

Planning and Programming for Reconstruction

By

Elías R. Gutiérrez, Ph.D., in collaboration with Walter Ruíz, Ph.D.

Puerto Rico's government lies impotent as the forces of entropy dismantle its economic and social infrastructure. Both physical and institutional assets are being destroyed by neglect and obsolescence. Resources are being squandered by short-sighted, politically motivated, and ill conceived priority sets and decisions. Even worse, by obstruction and paralysis.

Precious time has been lost. Tax reform, proposed by the Governor, was deformed at the legislature. As a result, the already intolerable tax system has become worse. Given the iron fists with which political parties control the huge public sector, and the influence they exert on the relatively small private sector, much needed government re engineering is now almost an impossibility,

Congress has intervened exerting powers derived from the territorial clause of the US Constitution. A board made up of seven yet unknown presidential appointees will exert wide and ultimate powers over the territory's fiscal and financial matters. The Puerto Rican constitution has now been revealed as merely another congressional statute. The myth of the "compact" the created the Commonwealth has been shattered.

Social capital has been squandered. The debt and Bondholders have become the target. Populist discourse and talk of default by government officials inflicted serious damage on credit worthiness. The rule of law as a guiding principle was shaken. Eventually, the unthinkable default occurred.

A radical change took hold. Puerto Rico's government has abandoned the code, i.e., "...My word is my bond". The spirit of this expression must be reinstated if a path towards a higher standard of living is to be charted. The task will be difficult. It will require an unambiguous and sustained effort. Once such change in bearings is adopted, leadership will be indispensable in order to stay the course. A course that must be specified and translated into a program of capital investments. Not in a list of construction projects lacking any strategic role. A list that smells of porkbarrel. No, just the opposite is needed.

Capital is scarce, financing is currently unavailable. Eventually financing will become available but expensive and difficult to obtain, given our country-risk profile. Thus, we must choose carefully as the project portfolio is configured. The guiding principle must be set on a goal, I.e., increasing our capacity to add value to the world economy.

Political correctness must be set aside. The Keynesian recipe for jump-starting the economy by hiring workers to dig holes in the ground, only to fill them up again, may work as a countercyclical policy on the very short-run for highly capitalized economies. Puerto Rico has had an overdose of such unproductive approaches. It is time to think strategically. The goal must

be to create a productive economy capable of adding value to the world economy. A modern infrastructure of the most recent vintage is required to attain such a goal.

The capability needed to set goals and objectives, to design and draw program sets, to organize efforts that enable execution of action plans, depend on the presence of a strong social infrastructure.

The degree with which a society will protect individual freedom depends on the effectiveness of its social infrastructure. A feeble infrastructure will lead to dependence, encroaching government bureaucracies, high transaction costs and continuous loss of individual freedom. Planning and execution may initially appear to work more efficiently under centralized planning. However, the central planning model has proven itself inefficient and strongly biased toward totalitarian solutions.

Puerto Rico's social infrastructure has eroded. Government has transformed into a patronage distribution political machinery. A machinery dominated by two major political parties and dozens of factions and special interest groups. Since industrialization, launched during the mid 1940's, planning and effective sustained execution capability have collapsed. There appears to be a qualitative change in the collective psychology of generations now in charge.

Demography is exerting strong influence in the evolution of productive potential. The capacity to think and plan strategically, to set goals, come up with a plan, and execute it, appears to be absent from the traits of the two generations now dominant. Plans galore for everything are nothing but wish-lists. Production is no longer seen as the way to a better living standard. Saving has been dealt a mortal blow by government's bankruptcy. Losses in such key industries as banking and real estate, have produced enormous losses in wealth to middle-class families. The wide-ranging effects constitute a heavy drag that will last.

Social capital has been described as the glue that keeps social systems working and interacting. Social infrastructure is made up of institutions and traditions that support and hold societies and their economies functioning. When social capital is lacking, communities unravel. When social structure breaks down the economy loses its principal source of strength.

Puerto Rico is undergoing a general process of de-capitalization. Wealth is being destroyed. Impoverishment is destroying the middle class. Social capital and structures are collapsing. Institutions, starting with the family, are under enormous stress. The social structure is unable to hold and the economy is coming down upon itself. One of the basic institutions, i.e., government, suffers from elephantiasis and obsolescent systems. Its sheer size and weight is crushing the economy that supports it. To put it simply: Puerto Rico's government doesn't work. Dysfunctional government and social structure deterioration has sent transaction costs into orbit.

Central planning solutions will not work. Market solutions may work but require leadership and political will. In other words, the situation is not one you would Justin give to a " junta " for solution.

Reconstruction shall mean just that. After ten years of neglect, bad choices, outright abandonment, and lack of purpose, the basic utilities must be retrofitted and rebuilt. Some of the capital investment projects that should be made part of the investment program are known already. Some of them have even been started only to be forgotten and abandoned. Lets recall a number of these projects just to illustrate the kind of effort that must be tackled.

1. Completion of the so called "super" aqueduct interconnecting water reservoirs around the island, thus providing assurance against extreme droughts and continuance of service.
2. Completion of the Rio Valenciano reservoir project interconnecting and supplying the PR 30 corridor municipalities.
3. Completion of the transition from petroleum to natural gas in the island's power generating units with a goal of achieving reliable, stable consumer energy cost below \$0.14/kwh during the next three years.
4. Construction of gas pipelines inter-connecting converted and/or new gas generating units in the north and south to the new and the existing import, storage and re gasification facilities on the southern coast.
5. Construction of a submarine cable connecting Puerto Rico to the Virgin Islands to expand the electricity transmission grid, thus enabling the supply of electricity at competitive prices to an expanded territorial market.
6. Completing the metro rail project and its feeder systems consistent with an urban redesign of the San Juan Metroplex area.
7. Converting the toll roads and freeways grid into an "intelligent" and safe ground transportation system.
8. The institutional infrastructure must also experience a process of reconstruction and upkeep. Transaction costs have rocketed as a response to an out-of-control bureaucracy, excessive protectionist and ill conceived government meddling in private sector activity.

Production, not distribution, must be the overriding goal of all infrastructure projects. Careful planning must not be avoided. We must realize that employment is a cost factor. Production, adding value, competing and exporting. These are the keywords that must be kept in mind. Employment in private industry will follow capital investments. Choosing a portfolio of major infrastructure initiatives with high synergy index is the way to go. Political interfering will only insure continued failure.

Certain facts must be incorporated early on in the planning and implementation phases of the investment program. For example, the Puerto Rico government utility's water management record is just unacceptable. The public utility's management has no clear estimate of the potable water it produces. Nevertheless, it estimates that 60 percent of production is lost to leakage or

theft. An aggressive program to identify and to incorporate all illegal consumption, implementing a 100% consumption remote meter reading is urgently needed.

Three hundred thousand properties have been identified, with no legal water facilities. The electricity appears to have over two hundred thousand more clients than the water and sewers utility. Of these, only a small percentage of client meters are regularly monitored. The majority of client consumption is still estimated. Consumption of a significant segment of the population is never meter-read. Rather, it is *estimated*. Clearly, an unacceptable portion of treated water is lost to leakage and theft. This translates into lost revenue. This must be urgently terminated.

Problems in other areas of infrastructure have remained in the doldrums for years. One of these pertains to solid waste disposal. Here is a dormant crisis. Landfills throughout the island are polluting underground water deposits. Noncompliance with Federal regulations is the standard procedure. Meanwhile, sterile battles are fought against waste-to-energy projects. Paralysis is the resultant condition.

An all-fronts program is required to tackle this problem. Approval and construction of the Energy Answers project in Arecibo should proceed immediately. In addition, an all-out effort should be implemented in order to develop additional compost facilities, as well as recycling, conservation, and zero-trash programs.

Education may well be thought of as an investment. However, this is far from being the case in present day Puerto Rico. In fact, public education has become a welfare system dominated by an obtuse bureaucracy and short-sighted union leaders and activists. The enormous chunk that public education syphons from annual budgeted expenditures cannot be classified as investment. It must be called for what it is, i.e., government dole. This has to stop.

In conclusion, the capital requirement necessary to achieve minimum real rates of growth of output will be hefty. It is our estimate that lift-off requires gross domestic investment effort sustained at rates of 14 per cent of GDP, for a twelve-years period. Financing such an effort will represent a challenge. For this reason alone, lost credibility and confidence in the Commonwealth government must be regained. The parlance of prepotence default should have been replaced by true adherence to the rule of law and with a willingness to comply with commitments and debt service schedules. It was not and now it is too late. Now, we must deal with the consequences.