Why Puerto Rico's Economy Matters for U.S. Security

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FOREWORD
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CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

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Contents

Foreword

This report came about following a series of discussions among myself and colleagues based (or specializing) in Puerto Rico. What started as an exploration of the current economic situation on the island—which has been called, variably, the Detroit and the Greece of the Caribbean—grew into a longer-form analysis on Puerto Rico's deepening economic crisis. The more we looked into that crisis, the more aware we became of its implications for U.S. security. But that discussion raised an issue all its own: despite the island's crippling economic crisis and its effects on the United States, discussions of Puerto Rico in Washington, D.C., are thin at best. Lacking a framework for addressing these challenges given Puerto Rico's status as a U.S. commonwealth, few policymakers, researchers, and analysts in Washington have given the issue the attention it deserves.

But the Puerto Rican economy does matter for the United States—and particularly for U.S. security. Given the island's proximity and ties to the United States—not to mention the perennial (and highly controversial) debate over Puerto Rico's status as a U.S. commonwealth and the ease of entering the United States once on the island—drug trafficking and violent crime in Puerto Rico have direct implications for U.S. security policy in the region. In the absence of a healthy economy and given the shrinking private sector in Puerto Rico, the growth of informal activities—drug trafficking and organized crime chief among them—is the unfortunate consequence.

In 2011, Puerto Rico saw a record-breaking 1,136 murders. According to the World Bank, in 2010 its per capita murder rate exceeded Mexico's by nearly 15 percent—and was almost 500 percent higher than that of the mainland United States.

According to Estudios Técnicos, a leading economic planning and consulting firm on the island, Puerto Rico, the so-called third border of the United States, brought in an estimated $5 billion in drug-trafficking activity in 2011, comprising an enormous 10 percent of the island's gross domestic product (GDP). In contrast to patterns along the U.S.-Mexico border, cocaine is the island's greatest drug threat—and trafficking of the drug is on the rise, with cocaine seizures in the region doubling from 2009 to 2010 alone. While 7 percent of U.S.-bound cocaine was trafficked through the Caribbean in early 2012, a full 14 percent came along Caribbean routes in early 2013.

What is to blame for the violence and crime plaguing Puerto Rico? The answer to that question is complex. But the island's economy, currently suffering through a deep, grinding recession, is certainly among the key factors. Illustratively, Puerto Rico's debt-to-income ratio is nearly 83 percent—almost 14 times the same measure for New York, California, and Illinois.

Puerto Rico's economic woes, particularly in combination with the political establishment's inability thus far to solve them and the ongoing debate over the island's legal status, leave in question what can be expected on the island moving forward, and what its government can do to get the island back on track. And though U.S. attention typically focuses on whether Puerto Rico should remain a U.S. commonwealth—or instead become an independent nation, a sovereign state in free association with the United States, or the fifty-first state—it is solving the country's economic struggles, not its legal status, that will mean most for U.S. security moving forward.

Though the media have paid some attention to Puerto Rico's economy in recent months, there remains a lack of awareness of the implications of the island's crisis for U.S. security. That issue can hardly be overstated. Whatever the nature of Puerto Rico's economic woes, their implications for U.S. drug policy and security are significant. By helping Puerto Rico patch together its broken economy, the United States can head off the serious security threats increasingly emanating from the island. Hoping to raise awareness on this issue, I brought in José J. Villamil, the leading Puerto Rican economist looking at these issues, to write this report, which provides an analysis of the challenges the island currently faces and what needs to change moving forward.

Carl Meacham
Director, CSIS Americas Program

Why Puerto Rico's Economy Matters for U.S. Security

José J. Villamil

Background on Puerto Rico's Development

Phase One: Development by Luck or by Design

Puerto Rico's economic situation circa 1950 was vastly different than today's. In the 1940s through the first half of the 60s, the island experienced a sustained boom, with annual growth rates on the order of 7 percent; the island was hailed as a model for developing countries. It instituted major reforms in government, economic and social programs, and the health sector. Puerto Rico, in coordination with the U.S. federal government, hosted thousands of observers from around the world who came to Puerto Rico to learn about its successful development model.

This was a period of great achievements—but also one of misunderstandings regarding what explained the island's rapid development. Significant weight was given to tax exemptions, labeling them the key, if not the only, factor in making such growth possible. In fact, Puerto Rico's early success was the outgrowth of favorable external circumstances. The U.S. economy was globally dominant and enjoying robust growth, there was little competition from other developing economies, and Puerto Rico fell outside the purview of federal minimum wage laws. And, of course, it had privileged access to the massive U.S. market.

But even if external conditions served as key in Puerto Rico's development, the fact is that the political leadership in Puerto Rico was in tune with that environment and was able to take advantage of and benefit from it. The government proved itself innovative along many dimensions—not just in promoting economic growth, but also in setting the island up as a pioneer in housing, education, health, and community development.

Phase Two: Signs of Economic Wear

By the mid-1960s, with the application of federal minimum wage legislation to Puerto Rico and, more important, increasing competition from new actors in the international economy, the island's model began to show signs of wear. This was the beginning of the end of the economic plan that had served as a model for many countries in the developing world. And in its place, a new phase began, based on petrochemicals and the privileges related to petroleum import quotas. This second model would provide the foundations for a petrochemicals industry that, in turn, would generate downstream manufacturing and thousands of jobs in Puerto Rico.

The Puerto Rican government invested heavily in providing cheap energy to the petrochemicals plants and provided incentives, tax and otherwise, that made the island an attractive investment destination. But the 1973 oil embargo and the elimination of import quotas brought this new phase to an abrupt end—though its consequences are still felt today in the form of seriously polluted bays, coastal areas, and water resources.

Phase Three: Federal Transfers, Tax Concessions, and Pharmaceuticals

With the approval of Section 936 of the U.S. Internal Revenue Code in 1976, a new phase in the island's development began. Likewise, in the mid-1970s, federal transfers to Puerto Rico began increasing at a significant rate—both to individuals and to the island's government. The tax concessions and the growing importance of federal transfers together came to define Puerto Rico's evolution over the next three decades.

The approval of Sections 936 and 482 of the Internal Revenue Code initiated what would be called the pharmaceutical phase of Puerto Rico's development. Section 936 permitted U.S. firms to operate in Puerto Rico and avoid paying federal taxes when repatriating profits back to the mainland. This section substituted Section 921, a provision that had been on the books for decades—and that permitted U.S. firms to repatriate profits tax-free, but only when closing operations in Puerto Rico. Section 482 had to do with the transfer of intangibles to Puerto Rican manufacturing with no tax consequences. Together, all of this meant that manufacturing in Puerto Rico could enjoy a triple tax exemption: from Puerto Rico's local laws, from the federal government's provisions, and as part of the tax deduction permitted for research and development.

Soon after approval, there were concerns about the generosity of the Section 936 incentives—concerns that the U.S. Treasury sought to ease through a series of annual reports on the section and its impacts. The first real threat to Section 936 came in 1985, when changes were made that cut into its benefits. Just a few years later in 1993, the incoming Clinton administration announced its intention of eliminating Section 936 altogether—a goal it achieved in 1996, followed by a 10-year transition period.

Two factors entered into the decision to eliminate Section 936. One was the appreciation by the federal government that the cost of the tax benefits provided were not compensated by an equal (or greater) payoff in the number of jobs created in Puerto Rico, allowing for the argument that the cost of the section exceeded its value. The second factor in the decision was the U.S. Treasury's estimate of billions of lost dollars in fiscal income should the section be terminated. Most of the firms that had operated under Section 936 were still entitled to federal benefits, but as Controlled Foreign Corporations (CFCs). As a result, these firms continued to enjoy tax benefits from the section without the restriction that they operate on the island, losing Puerto Rico much of its manufacturing attractiveness—and its exclusive tax exemption.

Phase Four: Stunted Growth Post-Section 936

Section 936 had without a doubt proven to be a powerful development instrument, but one that was poorly used. Still, the section had significant positive impacts on Puerto Rico. The island's development of a sophisticated financial system can be credited in no small measure to Section 936, since local incentives stimulated firms to maintain deposits in local banks. Similarly, the section generated a strong high-technology industry, sophisticated global managers, and a highly trained labor force.

For the years leading up to the Section 936's elimination, however, economists suggested that Puerto Rico use the surpluses generated by this quintessential "cash cow" to prepare for when the island's manufacturers no longer had their special status to fall back on. In this sense, the section was arguably poorly used, as perhaps its largest contribution could have been to generate the resources to prepare Puerto Rico for a post-936 economy. Any attempts at developing complementary economic policies were resisted, mostly because they were seen as undermining the 936 system.

Thus, Puerto Rico made only halfhearted efforts at developing a local industrial base, had no external trade policies, and made few efforts to improve local science and technology infrastructure. The huge volume of Section 936 deposits also meant that liquidity was high, keeping interest rates in the island low. These low rates may have contributed to the development of a real estate bubble, which burst in the first decade of the 21st century. The liquidity that 936 funds generated may also have led local banks to engage in practices that proved unsustainable once these funds disappeared—and that brought about the Federal Deposit Insurance Corporation (FDIC)-assisted sale of three of the island's banks.

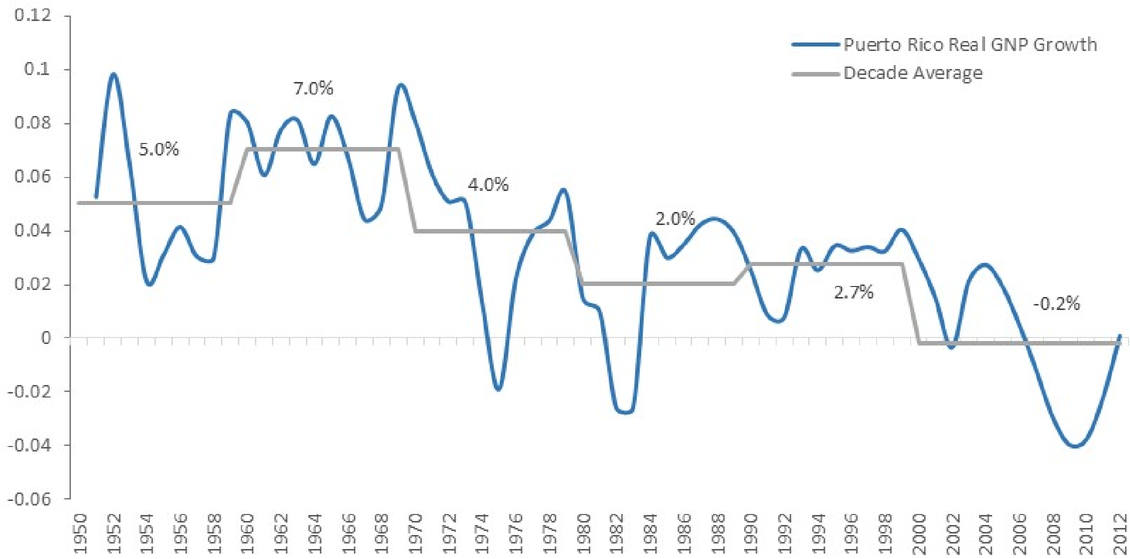
In short, doing away with Section 936, whatever the successes of the policy, contributed to the development of the economic instability and grinding recession still seen in Puerto Rico, leaving the island with many pressing challenges.

Conclusions from the 20th Century

Given the changes taking place in the global economy, it is obvious in retrospect that Puerto Rico was courting disaster. Over the last 20 years, many of the traditional competitive advantages on which the island's economic development depended were eroding or seriously threatened. In the meantime, federal transfers, government expenditures, and a growing informal economy created the impression that Puerto Rico's economy was bigger than its productive sector could in fact sustain.

Average annual growth rates between 1975 and 2000 were little better than 2 percent (see figure 1). Only in two instances did the economy show signs of more dynamism: the late 1980s and the late 90s, in both cases because of an accelerated rate of government investment and expenditures accompanied by an increase in government debt.

Figure 1. Real GNP Growth for Puerto Rico (by year and decade)



Source: Estudios Técnicos, Inc.

Puerto Rico Today

By 2001, it was abundantly clear that the Puerto Rican economy's persistently low rate of growth was the result of serious structural problems. The island's last four governors, when assuming power in 2001, 2005, 2009, and 2013, found themselves in the same predicament: a dire fiscal situation and a sluggish economy. Three of the four responded in a similar fashion: they issued debt—lots of it. The present administration finds itself in a much more difficult situation because it cannot respond in the same manner, given the current state of the Puerto Rican government's budgetary constraints. In order to deal with the situation, it had, instead, to raise taxes.

The reason that increased taxes were the solution is that the government could not issue debt, leaving all alternative solutions exhausted. Reducing government expenditures meant reducing government employment—itself an apparently less-sensible solution given the already high unemployment rate and the poor prospects for job growth in the private sector. But the new taxes themselves hurt prospects for growth—a predictable but unavoidable outcome, given the threat of a downgrade of the government's debt.

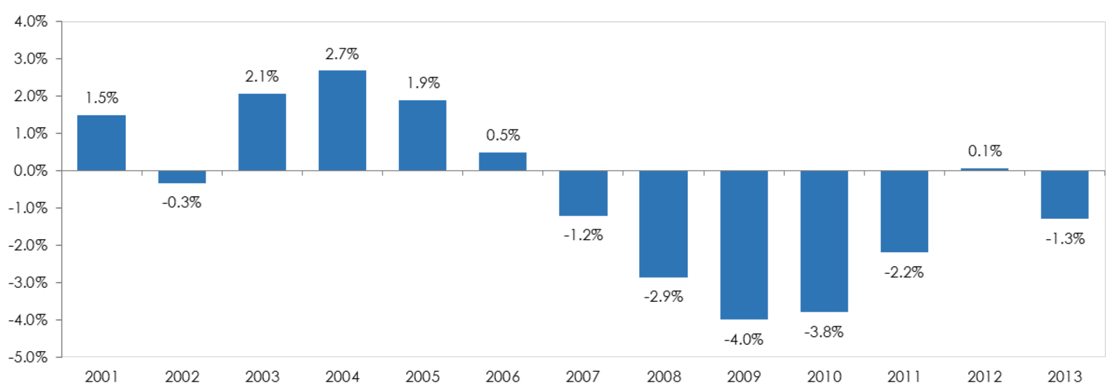
Perhaps the key factor that explains the present administration's lack of policy flexibility is the accumulated effects of the nearly eight-year contraction of the island's economy. When studying recessions, economists look at them as cyclical—and thus short-term—events. They less often consider accumulated impacts. However, when an economy undergoes such a prolonged period of contraction, these accumulated events become important. The longer the contraction, the more intractable the situation becomes—and the greater the difficulty in reversing Puerto Rico's downward economic spiral.

Further, the social consequences of prolonged unemployment are increasingly recognized as major contributors to social instability. Other events, among them a huge increase in debt between 2008 and 2013, the economy's performance, and a deteriorating fiscal situation, seriously impacted the possibility of access to capital markets. According to Moody's December 23, 2013, report, debt increased from $35.2 billion in 2008 to $54.5 billion in 2013—an increase of over 55 percent in just five years.

Increasing federal transfers, the growth of an informal economy, and an increase in government employment: these three income generators have little to do with the formal economy's capacity to produce economic growth. Together these factors created a sense of complacency divorced from what deeper analysis revealed as the signs of serious structural concerns. Even this complacency came to an abrupt end in 2005, when rating agencies raised an alarm concerning the high level of appropriations debt with no source of repayment. And in May of the following year, the Puerto Rican government had to close for two weeks because of budgetary difficulties.

Beginning in fiscal year 2007, the economy entered what has been the most prolonged and crippling contraction since the 1940s. By the beginning of FY 2014, the economy was 15 percent smaller in real terms than it was at the beginning of fiscal 2007. Figure 2 shows the full extent of this recession.

Figure 2. Depth of Puerto Rico's Recession (GNP growth)



Source: Puerto Rico Planning Board. Fiscal Years.

Several indicators summarize Puerto Rico's recession and its consequences: An economy, which had been growing at an annual rate of just over 2 percent in real terms since 1975, began to contract. An investment rate that had been near 30 percent of GNP in 2001 reached a low of 13 percent in 2010. Federal transfer payments to persons increased from 6 percent of personal income in the early 1970s to their current level around 22 percent. The local government remains a huge player in the island's economy, with a consolidated budget of close to 50 percent of GNP and taking up about 25 percent of total employment. Between 2006 and 2013, some 230,000 jobs were lost out of a working population of some 1.2 million. The 2010 Census reflected a loss of population of some 83,000, later adjusted to 243,000, due mostly to emigration; since 2010, another 35,000 have left the island annually. The population has aged considerably because migration has occurred primarily among the young and because of a low birth rate. The dependency rate is extremely high, as each employee in the private sector supports five persons. The labor force participation rate, around 62 percent in the United States, is upwards of 40 percent in Puerto Rico, down from 46 percent just a few years ago.

Without a doubt, Puerto Rico's economic and political situations are dire. This paper next looks at what can be expected as the island moves forward.

Scenarios for Puerto Rico's Future

Puerto Rico enters 2014 with a government seriously limited in what it can do to stimulate the economy, with a tax system that became even more complex with the new taxes, and with increased pressures on the economy from a changing demography leaning increasingly toward a smaller and older population. All of this happens while there is the real possibility that federal transfers to the island will be cut significantly in this and the coming two years. On a rosier note, government revenues were up in the first half of fiscal year 2014, pointing to fiscal income projections being met to bring the budget deficit to the target level.

Short-term Prospects

According to Estudios Técnicos, Inc., Puerto Rico's real GNP growth in FY 2014 is estimated at -1 percent, and for fiscal 2015 at -0.8 percent. What Puerto Rico is looking at for this year, then, is another contraction of around 1.0 percent. What this means is that it will be difficult to generate new jobs and to deal with urgent social needs. These projections are in line with the Puerto Rico Planning Board's estimates, but below the Economist Intelligence Unit's estimate of a contraction of as much as 2.5 percent.

Below are some of the main aggregates that underlie the real GNP-based forecast for 2014 and 2015:

- Government expenditures are expected to fall by 1.9 percent and 1.3 percent, respectively;
- Investment in construction will fall by 0.7 percent in 2014 and increase by 0.8 percent in 2015;
- Personal consumption will increase by 1.4 percent and 1.5 percent, respectively;
- Gross domestic investment (GDI) will increase by 1.6 percent each year, due primarily to investment in equipment and inventory accumulation.

Importantly, Puerto Rico's current administration has put in place a jobs bill and has undertaken initiatives that have kept, to some degree, the employment situation from worsening. Together, the government employees' and the teachers' pension plans have an actuarial deficit of some $45 billion—a figure that spurred the administration to undertake major reforms of the pension system. These reforms and the new taxes have been well received by analysts and rating agencies. For the latter, the major concerns in 2014 will be the performance of the economy and the government's liquidity.

Government Liquidity and Economic Performance

With respect to shoring up the government's liquidity, a number of measures have been proposed, the most important being to transfer government agency deposits currently in commercial banks to the Government Development Bank of Puerto Rico. The banks have responded favorably, indicating that they do not anticipate significant negative impacts. Total deposits to be transferred add up to come $2.7 billion, or about 6 percent of total bank deposits. However, these actions must be recognized for what they are: stop gap measures, not permanent solutions to a difficult fiscal situation.

Short-term Risks

The above economic projections face risks, including the following:

- The continued threat of a debt downgrade is possibly the most serious risk, although to a large extent the market has already degraded Puerto Rico's debt. A formal downgrade would have serious consequences. The Federal Reserve's tapering of its quantitative easing could lead to higher long-term interest rates, impacting both the fiscal and economic dimensions.

- A still uncertain and highly divided congressional situation in Washington, D.C., could lead to further cuts in federal programs and complicate any initiative from the federal government to support Puerto Rico's economy.

- A complex tax system has had an impact on economic performance, with the new taxes expected to be felt in 2014. This risk was considered, but the government had little choice in considering options to deal with the fiscal deficit. The governor's commission to deal with tax reform intends to announce its recommendations in the first half of the year.

Puerto Rico's Economic Viability in the Mid- and Long Terms

The economic future of Puerto Rico rests on its capacity to strengthen its ability to be an effective player in international markets in order to achieve internal social and economic objectives. It must develop an economy that meets three major requirements of development in the new global context: flexibility, innovation, and pluralism. Each of these three attributes is elaborated upon below.

Puerto Rico's must be a *flexible economy* with the capacity to respond effectively and quickly to changes in the global context. At the moment, the island's institutions, the categories used in framing its economic and industrial policies, and the manner in which the island measures its economy do not stimulate flexibility. One immediate need is to have an intelligence and information system that better serves the needs of an economy able to react to rapidly changing economic and technological conditions. The present statistical system is a long way from what both business and government need to meet the challenges of the emerging global economy.

Two major issues related to overall economic flexibility are the levels of transaction costs and of fiscal flexibility. Currently, Puerto Rico's transaction costs are high due to ineffective regulations, permitting procedures that are archaic and inefficient, and high-cost and inefficient infrastructure services. Together with an obsolete government apparatus, these factors generate rigidity.

Just as flexible production systems have increasingly become the norm in manufacturing, Puerto Rico should be thinking of flexible government institutions able to adjust quickly to changing global conditions. Much of Puerto Rico's institutional framework is obsolete since most of it was put together in a different economic, social, political, and technological environment. Today, Puerto Rico should be moving toward a zero-base system, where agencies periodically justify their existence as being cost-effective, all new programs have clearly established sunset provisions, and all regulations are evaluated in terms of their impact on Puerto Rico's competitiveness.

The concept of *national innovation* entails creating the conditions for Puerto Rico to become innovators in generating new knowledge, new products, and new processes in order to maximize its global competitiveness. An innovative society generates new knowledge and has the capacity to become an effective global player, creating its own competitive advantages, in economic and technological contexts.

Among the needed approaches to stimulate innovation are the capacity for long-range planning aimed at identifying opportunities not yet generally recognized; intelligence gathering on economic and technology trends; and the identification and articulation of policy initiatives for the medium and long terms. And it means focusing on existing or newly generated core competencies.

Likewise, Puerto Rico must reconceptualize its regulatory framework so that it promotes innovation rather than bureaucratic paralysis. A major step in this direction was the creation of the Science, Technology and Research Trust Fund in 2004. What is still missing is a clearly formulated policy on promoting innovation.

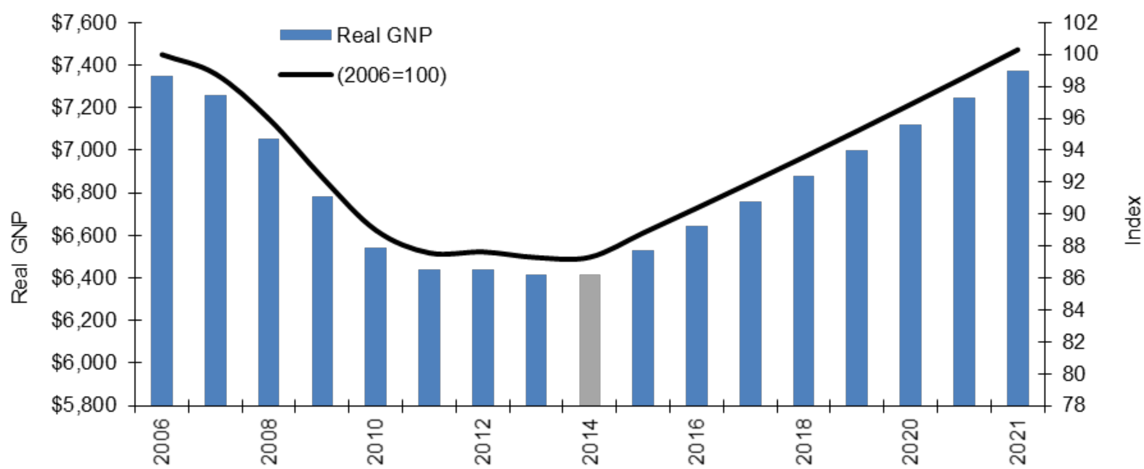
Social and economic development can occur only in a *pluralistic* society—one in which opportunities are broadly distributed. Most fundamentally, a stable social environment is a requirement for economic development. Also, Puerto Rico must recognize that the emerging economic activities centered on high-technology and knowledge-intensive products will not generate the jobs required by a growing population. Other measures are called for in order to support job creation, such as a two-pronged development strategy that focuses on the promotion of high-value-added economic activities, and that also focuses on the island's "social economy"—its labor intensive, local market-oriented activities.

One line of thinking assigns the community-based sector a major role in addressing the implications of an economy that is not generating the jobs required. This so-called "third sector" is an increasingly important component of society—not only in providing services, but also in generating jobs. Thus, Puerto Rico will have to put in place the mechanisms and fiscal structures that will promote the creation of a plural economy through a strong third sector.

Puerto Rico's educational and vocational training infrastructure is deficient and needs to be brought in line with the emerging global requirements. With respect to higher education, significant improvements have been made in many areas, particularly science and technology, but much still needs to be done in terms of comprehensive statewide planning at that level. A stable social environment will require an effective and agile educational system, including K–12 schools, postsecondary non-university programs, and university education.

Breaking out of the negative spiral that has characterized Puerto Rico's economy will not be easy. There are no quick fixes, however tempting, and the dangers associated with oversimplifying the problems and its solutions are immense. Indeed, Figure 3 confirms how slow the recovery will likely be, showing it would take until 2021 for Puerto Rico's economy to regain its real GNP of 2006.

Figure 3. Puerto Rico Would Reach the Real GNP of 2006 by 2021 (assumed annual growth rate of 1.75 percent beginning in 2014)



Sources: Junta de Planificación,2013; Estudios Técnicos, Inc.

The Nagging Question: Puerto Rico's Status

The debate about Puerto Rico's commonwealth status versus its moving toward independence, statehood, or modified commonwealth, important as the debate is, has been a paralyzing element, overshadowing issues related to economic development. The debate has prevented the required long-term stability of economic policies. There are, of course, economic issues that have been a specific, intrinsic part of the status debate. Yet, the many studies on these politicized issues have failed to produce concrete results and specify the economic implications of the island's alternative options regarding its legal status.

Furthermore, changing global conditions should introduce new parameters into the status debate. Globalization has redefined the meaning of sovereignty and introduced increased room for maneuver among non-national entities such as subnational and cross-boundary regions. Regions, states, provinces, and departments are becoming key proponents of economic policy. In the phrase of a well-known regional scientist, Allen Scott, the world is becoming a "world of regions."

Of course, a change in Puerto Rico's legal status will have economic impacts, since any such change will entail major structural modifications. This means that the transition in status and its planning assume critical importance. However, the basic, underlying strategic requirements for assuring economic development will remain unaltered under any of the optional changes in legal status being considered: strong science and technology capabilities, market-driven policies, a strong local economic base, more efficient government, higher savings and investment ratios, better infrastructure, lower transaction costs, and heavy emphasis on developing human resources.

For the time being, Puerto Rican voters appear to be evenly divided between statehood and some form of commonwealth status. This stalemate did not change noticeably in the most recent referendum, which was held in 2012. And although the recently adopted federal budget for 2015 assigns $2.5 million for yet another referendum on the issue, it is doubtful that it will in fact be held, as one of the island's major political parties has already announced its intention to abstain.

Recommendations

Economies are like large supertankers in that turning them around is neither simple nor quick. In the case of the Puerto Rican economy, reversing the performance of the last 10 to 12 years will take considerable time.

Puerto Rico urgently needs a new approach to planning and policymaking that will provide a better foundation for the island's competitiveness moving forward. Such a system must be characterized by the following:

- Independence from the political cycles, accompanied by a long-term perspective;
- Effective means for medium- and long-term planning of infrastructure in a coherent fashion;
- Land use as a priority concern; and
- Inclusive, long-term planning that exceeds regulation to produce the economic and technological intelligence necessary for both public and private decisionmaking.

A nonpartisan commission on Puerto Rico's economic future would be an appropriate mechanism for developing and recommending a mid- and long-term economic strategy. Besides the requirement to protect such a commission from partisan intrusions, the commission must be driven by private-sector and community interests. The present White House Task Force on Puerto Rico should assume a more proactive role in assuring the viability of such a commission.

Unless recent trends are reversed and the economy is able to generate faster growth and ensure access to opportunities that mitigate existing inequalities, social instability and drug-related crime will continue to be major problems. This is a concern not only for Puerto Rico but also for the United States as a whole. Strengthening the economy and the social and political institutions of the island, substantially weakened by the economic collapse, can reverse the dangerous situation regarding drugs and security.

Following are some steps that Puerto Rico should take in 2014:

- Revamp the tax system, resulting in increased simplicity and efficiency, and a system that puts a premium on savings and investment, not stimulating consumption.

- Begin a major overhaul of the institutional framework, including labor legislation and government structures, procedures, and policies.

- Put in place measures that will stimulate investment in construction; although this step will not lead the way to sustained economic development, it will generate much-needed short-term economic activity.

The future of Puerto Rico is determined to a great extent by its political system. If no changes to that system are forthcoming, it will be impossible to resolve the island's many economic and social problems. And only once those problems are resolved will issues of great importance to the United States get resolved: the trafficking of illegal narcotics through the island, and its implications for U.S. security and policy.

Perhaps Caribbean Nobel Prize winner in economics W. Arthur Lewis said it best: "All nations have opportunities which they may grasp if only they can summon up the courage and the will.... It is possible for a nation to take a new turn if it is fortunate to have the right leadership at the right time."

About the Authors

José J. Villamil is chairman of the board of the consulting firm Estudios Técnicos, Inc., and, until December 2012, of BBVA Puerto Rico. He graduated from the Wharton School of Finance and Commerce of the University of Pennsylvania, where he also pursued graduate studies in economics. He has been visiting professor in various universities, including Harvard, has lectured at Latin American, U.S., and European universities, and was a consultant to the UN Economic Commission for Latin America. Villamil was a visiting fellow at the Institute of Development Studies in Great Britain. He has received numerous awards throughout his career, including the prestigious John Simon Guggenheim Memorial Foundation Fellowship for his work on the developing economies of small islands, the Special Award of the President of the Puerto Rico Chamber of Commerce, and a doctorate, honoris causa, awarded by the Universidad Metropolitana in San Juan in 2004. He was president of the Inter-American Planning Society, the Puerto Rico Chamber of Commerce, the Puerto Rico Economics Association, and a founding member of the Puerto Rico Community Foundation and the Non-Profit Sector Research Fund of the Aspen Institute in Washington, D.C. Villamil belongs to boards in both the public and private sectors, including that of United Way of Puerto Rico. He has served in the Economic Advisory Councils of various Puerto Rico governors and has published books and articles on economic development issues.

Carl Meacham is director of the CSIS Americas Program. He joined CSIS from the Senate Foreign Relations Committee (SFRC), where he served on the professional staff for Senator Richard Lugar (R-IN) for over a decade. He served as the senior adviser for Latin America and the Caribbean on the committee, the most senior Republican Senate staff position for this region. In that capacity, he traveled extensively to the region to work with foreign governments, private-sector organizations, and civil society groups. He was also responsible for managing the committee's relationship with the State Department regarding the Western Hemisphere and overseeing its $2 billion budget. Before he joined SFRC, Meacham worked on the staff of two Democratic senators. Prior to his Senate work, he served at the Department of Commerce as special assistant to the deputy secretary, at the Cuban Affairs Bureau of the Department of State, and at the U.S. embassy in Madrid. Meacham is a native speaker of Spanish and was partly raised in Chile, his mother's country of origin. He received his B.A. from the University at Albany, State University of New York, and holds M.A. degrees from American University and Columbia University.

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