Puerto Rico's Public Policy: Regulation Changes through Education Strategies in times of Crisis.

By Lisa M. Escobales, PhD and Teresita Ibarra, PhD

Abstract

This paper integrates two studies conducted in Puerto Rico (PR) regarding public policy and the entrepreneurship education as strategy in times of economic crisis. Public policy, now on (PP), is the principled guide to action taken by the administrative executive branches of the state with regard to a class of issues in a consistent manner with law and institutional customs (Norwich University 2015). In the past decades, Puerto Rico's economy has seen the implementation of public policies without a scientific study that supports this kind of science to achieve sustainable development and economic growth. This lack of planning has brought a unique present scenario of fiscal crisis in history. Being among many factors, public service is one of the pillars of its deficiency, poor business skills and lack of efficiency and productivity measure system. The development of public policies in entrepreneurship education will be a way to improve public service to the small and medium enterprises (SME). Excellence in public services and a better environment to conduct business, would result in higher productivity for both the private and public business sectors.

Key Words: Public Policy, Education, Public Services and Productivity, Puerto Rico

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Introduction

This paper integrates two studies conducted in Puerto Rico (PR) on public policy and entrepreneurship education as strategy in times of economiccrisis. Public policy (PP) is the principled guide to action taken by the administrative executive branches of the state with regard to a class of issues in a consistent manner with law and institutional customs (Norwich University 2015). Puerto Rico in the past decades has seen the implementation of public policies almost without a scientific study that supports this kind of science to achieve sustainable development and economic growth. This lack of planning has brought a unique present scenario of fiscal crisis in history. Being among many factors, public services is one of the pillars of its deficiency, poor business skills and lack of efficiency and productivity measure system. Those findings are same for both investigations, one focuses on public policy and the other on entrepreneurship education. The development of public policies in entrepreneurship education will be a way to improve public service to the small and medium enterprises (SME). In way to the excellence in public service and better environment for doing business, both public and private sector will improve their productivity. Public policy, now on (PP), is the principled guide to action taken by the administrative executive branches of the state with regard to a class of issues in a consistent manner with lawand institutional customs (Norwich University 2015). Puerto Rico (PR) has been going through a fiscal crisis since 2006. Ever since, the economyhas been under scrutiny and continuous to been degraded a government bonds by several accrediting homes in the past two years. To overcome the crisis there are multiple factors to consider. This paper we proposes an action strategy through entrepreneurship education to encourage excellence in public services offered to business. This is a mechanism to improve areas of deficiency and provide effective tools for the growth of SME.

Objective

Develop an excellence in public services model with emphasis in entrepreneurship education based on efficient public policy.

Questions

PR will adopt a strategy of public service quality and entrepreneurship education model that benefits SMEs to facilitate and promote business productivity and increase competitiveness?

Background

According to the World Economic Forum, Puerto Rico ranks in recent years has presented some competitiveness. But when analyzed carefully, we observed that public services remains one of the greatest fiscal problems affecting the Island as presented in Table 1.

Table 1:

Title: Global Competitiveness Index (GCI)

Indicators	**2014-2015**	**2013-2012**	**2012-2013**
Pillars I and II			
Wasteful of government spending	112 of 144	82 of 148	101of 139
Burden of government regulation	138 of 144	118 of 148	139 of 139

Source: Report Global Competitiveness Index (2015-2014) - (2013-2012) and (2011-2012). World Economic Forum.

Likewise, the report GCI points out the most problematic factor that hindrances doing business in Puerto Rico as presented in the Table 2.

Table 2.

Title: Problematic Factor for Doing Business

Indicators	**2014-2015**	**2013-2012**	**2012-2013**
Government inefficient bureaucracy	26.3	12.1	22.5
Inadequately educated workforce	15.3	12.1	2.5

Source: Report Global Competitiveness Index (2015-2014) - (2013-2012) &(2011-2012). World Economic Forum.

Similarly the Doing Business Report 2015 highlights as one of the most notable problems when doing business on the Island is: a) Construction Permits Dealing with a Rank of 158, b)score for starting a business (0-100) 91.7, and, c) enforcing contracts with a range of 92 stand out the time to finalize a contract with 39 procedures and 620 days.

Summary of combine studies to this article

The firsts study considered in these article is the Competitiveness of Puerto Rico and Singapore: compared on economic policies implemented and their effect on the international position of these countries. The study was focused on public policy and the competitiveness on PR and Singapore. This resulted in multiple findings but the public policies implemented in the public services was one of the most critical areas impacting the competitiveness of the Island by low productivity (Escobales 2012).

The study time frame is from 1976 to 2008 due to important changes in the government and the economies of PR and Singapore, particularly in PR which is the point of reference for the study. For that period, the most relevant economic policies for PR and Singapore were identified using the public data provided by the governments of each country. For Puerto Rico were identified 214 economic policies and for Singapore 164 (Escobales 2012).

Methodology and finding

This study was ex-post facto and evaluated three areas in macroeconomic sector: The first one is productivity (PRODV). The second variable is capacity to create welfare represented by gross domestic product per capita (GDPPC) and labor participation rate (LPR). The third dependent variable is ability to sell on external markets represented by exports rate (TEXP) and foreign direct investment (in ward) (IDE) (Escobales 2012).

The most important independent variables in the study were the economic policies identified for each country. The decision criteria used, for statistical purposes, was a p-value of 0.05 or lower. Six segments of economic policies within fifteen categories were organized: finance; income tax; income over property; taxes and tariffs; incentives; economic development; development institutions; labor relations; employment development; bank; commerce; private corporations; education; public service; and public planning. The tools used for this study are ordinary least squares (OLM), multiple regressions, Chow test and the E-Views program (Escobales 2012).

For purposes of this study we will focus on the results of the analysis of Puerto Rico. The number of economic policies implemented under each category is summarized in Table 3. Among the multiple conclusions public services in PR was one of the variable that impacted the competitiveness (Escobales 2012).

Table 3.
Economic policies category implemented by Puerto Rico 1976-2008

Segments	**Taxes and Finance**		**Planning And Economic Development**		**Labor Regulations**		**Commerce**		**Education**		**Service and Public Planning**		**Total**	
Economic and political percent by category	#	%	#	%	#	%	#	%	#	%	#	%	#	%
	46	21%	72	34%	49	23%	11	5%	24	11%	12	6%	214	100

Source: (Escobales 2012)

For purposes of this paper, the focus is on the segment of public services and public policy planning effectively. This segment demonstrated 40 percent of the 12 PP implemented between 1976 through 2008 had an negative impact. Even though, the segment planning and public service were one with the fewer PP implemented, representing only 6 percent of 100 percent of PP analyzed in the six segments (See Table 3). In fact, the segment of public service was the only one to have an impact on the two areas of macroeconomic competitiveness (productivity and sales in the international market) of Puerto Rico (Escobales 2012).

The other study considered for this paper is a qualitative research title Entrepreneurship Education (K-16) and Economic Development: Finland and Japan Entrepreneurship Education Model and its impact in Puerto Rico. It was conducted with five focus groups including representation from five regions of Puerto Rico. The sample profile were men and women, 25 years or older, active in the workforce as teachers, directors of public and private organizations, entrepreneurs or directors of non-governmental organizations. A moderator led an intervention in a semi-structured way. A total of 30 people participated in the focus groups in 2011. A content analysis was made with 11 categories obtained from the transcription of the interview's recordings. The Holsti's formula was used as proof of reliability in the analysis of content (Ibarra 2012).

On the other hand, the results of the study showed a consensus of the urgent need to provide business education in Puerto Rico. Among other findings, all the participants of the study recommended, that the government provide an enabling environment for businesses to increase productivity through excellence in government provided services. The participants in the study agreed that entrepreneurship education was needed at all levels (Ibarra 2012).

Behavioral changes in adults are possible through education. McClelland (1961) investigated why some societies have more success than others. One of the applications of his theory of the Three Needs is the training using the motivation for changes in behavior and in turn increase the level of attainment of the goals of organizations (Swenson2000, cited in Solano González 2009). McClelland (1961) identifies the needs that motivate individuals to action or obtaining achievements and grouped as follows: (a) need for achievement, (b) need for power and (c) need for affiliation.

Timmons and Spinelli (2009) ensure that you can create the right environment for people to have the opportunity to learn, explore and shape their attitudes and skills as entrepreneurs. As entrepreneurship education is a new paradigm in education. This paradigm seeks to create an environment for anyone to have the opportunity to learn, mold and discover their attitudes and skills as potential entrepreneurs. Teaching methods are more interactive and more eclectic; various strategies and teaching methods that depart from the ordinary in traditional courses (Timmons and Spinelli 2009).

In conclusion, both studies emphasize the need to improve all public services offered to SEM and the importance of implementing public policies that guarantee the quality of such services. According to the authors, entrepreneurial education could be the strategy to use in developing the skills needed to help governmental administrators, employees and business owners align all their particular needs. Graph 1 presentmodel.

Graphic 1. Conceptual model of integrated studies

Research A

Title: Competitiveness of Puerto Rico and Singapore: compared on economic policies implemented and their effect on the international position of these countries

Author: Lisa Mariel Escobales, PhD

Methodology: Quantitative method

Finding on Public Services

Research B

Title: Education (K-16) and Economic Development: Finland and Japan Entrepreneurship Education Model and its Impact in Puerto Rico

Author: Teresita Ibarra, PhD

Methodology: Qualitative

Findings in public services for SME's

Similar Findings

1. Time waiting for services
2. Multiple agencies for a single procedure
3. Lack of divulgation of services and programs
4. Negative attitude of public employees (demotivation)
5. Public employees without full knowledge of their area of work
6. Negative image towards public agencies
7. Partisan politics in the regulation of public agencies
8. Poor productivity
9. Lack of planning
10. Poor financial performance

Recommendations for public policies on public service quality for SME's

A new public service model by the implementation of strategies that involves evaluation of effectiveness, reorganization and entrepreneurship education

In conclusion, both studies emphasize the need to improve all public services offered to SEM and the importance of implementing public policies that guarantee the quality of the services.

Current situation in public services and planning in Puerto Rico

In summary, the results are evidence of how crucial public services has been in the growth and economic development of the Island and its competitiveness. The public services productivity, ethics and quality has been controversy axis. Multiple international trade organizations have listed as one of the great challenges facing the Island to improve their competitive performance.

The quality of the services provided lies in public administration and public server. Puerto Rico currently has 213.517 public employees in it's 250 state and municipal agencies (Institute of Statistics of Puerto Rico 2015). Some believe that the size of the government workforce is the cause of service issues but this may be debatable.

The government has demonstrated an effort to lower the number of employees. In fiscal year 2013, there were a total of 255 200 government employees. This meant a decline of 1.3 percent over fiscal year 2012 (Economic Report of the Governor 2014).

However, according to various studies, the problem lies not in the number of employees, but in the structure and efficiency of the processes that govern them. A point of analysis may be to consider whether the relationship between the population and the number of government employees in the states of United States of America (USA) implies not the quality of the services they offer. According to Marin (2014), if we compare the number of public employees of PR with employees of the States and the relationship with the population of each, we can conclude

that Puerto Rico is one of the USA territories that have fewer public employees. Actually, PR would hold the 37th place of 52th USA jurisdictions, including the District of Columbia.

Certainly the low productivity in public services does not fall in the number of employees, but the lack of planning, implementation and execution of public policy on service excellence. The Human Resources Department should be involved in educational programs geared towards excellence and government administration will be responsible for the control and execution efficiency. Similarly Palmira Rios (2014) states that it is a fallacy that there is a government gigantism in Puerto Rico (El Nuevo Día 2014). The number of government employees and the quality of its management are different. Making necessary to revisit this fact together with the lack of investment in public projects and human capital. The priority seems to be to increase revenues for the primary purpose of "saving our credit" against creditors of the government, instead of acquiring the necessary resources to invest in our future and improve the country (Marín 2014).

Indeed, the government's priority is clearly in the public policies implemented under the line contributions and finance. In the past 10 years the Island has been subjected of two tax reforms. The first was the Taxpayers Justice Act number 117 of July 4, 2006.This law imposed a tax of 6 percent on sales and use (IVU).This reform did not achieve the goal to increased government treasuries. This is why the government implemented a reform of this law call Internal Revenue Code for a New Puerto Rico (Act number 1 of January 31, 2011). Both PPgetting the same results: a massive tax evasion. For the public opinion, this evasion it’s a result of the poor audit of the Department of Finance of Puerto Rico, public agency responsible for auditing. That is why economist Gustavo Velez (2014) noted that the Department of Finance of Puerto Rico doesn’t collect annually about $ 900 million due to poor control of IVU.

Velez said the level of uptake of IVU, including all industries and transactions in which the tax-applied, is 56 percent, and evasionreaches 44 percent. This suggesting better models of control and collection (El Nuevo Día 2014). The question of the pipeline is: What do public servants needin order to perform their functions effectively and ensure the revenues and control needed?

In 2015, the incumbent government instead of presenting a solution to improve the efficiency of the Department of Finance of Puerto Rico imposed a new tax reform named Total Transformation. The main objective was the elimination of the IVU, reduced contributions and implement a new Value Added Tax (VAT) by 16 percent. Their goal was to increase the uptake in relation to the IVU and achieve the steps to improve the precarious fiscal situation. Some opponents to this reform VAT distrusted the ability of the Department of Finance of Puerto Rico for its poor oversight and enforcement in capturing the IVU. This proposal faced strong opposition from various sectors and was rejected by the Legislature on April 30, 2015. This decision attracted unprecedented world attention to Puerto Rico's present economic situation. The Bloomberg News published:

> "The price of Puerto Rico's newest bonds dropped to a record low Friday, as the tax proposal's defeat in the House of Representatives dealt a setback to Garcia Padilla's plan to raise revenue. The vote jeopardized the prospects for a $2.9 billion bond sale that authorities say is needed to prevent a government shutdown within three months.
>
> Puerto Rico and its agencies owe $73 billion, including $13 billion of general-obligation debt. While Garcia Padilla stressed the island must repay its obligations, he said it's working with creditors to restructure debt owed by its agencies." (Kaske and Fieser 2015).

Given this complicated economic scenario more than one approach is needed to find an effective solution to the crisis. The creation of an action plan to improve public services could be, as presented here, one of the strategies used to improve the country's economic status.

A new model to achieve effectiveness

The objective of this articleit's the integration of qualitative and quantitative research in order to designate entrepreneurship education and public services excellence model based on efficient public policy. Santana and Negrón (2013) proposed "alternatives to improve the institutional capacity to direct the Government to, among other problems, come from the obsolescence of the centralized and bureaucratic model, which limits the possibilities to adapt and respond effectively to the new realities of a society more open complex and plural."

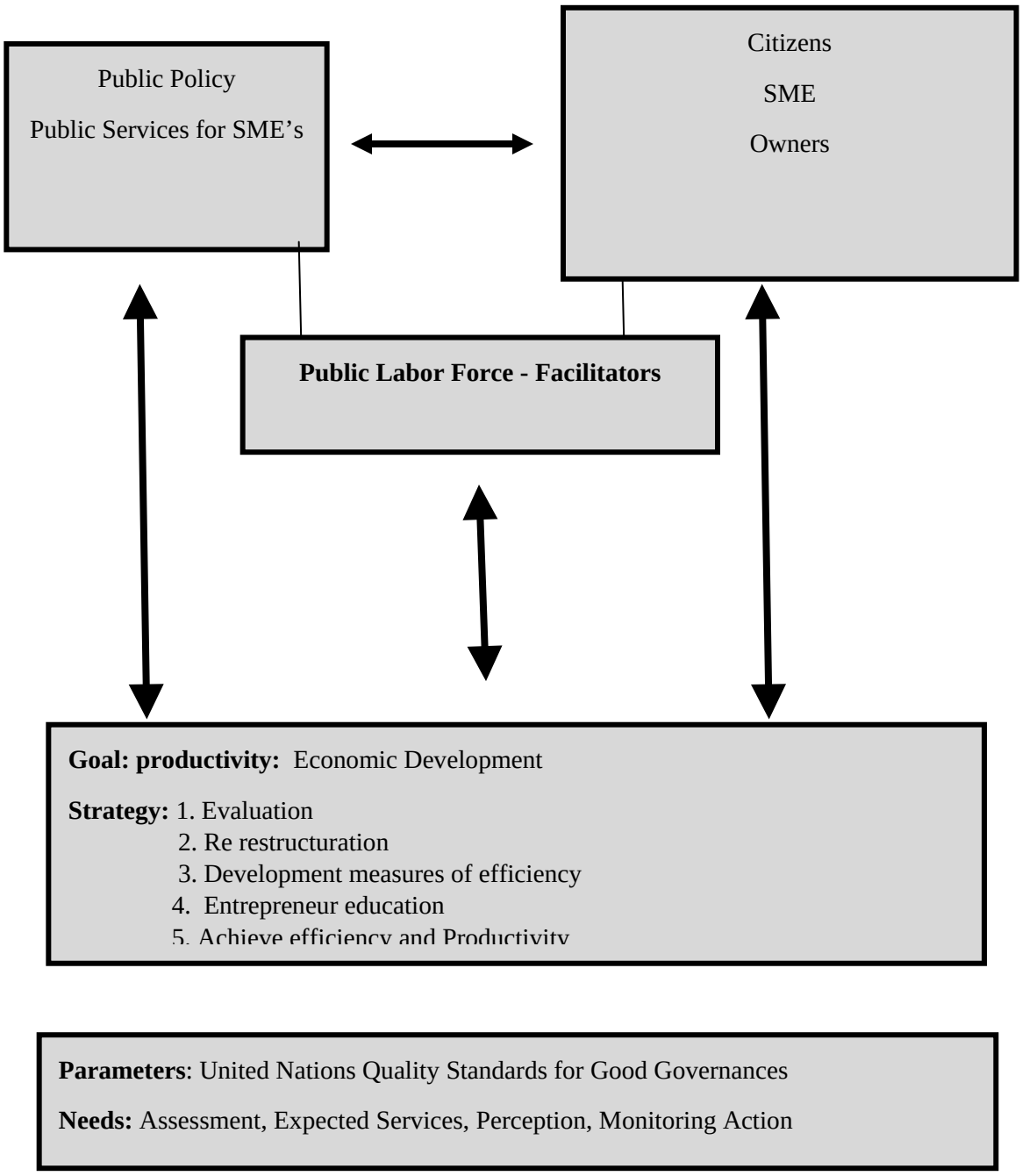
The United Nation's Good Practices and Innovations in Public Governance 2013 report set three challenges for public services excellence:

- First, they must operate and provide more far-reaching and higher-quality services with reduced resources and limited operational capacities. That is to say, governments must use their resources and build capacities not only more effectively but also more creatively by, for example, enlisting the support of the private sector and civil society in service delivery.
- Second, they must make public institutions more accountable, responsive, and effective by promoting a more citizen-oriented public administration.
- Third, and most importantly, they must respond more adequately to citizens' demands for greater participation.

The design of the public services model have the goal of managing customer services, enhance trust in government, raise the image and promote innovation in government.

The results of the two studies presented here, indicated the need to make changes in the public services offered to the SME. Then the model proposed Public Services Improvement Model and the SME Pilot Project. See Graphic 2.

Graphic 2. Public service improvement model and SME pilot project



The main focus of the model are the citizens. For purposes of the pilot project, these citizens are represented by the owners of SME. This model has a base of marketing concept where the central axis are the consumer needs. The government has the responsibility to establish public policy to ensure services for their constituents. It is the creation of public policy to establish excellence in services.In the model, public policy is on the left side of citizens to show the bilateral relation. Both the PP and citizens are connected with the public labor force. In this model the public labor force should be appointed as facilitators. Public policies should be implemented by employees who provide resources, support tools, motivation and examples of the commitment to the country's development.

The three components of this model have a common goal to reach productivity economic development. The main strategy is education for all members of each sector. Entrepreneurship education in turn, plays the role of developing entrepreneur skills of each individual. This will foster an attitude of leadership and innovation that supports other strategies and public policies to lead the country towards progress. Each sector will be accountable for the quality standards of the services and continuing education to achieve empowerment in all individuals and the society in general.

The cornerstone of the whole model is the quality parameters proposed by the United Nations standards for quality service. To ensure that the goals of this model are reached, it will be necessary to implement assessments, specialized rubrics, and establish metrics to identify expectations of services and the perception of all participants in the model. All these components are subject to monitors' advisory boards that integrate public administration, workers-facilitators and the citizens.

Conclusions

The ultimate goal is to take action. If the model does not lead an orchestrated action plan to achieve the goal, the PP will not help to the country's economic development.

Krugman (1987, p.131-132) highlights the role that governments can play in the achievement of advantages international trade through strategic policies that can influence the comparative trade advantage of a nation. Porter (1990) emphasizes that the government cannot create competitive industries and do that is up to companies. The role of government is to create an environment in which companies can gain competitive advantages. If the basis is the earliest established, then, public policy can be seen as an activity that is employed by the different centers of power, both public and private action in the economic system to achieve targets political value. That is, for purposes that have some relevance from the point of view of society and what is considered a good government (Forte 1980, quoted in Orduna 1992, p. 142).

It its necessary the planning and implementation of appropriate public policies with a regulation of monitored the public service to create an environment of productivity. For that purpose its necessary creating public policies that involves the restructuring and entrepreneurship education model to the personal in the public agencies to achieve that objective. These strategies will support efforts to increase productivity and provide an alternative way out of the crisis across achieving productivity that depend on the value of the products and services of a country, measured by prices that can be set in markets open, and the efficiency with which they occur. Under these determinants may indicate that productivity is essential, since it measures the degree to which the economy gets value through goods and services from which brings the workforce and capital input; this, in turn, is linked to the standard of living of its population (Baily & Slaughter 2008).

The security of public sector employment is back at high risk. Several decades ago to work as a public servant was a pride. Public opinion was admiration and respect for this sector of the workforce. Ethical values and transparent government deserved the respect of the community. However, several factors were affecting the image of the government and the younger generation did not continue with the same commitment to service. This have to be change. If implemented, this proposed model would represent a tool among the many strategies needed to change the present economic situation and eventually overcome the fiscal crisis.

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