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# Think Strategically: Struggles and Opportunities: Mapping the Road to Puerto Rico's Sustainability

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## **Searching for Puerto Rico's Sustained Success**

Puerto Rico's economic challenges have been a topic of discussion for some time. But a fiscal storm was brewing beneath the palm-fringed beaches and swaying palm trees. While our political leader focused on large infrastructure projects, ribbon cutting, the government health Plan, and other vote-generating decisions, there were significant underlying problems in most fiscal areas that included sizeable structural imbalances, the inability to have balanced budgets, lack of long-term planning, leaving unresolved the government pension reform, solving most issues with more taxation and growing an already large government that amounts to 20.5% of the total GDP and the political leadership has significant impact in the economy, more so than the U.S. states.

In comparison, this percentage is higher than most U.S. states. In the United States, state and local government spending as a percentage of GDP typically varies but tends to be 10% to less than 20%. Puerto Rico's relatively higher government spending as a percentage of GDP is due to various factors, including our unique political and economic status and the significant role of Government in the local economy.

The Puerto Rico bankruptcy was the latest downturn in our dire financial crisis that was not merely an economic downturn but a culmination of years of complex fiscal decisions, structural issues, and a quest for sustainable growth, all marred by politically focused decisions instead of economically driven ones. In this discourse, we will explore the multifaceted facets of Puerto Rico's bankruptcy, its origins, and its dramatic journey.

The fiscal insolvency mixed with the far-reaching consequences that saw north of \$35 billion in Puerto Rico residents' investments evaporate, forcing thousands to rethink retirement, others lost all they worked so hard for, and many went from having comfortable lives to a life of poverty. Meanwhile, the Government has behaved without remorse or contrition and continues to shape the lives of its residents as if all was necessary to save the Island. As we navigate this narrative, we hope to shed light on the profound impact of financial turmoil on an island with immense economic development and growth potential.

## **Puerto Rico's Complex Economic and Political Factors**

Amidst this complexity, there are glimmers of hope. Puerto Rico's strategic geographical location, skilled workforce, and untapped potential beckon investors and advisors alike. Exploring the intricate dance between economic development and political realities reveals a landscape where strategic decisions can shape the future. Puerto Rico's situation continues to be quite complex, with various factors affecting its development and sustained growth.

## The six key factors contributing to Puerto Rico's economic challenges include:

1. **Lack of Economic Freedom:** The Fraser Institute compared the 50 U.S. states and Puerto Rico regarding their levels of economic freedom. Puerto Rico was ranked 51st, the jurisdiction with the lowest level of economic freedom, at 2.6, and far behind the rest.
2. **Debt Crisis:** Puerto Rico has faced a significant debt crisis, with the Government accumulating substantial debt that it struggled to repay. This debt burden limited the Government's ability to invest in infrastructure and services.
3. **Population Decline:** The Island has experienced a prolonged population decline as many residents have left, searching for better economic opportunities in the mainland United States. This has led to a shrinking tax base and reduced consumer demand.
4. **Hurricane Damage and Earthquakes:** Puerto Rico has recently been hit by devastating hurricanes, notably Hurricane Maria in 2017 and the earthquakes. These natural disasters caused extensive damage to infrastructure and disrupted the economy.
5. **Economic Dependency:** The Island's economy heavily depends on specific industries, such as manufacturing and tourism. Diversifying the economy has been a challenge.
6. **Political Factors:** our political status as a U.S. territory has influenced our economic situation. Puerto Rico is discriminated mainly by the U.S. Congress in Federal Funds allocations; the most direct example is healthcare, in which the states receive \$13,000 per capita while Puerto Rico gets \$4,000 or 69% less, which amounts to \$29 billion per year. Also, Puerto Rico doesn't have the same level of autonomy as a state; the lack of statehood impacts its ability to make certain economic and political decisions independently.

Efforts to address these issues have included debt restructuring, infrastructure investment, and attempts to attract new industries and businesses to the Island. Discussing these topics and potential solutions can be a part of your interest in economic development and growth. However, it's essential to recognize that addressing Puerto Rico's economic challenges is a multifaceted and ongoing process.

## Why Puerto Rico Struggles the pivotal question of the divergence in economic prosperity and political stability

We provide our thoughts on what led to our failure and the analysis of these concepts and their applicability to Puerto Rico.

1. **Inclusive vs. Extractive Institutions:** we must distinguish between inclusive and extractive institutions as the fundamental determinant of a nation's success. Inclusive institutions provide equal opportunities, foster innovation, and distribute power broadly, whereas extractive institutions concentrate power and wealth in the hands of a privileged few.  
**Puerto Rico's Current Direction:** Historically, Puerto Rico has grappled with extractive institutions marked by political corruption, lackluster management, and economic inequality. Nevertheless, recent efforts to reform governance, combat corruption, and enhance transparency suggest a shift toward more inclusive institutions. However, the journey toward true inclusivity with economic freedom continues to elude us and remains a work in progress.
2. **Creative Destruction:** The concept of "creative destruction" underscores the importance of innovation and replacing outdated industries with new ones as a catalyst for economic growth.  
**Puerto Rico's Current Direction:** Puerto Rico has made commendable strides in diversifying its economy, particularly in sectors such as pharmaceuticals, biotechnology, and renewable energy. These initiatives align with the principles of creative destruction, but sustained growth necessitates consistent investment in research, development, and education.

3. **Political Centralization vs. Decentralization:** It is imperative to explore the balance between centralized and decentralized political systems. Excessive centralization can lead to extractive institutions, while decentralization can foster competition and accountability. We have a heavily centralized Department of Education that is failing our students. Decentralization allows education authorities at the local level to customize their educational programs to meet their communities' specific needs and preferences. This can lead to more relevant and effective education.

Local control often increases accountability because decision-makers are closer to the students, parents, and teachers. Decentralized systems tend to encourage innovation and experimentation. Local authorities can try different teaching methods, curricula, and policies to see what works best for their students. When educational decisions are made locally, they can respond more quickly to changing demographics, economic conditions, and technological advancements.

Decentralization promotes greater community involvement in education. Parents, teachers, and community members have a more direct say in running schools. In a decentralized system, schools may compete for students, improving quality and efficiency as schools strive to attract and retain students.

**Puerto Rico's Current Direction:** in education has led to Governance Issues, Teacher Shortages, Low Academic Achievement, Language Barriers, Migration, and cuestionable Special Education, among other issues.

4. **Role of External Factors:** the influence of external factors, including global markets and geopolitics, on a nation's trajectory. Puerto Rico's economic problems have been influenced by a combination of factors, some of which can be attributed to internal and external factors.

**Puerto Rico's Current Direction:** Puerto Rico's economy is intricately linked to U.S. policies, trade agreements, and global economic trends. Understanding and skillfully navigating these external factors are crucial for the Island's economic development.

## The Last Word: The Path to Prosperity is paved with change

While the Island has shown positive signs of moving toward more inclusive institutions and embracing creative destruction, it confronts ongoing challenges. These encompass the need for sustainable innovation, reaching a viable economic model that works without Federal Funding, and the critical role of external forces in shaping its future. The path to prosperity for Puerto Rico is paved with innovative ideas and a resilient commitment to progress with a strong focus on reaching economic freedom.

Puerto Rico needs a sustained commitment to strengthening institutions, fostering innovation, and effectively managing its relationship with the United States and the global economy. This comprehensive approach is vital for Puerto Rico's long-term economic and political stability.

Puerto Rico, with its unique economic landscape and potential for development, is a prime example of how change can drive progress. By harnessing the spirit of innovation and fostering an environment that welcomes new ideas, thus our prosperity lies in the marriage of visionary thinking and effective governance.

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