



COLUMN

BY A. W. MALDONADO

The Culture of Sloth: Puerto Rico's Addiction to Federal Funds

Now that Puerto Rico is out from under the crushing weight of gigantic debt, where is it headed? Will it get deeper and deeper into dependence on federal funds, or will it revive economic growth through job-creating private investment? As Heide Calero, for many years one of Puerto Rico's top economists, put it in a recent column: Is it Operation Handout or Operation Bootstrap?

Like other island economists, she was angry and bewildered when, on March 15th, Governor Pedro Pierluisi and his administrators celebrated that, having emerged from bankruptcy, Puerto Rico is now on the way to an era of "prosperity." Of course, the debt restructuring plan approved by bankruptcy judge Laura Taylor Swain is cause for celebration. Instead of 25 percent of the total island budget going to pay off the remaining debt, it is now down to 7 percent.

But liberating Puerto Rico from the crushing debt and restoring its credit will not bring "prosperity." Only reviving economic growth will do it. And what is crucially important, Calero points out, is that the PROMESA Board (The Puerto Rico Financial Oversight and Management Board that put together and got the debt restructuring plan approved) and the Pierluisi administration itself are projecting zero, at best, meager, economic growth up to 2030. This is the real news.

"No," Calero writes, "we are not on the road to prosperity if we don't face that reality." Without growing from 3 to 5 percent a year, Puerto Rico will not pull itself out of the fiscal and economic crisis.

Instead, what is happening is more and more dependence on federal funds. The headline in a recent story in *The Economist* is "Puerto Rico's future is looking brighter," but significantly not because of economic growth—"the economy will grow by 0.5 percent a year on average through 2030"—but because there is a "torrent" of new federal funds flowing to the island. After Congress approved \$67 billion to help the island recover from Hurricane Maria in 2017, the magazine reports, "President Biden's legislative activity in 2021 ... promises a torrent" of even more federal funds for Puerto Rico. In fact, close to \$20 billion more.

And this is on top of Puerto Rico's already huge dependence on federal funds to finance numerous vital government programs. In Gov. Pierluisi's proposed new budget for fiscal year 2022-2023, of the total \$28.8 billion, \$11.2 billion, or 39 percent, is from federal funds.

As Calero laments in her column: "We are living in Operation Handout, consisting of public policy that depends on federal funds for everything."

So why isn't Puerto Rico working hard to overcome its growing addiction to federal funds?

Another economist that is angry and bewildered is Gustavo Vélez, who began a recent column: "For a long time, I have been trying to understand why almost the totality of the governmental and legislative actions are directed to penalizing (Puerto Rico's) productive sector." The consequence is obvious. According to the U.S. Bureau of Labor Statistics, Vélez writes, the number of private enterprises in Puerto Rico has declined from 60,778 in 2006 to 46,181 in 2021.

Vélez writes, perhaps tongue in cheek: "I have consulted sociologists, psychologists and other professionals trying to come up with a theory that explains the eagerness of the political class to destroy the Puerto Rico productive bases." Yet, he goes on, the answer could not be more evident. The island has a "labor participation rate" of only 40 percent: among the lowest in the world. That is, only four out of every 10 Puerto Ricans who can work are working or looking for work. The rest, the 60 percent, "is living off what the local and federal governments provide."

So Puerto Rico is in a "vicious circle": the greater the number of Puerto Ricans depend on local and federal funds, the bigger the "unproductive class," the greater its political power. "The political class"—that includes all parties—turns to "populist politics" of taking from the "productive sector" to give to the "unproductive sector." In other words, the political incentive is not to promote the "productive class" but to pamper the "unproductive class" promoting more and more federal funds.

For Calero, the way out of this "vicious circle"—of this addiction to "easy money with the least effort"—is before our eyes.

She writes: "How different was the Puerto Rico of the '60s, of Operation Bootstrap, where education was the key to success and to emerge from poverty; where effort and work were the norm; where Puerto Rico, the 'poorhouse of the Caribbean,' hungry to achieve growth and aspiring to economic development became the 'Showcase of the Caribbean.' Yes, I feel nostalgia for that struggling Puerto Rico with a vision of the future, which did not conform itself with federal funds and that fought with work and education to reduce poverty."

The solution: Revive Operation Bootstrap.

But she and Vélez, I think, are making a deeper point. Essentially, they are not talking about Puerto Rico's economy, they are talking about Puerto Rico's culture.

Vélez writes: "The effect of ... the addiction to (local and federal) assistance is that it broke the culture of production that historically existed on the island and we transitioned to a culture of greater dependence on the money Washington D.C. sent us. ... The economic crisis appears to have castrated the collective capacity to resolve our problems ourselves."

Calero writes the same: "Three decades (after Bootstrap) Puerto Rico is poorer and it is not just the poverty of economic means but also the poverty of self-esteem, of settling for less; of getting easy money with the least effort." And this is precisely, I believe, what she means with her "nostalgia" for Operation Bootstrap. For Bootstrap was more than an extraordinarily successful program of economic development, it was a culture, an attitude, a way of Puerto Ricans seeing themselves; the pride, the self-esteem of knowing: We did it. Yes, with crucial help from the U.S., but it was with our talent, creativity and work that we performed a miracle: that we pulled ourselves up by our own bootstrap.

Puerto Rico, of course, has always needed, and will continue needing, federal funds. No one is talking about turning down federal spending that provides vital services to the many Puerto Ricans that need it. No one is saying that Puerto Rico should stop fighting in Congress to achieve parity in vital programs like Medicare and Medicaid.

The problem is the addiction, the total dependence on federal funds "for everything," and what it has done to Puerto Rico's culture, how Puerto Ricans see themselves, to what Puerto Rico is. The problem is what I would call the culture of sloth.

I believe that this has never been and is not the real Puerto Rico; according to the dictionary, a culture of "reluctance to work or make an effort; laziness." When I think about the true Puerto Rican culture, I think about my parents, who did nothing in their lives but work—from the suffocating hot cane fields of Cabo Rojo to the barrios of New York. I think about the absolute antithesis of sloth.

Economic growth has never been easy for Puerto Rico. To revive it will be extremely difficult. But it can if it has the political will to revert to its true self, its true culture, the Puerto Rico of Calero's nostalgia: the Puerto Rico of Operation Bootstrap.

— A. W. Maldonado was a reporter and columnist for the *San Juan Star*, executive editor of *El Mundo*, and publisher and editor of *El Reportero*.

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