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A NEW APPROACH TO REDISTRIBUTION AND GROWTH POLICY IN PUERTO RICO

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Inequality has gained a position at the front and center of public debate. Put aside have been issues of whether focus should be placed on inequality of income, earnings, wealth, on inequality of outcomes, means, capabilities, or on the foundations for concern about inequality. The general perception—and fact in many developed economies—is that inequality is rising and this has brought forth calls for policies directed at curbing or countering the trends. The time-honored approach has consisted of redistribution of income and earnings through market intervention, public transfers, taxes; and calls for renewed zeal have come from prominent quarters. Anthony B. Atkinson, one of the doyens of distribution research, has recently argued for a higher minimum wage, guaranteed social employment, a top tax rate of 65%, and a more generous welfare state, among other measures (Atkinson, 2015). Piketty (2014) has called for a global tax on capital.

Puerto Rico's explicit and implicit approach to inequality has largely followed along the fiscal redistribution and market intervention approach, and probably has carried it to a further extent than most countries in the world. Local and US government transfers make up over a third of personal income. These include social security payments, food and housing assistance, grants and subsidies to local governments and dependencies such as departments of transportation, education, and health. Close to half of the Island's population receives government-provided health insurance. The middle class benefits from a publicly-funded state university and from Pell grants that cover its tuition and fees many times over. Although the bulk of the welfare state is subsidized by the US government, local sources still play an important role and rely on a heavy tax burden. Indirect, payroll, income, and corporate taxes represent 29% of net national product.

While public transfers have sheltered large segments of the population from a long and severe recession and in the past have been important instruments of positive distributive change, there is concern that these have obtained at high efficiency costs. Participation rates among males (females) with unfinished high school range from 50-60% (30-40%) even during prime working age. A pattern of very early retirement characterizes the working life of highly educated men and women. Incentives for labor force withdrawals are compounded by poor labor market conditions associated with a minimum wage that relative to productivity, is among the highest in the world. Fiscal tension between a small productive and a much larger non-productive sector makes the task of balancing budgets close to impossible, and constitutes a serious threat to the island's economic viability.

Rather than arguing for an end to redistribution policy, this paper advocates for a new approach to growth and redistribution, arguing in favor of policy tools directed at augmenting means, capabilities, reducing poverty, income differences, and fostering social mobility. To that end, Sections 3 and 4 discuss data sources and recent distribution trends, with a focus on assessing the damage caused by Puerto Rico's deep and drawn-out recession. Section 4 lays out a framework for appraising inequality and for setting a course of action that is based on evidence generated by a growing literature associated with the causal determinants of physical, cognitive, and non-cognitive development. Right at the very start of human life, conditions in the womb have a strong impact on physical and cognitive development, and have even been linked to late life mortality through adult development of diabetes, hypertension, high cholesterol, and cardiovascular disease. After birth, cognitive and non-cognitive abilities continue to be shaped by environmental stimuli, most importantly that provided by the family (Heckman, 2013; Putnam, 2015). Although the same family environment is the central element of the education process, the literature on school-based policies for delivering better education and on strategies for supplementing poor circumstances is growing at a rapid pace. Sections 5 and 6 examine the state of the Puerto Rican family, children, and schools with the aim of ascertaining the challenges they face and likely courses of action. Section 7 concludes with a proposal of a policy agenda aimed at generating better and more equalized life chances as tools of both economic growth and redistribution.