



After the hurricane

PUNTA SANTIAGO AND SAN JUAN

America let down its Caribbean citizens. But to salvage their island's fortunes, Puerto Ricans must look first to themselves

PUERTO RICO'S distant overlords have often displayed mixed feelings towards it. With its central Caribbean location and natural harbour at San Juan, the island was a strategic asset for the Spanish for four centuries. It was, said Philip IV in 1645, "front and vanguard of all my Western Indies and, consequently, the most important of them and most coveted by the enemies." On the other hand, its rugged terrain was less productive than Hispaniola. It was also plague-ridden, expensive to fortify and the garrison in San Juan kept deserting because the Spanish kings rarely paid their troops.

Their enemies squandered the opportunity this presented: perhaps they felt similarly about the place. Puerto Rico was seized or assailed by the English, French and Dutch, then abandoned and returned to Spain. Until, in 1898, America grabbed the island in the spasm of empire-building that also took it to Cuba, Guam, Hawaii and the Philippines, and it stayed. But it has been even more ambivalent about its Caribbean prize than Spain. This was evident after the island was ravaged on September 20th by the fifth-fiercest Atlantic storm to make American landfall.

Fuelled by unusually warm Atlantic waters, Hurricane Maria swept the island from the south-east, sustaining wind

speeds of up to 280 kilometres an hour (175mph). It obliterated Puerto Rico's electricity grid, mobile-phone towers, and air-traffic-control system and radar. It broke or blocked hundreds of kilometres of roads and bridges and damaged or levelled over 470,000 houses. At least 64 people perished during the storm, drowned in their houses or brained by flying debris. Perhaps another 1,000 died in the aftermath, including old people who suffocated after their hospital respirators packed up. "No power, no water, no transport, roads were closed, many streets broken, houses destroyed and people crying," is how María Meléndez, the mayor of Ponce, the biggest city in southern Puerto Rico, recalls the devastation her namesake wreaked.

As an overseas territory, with most of the rights of a state, less a vote in general elections or in Congress, Puerto Rico was due the same emergency response as any other part of America. Its 3.4m inhabitants got so much less, in such desultory fashion, with such horrible consequences, that the storm has rekindled a painful debate about the island's relations with America. "A senator told me that if the power hadn't been fully restored in his state within a month, there would have been mayhem," says its governor, Ricardo Rosselló, seated in his elegant 16th-century residence in San

Juan. "Puerto Rico has been part of the US for more than 100 years, but we're still treated as second-class citizens. Anything would be better than this."

Indeed, the effects of Maria were so severe because the island was already in such bad shape. That is in part, though by no means only, due to the federal government's neglect. Almost half of Puerto Ricans—or Boricuas, as they call themselves—are poor. The economy has been in recession for 12 years; gross national product has fallen by 15% in that time. Almost a fifth of the population has quit the island for Florida, New York and other Puerto Rican enclaves of the mainland, including around 300,000 since Maria struck. The government is bankrupt. The island's politicians are meanwhile haplessly fixated on its status. The ruling New Progressive Party, led by Mr Rosselló, wants it to become a state, the Popular Democratic Party prefers the status quo; a few socialists and other romantics want independence.

Despacito

Natural disasters can at least spur economic growth, which Puerto Rico urgently needs: there are already signs of this in strong car sales and debit-card transaction numbers. By strengthening Mr Rosselló, who was elected in 2016 on a promise of structural reform, the hurricane might also lead to improvements in the island's governance. The 39-year-old governor calls it a "transformational opportunity". But that is not to gloss the horrors Maria caused, or the inadequacy of the American response.

"I was expecting it to be like the Berlin airlift," recalls Nicholas Prouty, a financier from New York now based in San Juan, ►►

who used his helicopter to survey the disaster. In fact, there was a more recent example of what Puerto Ricans were entitled to. A month before Maria, Hurricane Harvey hit Houston and within six days the American army's Northern Command had deployed 73 helicopters to the city. Yet a week after Maria, Mr Prouty still had the skies over Puerto Rico pretty much to himself: "There was nothing, no Black Hawk up in the air, no C130." It took Northern Command at least three weeks to send 70 choppers to the island.

Digging by Politico suggests the federal government sent 30,000 relief workers to Houston within nine days of its hurricane; it sent 10,000 to Puerto Rico. Over the same period, the Federal Emergency Management Agency (FEMA) approved payments of \$142m to victims of Harvey, and \$6m to victims of Maria. Ms Meléndez says it was two weeks before she heard from FEMA, and two months before the Army Corps of Engineers started dispensing tarpaulins to patch up Ponce's 49,000 damaged houses.

In the coastal town of Punta Santiago, in the poor south-east of the island, Father José Colón says it was two months before he saw any sign of FEMA, when two of its workers came to his church asking for directions. The priest was by then dispensing \$1m of supplies, which he had raised in private donations over the internet. "At least the response from the American people was extraordinary," he says.

Even the most attentive government would have struggled with Maria. FEMA was overstretched in Texas, Florida and California. Puerto Rico, unlike Houston, is rugged, 180 kilometres long, and has worn-out infrastructure and weak institutions. The state-owned electricity monopoly, whose 700 pylons came crashing down, is especially inept. Yet instead of strong leadership, to cut through the difficulties, Donald Trump provided little help. The president at first sought to downplay the disaster, then suggested Puerto Ricans were doing too little to help themselves. Three weeks after Maria, he suggested it would soon be time for the feds to leave. "We cannot keep FEMA, the Military & the First Responders, who have been amazing (under the most difficult circumstances) in P.R. forever!"

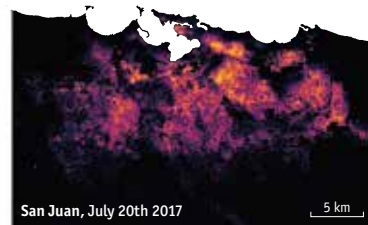
Overseas, not abroad

He might almost have been speaking of a foreign country. Maybe he thought he was. Before Maria, over half of Americans did not know Puerto Ricans were American citizens. No wonder they were treated like second-class ones. Even now, six months after the disaster, over 50,000 have no electricity and San Juan is prone to daylong power cuts. The poor, whose tin-roofed shacks were most damaged by the storm, have found it especially hard to secure assistance. Of the nearly 1.2m applications

Illuminating

Night-light intensity in San Juan

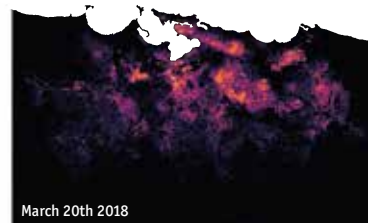
Before Hurricane Maria makes landfall



Immediate aftermath of Hurricane Maria



Six months after Hurricane Maria



Source: Suomi NPP VIIRS data from Miguel Román, NASA Disasters Programme

FEMA has received for money to repair damaged houses, it has rejected 60% for lack of title deeds or because the shacks in question were built on stolen land or in contravention of building codes.

The economic toll is enormous. Around 80% of the island's agricultural crop was destroyed, including coffee and banana plantations that will take years to regrow. An estimated 10,000 firms, one in five of the total, remain closed, including a third of the island's hotels. Glinting in the Caribbean sun behind Father Colón a bulldozer was clearing debris from Punta Santiago's once-popular, now deserted, beach. After the storm scores of dead monkeys were washed up on it from a research station on an outlying island. The local fishery has also suffered, its reef having been buried under debris, including a car.

The government forecasts output will shrink by another 11% in the year to June 2018. A burst of growth should then follow—estimated at 8% over the following year—on the back of \$35bn in federal assistance, an estimated \$20bn in private-insurance payments and as Puerto Ricans dip into their savings to repair their houses. Yet even allowing for the effects of that growth, Puerto Rico and the nearby US Virgin Islands will by one estimate lose \$47.5bn in output and employment equivalent to 332,000 people working for a year.

The 3,000 people estimated to have left the Punta Santiago area, mostly for Florida, may not return soon.

Yet the storm has also reinforced two positive trends. One concerns the political effect of the island's swelling population on the mainland, where there are over 5m Puerto Ricans. Most recent departees have headed to Florida, whose Puerto Rican population has surged to over 1m. Given that Mr Trump won Florida in 2016 by a little over 100,000 votes, and most Puerto Ricans on the mainland vote Democratic, this gives them leverage. On a post-Maria embassy to Washington, Ms Meléndez went to see Senator Marco Rubio of Florida to try to capitalise on that. After a round-about discussion about debt relief and aid, conducted in Spanish and English, the pugnacious mayor of Ponce says she slammed her fist onto Mr Rubio's desk. "I said, 'Sir, treat us the same as any other Americans or we are going to tell our relatives in Florida not to vote for you and you will not win another election'."

The second, more important, benefit concerns the creative potential of the destruction wrought by Maria on the island's government and businesses. Saddled with massive debts—including \$70bn to bondholders and another \$50bn in pension liabilities—Mr Rosselló's administration is making deep cuts. Before Maria, it was committed to slashing funding to local governments by \$175m, closing 184 schools and trimming public-sector pensions that, at an average of \$1,100 a month, are not generous. It will now be able to cut during a burst of growth and less steeply, at the discretion of its overseer—a seven-person fiscal control board that was tasked in 2016 with approving the government's budgets in return for negotiating with its creditors. But much more is required.

Is this the end of Puerto Rico?

Assisted by federal tax incentives, Puerto Rico's economic model was for decades based on manufacturing, especially of drugs. Its economic collapse was a result of those incentives being taken away by a Republican-controlled Congress, between 1996 and 2006. The debt crisis is an equally predictable product of the government's efforts to sustain its operations, at boom-time levels, with borrowed money. This reflected, beyond foolishness, an assumption that Washington would provide a replacement incentive. The fact that three successive administrations, Democratic and Republican, have refused to do so, even after the horrors of Maria, points to the emptiness of that hope. To climb out of its hole, Puerto Rico needs to become more competitive. Given that it lags the United States by 58 places in the World Bank's ranking of the ease of doing business, it at least has a lot of options, some of which the hurricane has made more palatable. ▶▶



► There was previously little enthusiasm for reforming the state-owned electricity company, which is saddled with debts of \$9bn (an impressive feat of incompetence for a monopolist with high demand for its product). There is now broad support for the government's ambition to privatise power stations and contract out transmission and distribution. The grid, which will be rebuilt with federal money, will probably be redesigned to make it more resilient to hurricanes, which climate change is expected to make more frequent and severe. There is talk of micro-grids and more distributed sources of power, especially solar panels. Also, by necessity, some officials are trying to clean up the island's messy land registry, to help poor householders denied help by FEMA. Pointing to a map of San Juan, Carmen Yulín Cruz, the city's mayor, who enjoyed brief celebrity for butting heads with Mr Trump, points to slum areas she plans to provide with titles or land-use permits

Living la vida loca

Mr Rosselló introduced modest labour market reforms last year; more are needed. Puerto Ricans enjoy among the most generous protections of any American workers, including mandatory holidays and severance pay. They also have the highest unemployment rate in the country (it was 10.6% before Maria) and are losing workers to states such as Florida and Texas that have few state-level labour laws. That is nuts. So are the island's onerous business permits, including half a dozen different certificates of tax compliance. Mr Rosselló has sworn to reform that, too, and there is little doubt about his sincerity. The question is whether the greenhorn governor has the political strength and courage to see it through. He will have no better opportunity than the fleeting growth window the hurricane is about to provide.

The havoc wreaked by Maria could be especially creative for the island's private sector, which represents a chronically missed opportunity. Puerto Rico, for all its problems, is a beautiful tropical island, with white-sanded beaches, rainforest, fascinating history, lovely colonial buildings and a vibrant mix of Latin-American and European culture. Yet, with 3.5m visitors a year, its tourism industry is less than half

the size of Hawaii's. It has an excellent climate for growing coffee and other highly marketable products, yet its agriculture sector is inefficient and tiny. The island has a well-educated, bilingual middle-class, including a surfeit of engineers, trained at the well-regarded University of Puerto Rico for the manufacturing industry, and cheap to hire. But in the wake of the departing multinationals, they are also leaving. Isabel Rullán, a 20-something former migrant, who has returned to the island from Washington to try to improve linkages to the diaspora, estimates that half her university classmates are on the mainland.

But there are signs of improvement, which Maria has reinforced. Almost all the shuttered hotels are being refurbished. Marketing of the island has been handed to a private entity which aims to double revenues from tourism over five years. Ms Rullán is using some of the \$3m her organisation crowdsourced during the hurricane to help 2,500 coffee farmers replant more productively. As manufacturing shrinks, the island's remaining entrepreneurs are shifting towards services, including call-centres, business processing, IT services and, perhaps soon, medical tourism, that are more suitable to a high-skilled island economy.

"Every week I hear from someone who wants to come back from the US to start their own thing," says Ángel Pérez, whose IT-services company, Rock Solid Technologies, exports to governments in Central America and across the Caribbean. Puerto Rico's government offers good tax incentives for startups. If it can also provide more basic inducements, such as reliable electricity, it is not hard to imagine entrepreneurs returning. Besides its natural advantages, Puerto Rico is their home: the minimal degree to which it has succumbed to American culture is indeed remarkable.

That speaks to the albatross hanging around the island's neck: the uncertainty over its status. Jealous guardians of their language and culture, misty-eyed even now over Spain (*la madre patria*, "the

mother country", as Boricuas call it), Puerto Ricans have maintained a strikingly transactional view of America. It took a big expansion in health-care and other benefits, during the 1950s and 1960s, to quell a surge in violent nationalism on the island. And though many thousands of Puerto Ricans have fought and died in America's armed forces, they still tend to cherish the Puerto Rican Olympic team and other tokens of national identity. A class of 30 political science students, at the University of Puerto Rico's campus in the south-east city of Humacao, said they had nothing particularly against America; it just wasn't their country. None of them knew the pledge of allegiance or more than a few words of the "Star-Spangled Banner". And now, as Maria underlined, America's interest in and inducements to the islanders are running dry.

This has left Puerto Ricans angry and uncertain. Pre-Maria polls pointed to perhaps a small majority for statehood. Yet the quasi-colonial status quo, which has robbed their government of initiative while putting them at the back of the line for federal attention, now seems intolerable. Mr Rosselló says even independence would be preferable: "At least it is a dignified alternative to the current status." Yet that status is not up for review currently. That is probably a good thing.

It seems likely that Puerto Rico will become a state eventually. But to manage that transition, without risking a violent nationalist repulse, it needs to do so from a position of relative strength, not in its current shattered state. The island's government seems to know what is required. Its fiscal overseers will try to keep it moving. If they succeed, the economy will start growing sustainably and the flood of emigration will slow. Or else the brain-drain will become a demographic death-spiral, leaving the island with too few taxpayers to cover its costs. The horrific aftermath of Hurricane Maria might almost be considered an augury of what that would look like, every day. ■



When will the crowds flock back to the beaches?