



Written by [Bob Adelman](#) on June 17, 2011

## Lessons From Puerto Ricos Economy

While the media was focusing on Governor Scott Walker's difficulties with unions in Wisconsin, John Stossel said they missed a much larger and more important story about another governor: Luis Fortuño (left), of Puerto Rico. In 2009, the 3,500-square-mile island just east of the Dominican Republic in the Caribbean Sea, Puerto Rico was, according to Fortuño, a mess:

Not just a mess. We didn't have enough money to meet our first payroll!



The mess was the result of overspending and the consequent overexpansion of government. When Fortuño took office in January, nearly one out of every three workers were on the government payroll. "Our taxes were as high as they could be, actually much higher than most of the [United States]. So what we've done is the opposite," said Fortuño. With a conservative legislative majority (the first in 40 years), Fortuño cut taxes, cut government spending, and fired government workers. He privatized government agencies: "I said, bring in the private sector. They will do a better job [and] they will do it cheaper. "

By the time the dust had settled, he had laid off 17,000 government employees, had frozen all salaries of those remaining (and cut his own salary as well), and wound up cutting government spending by 20 percent.

Just as in Wisconsin, the government unions were having none of it, and demonstrated against Fortuño for days. Milton Rosado, the National President of the Labor Council for Latin American Advancement, claimed that such Draconian cuts "will increase the already high unemployment rate on the island as a result of laying off thousands of public sector workers; [they] will weaken the role of unions since it suspends collective bargaining for contracts in the public sector...and will reduce the productivity of the public sector at a time when there is an increased need for public services. "

College professors resisted Fortuño's plans, too. The President of the University of Puerto Rico, Antonio Padilla, complained that "efforts to privatize sectors of the university would [result in] devastating consequences for the faculty and the future of the eleven campuses, its schools, departments, and teaching staff. " The head of the professors union, the Association of Puerto Rican Professors, Maria Rosado, even claimed that Fortuño's cuts "are anti-democratic and violate all the civil and laboral rights in our country. "



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Despite these protestations and demonstrations, it didn't take long for the economy to begin to regain its footing. Last November, Fortuño proposed a major tax reduction program that would reduce individual income taxes by between 7 and 15 percent, and corporate income taxes by 30 percent. As a result, multinational corporations are taking a second look at investing in Puerto Rico, with more than 600 construction permits being issued in just the last few months. Wal-Mart, CostCo, Coca-Cola, and several pharmaceutical companies are either moving to the island or expanding their operations there, resulting in the creation of thousands of real jobs that simply didn't exist before.

Stossel interviewed one government worker who is very glad that she was terminated. She now operates her own small business, named "Law 7" for the law that fired her.

Remarkably, establishment bankers such as William C. Dudley, President and CEO of the Federal Reserve Bank of New York, give Puerto Rico high praise for the economic gains seen thus far. Speaking at the Summit of the Americas in April, Dudley said that "since mid-2010 there have been promising signs: job growth...improved modestly since last summer. And the weakness...has been concentrated in construction and manufacturing. The unemployment rate has come down by a full percentage point..."

Looking ahead to the rest of 2011, I see grounds for cautious optimism. In particular, exports...have the potential to contribute [significantly] to growth here in Puerto Rico...

This is high praise indeed from a member of the international banker cartel that would much prefer to see such results come from continued meddling, overspending and interference, according to their statist Keynesian ideology. What this reveals is that meddlers and manipulators do know how to revive a stagnant and over regulated economy, just like that in the United States: cut government spending significantly, reduce regulations, abolish or privatize government agencies, and reduce taxes on individuals and corporations.

Fortuño gives policymakers in the United States one word of advice: "Do what you need to do quickly, swiftly, like when you take off a Band-Aid. Just do it. And then move on to better things. "



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