 1942, federal projects consumed 89 percent of the production of Puerto Rican Cement factory and almost all production of the only other factory in Puerto Rico, the Ponce Cement Corporation. The banking sector was experiencing some of its best years. The income of the Bank of Ponce, one of local banks with the greatest amount of assets, increased from \$118,000 in 1939 to \$212,000 in 1942, an increase of 80 percent in just three years. However, the wealth of this economic boon was not experienced by all.

On January 19, 1942, a month after the Japanese attack on the U.S. Naval Base Pearl Harbor, with American patriotism at full swing,

Puerto Rican workers paralyzed the construction of naval bases in Isla Grande, Vieques and Roosevelt Roads. Four thousand workers in the construction project went on strike, 2,000 of them meeting in an assembly in Sixto Escobar Park. The following day, as new types of agreements on wages were reached, the workers returned to their jobs. Another strike occurred on February 23, as 1,600 workers from the naval base of Vieques and 2,900 from Roosevelt Roads left their jobs. The strike ended on March 2, and two days later the Arundel Corporation and Consolidated Engineering, Inc. — the two military contractors in charge of building the base — formally accepted the demands of the workers, increasing the average daily wage from 12 to 18 percent and agreeing to pay for overtime work.

With the "boom" of the income provided by the rebated tax on Puerto Rican rum sold in the United States, which increased substantially just as the federal expenditures were trailing off, the insular government invested substantial amounts of capital on public corporations, the main beneficiaries being the Land Authority, the Industrial Development Company and the Development Bank, as well as the Agricultural Company. The Department of Education's budget was also substantially increased. An economic development model was on the way!

On November 21, 1945, Teodoro Moscoso wrote to Governor Rexford Tugwell urging him to approve a project by granting tax exemption to new industries established in Puerto Rico. At the time, Puerto Rico competed with Cuba, Guatemala, Mexico and some states of

the United States that had a tax exemption program. According to the 1939 National Association of Assessing Officer's Report, five states in the United States provided permanent exemption on property taxes and fifteen states provided partial exemptions.

Moscoso stressed that the Development Company had stepped up its efforts to encourage private capital to invest in industrial enterprises and that tax exemption was an integral part of these efforts. He added that without subsidies or financial assistance through preferential tax rates, Puerto Rico would be at a disadvantage compared to other countries and other states of the U.S. Governor Tugwell rejected Moscoso's proposal, although it had been unanimously approved by the Legislature. In 1947, the first Puerto Rican governor Jesús T. Piñero approved the new Tax Exemption Law, which along with federal exemptions, was largely responsible for Puerto Rico's economic growth for more than 50 years.

Clearly, during this time, the government's policy included both short term and longer term strategies in order to achieve sustainable growth. Today's challenges are different from those of the past decades. However, two things are constant and applicable even today: we must remain competitive and we must not second guess the importance of education.

Up to now, both the private and public sectors have done little to tackle these structural and endemic problems. If we don't change these policies, our children and grandchildren will hold us accountable for these missed opportunities.

The first lawyer: the snake in Genesis

and in any case all that had to be done was fix the roof. I happened to know however that according to the Rules of

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